TO:- Audit and Risk Committee

Councillor John Michell , Councillor Andrew Adams , Councillor Barry Bond M.B.E. , Councillor Steph Dufty , Councillor Christopher Evans , Councillor Warren Fisher , Councillor Martin Perry , Councillor Sue Szalapski

Notice is hereby given that a meeting of the Audit and Risk Committee will be held as detailed below for the purpose of transacting the business set out below.

Date: Tuesday, 06 February 2024
Time: 16:00
Venue: Council Chamber, Council Offices, Wolverhampton Road, Codsall, South Staffordshire, WV8 1PX

D. Heywood
Chief Executive

A G E N D A

Part I – Public Session

1	Minutes To approve the minutes of the Audit and Risk Committee meeting of 28 November 2023.	**1 - 2**
2	Apologies To receive any apologies for non-attendance.	
3	Declarations of Interest To receive any declarations of interest.	
4	External Audit Plan 2024/25 Report of external auditor, Azets	**3 - 22**
5	Q3 Internal Audit Progress Report Report of Chief Internal Auditor	**23 - 26**

RECORDING

Please note that this meeting will be recorded.

PUBLIC ACCESS TO AGENDA AND REPORTS

Spare paper copies of committee agenda and reports are no longer available. Therefore should any member of the public wish to view the agenda or report(s) for this meeting, please go to www.sstaffs.gov.uk/council-democracy.

Minutes of the meeting of the **Audit and Risk Committee** South Staffordshire Council held in the Council Chamber Community Hub, Wolverhampton Road, Codsall, South Staffordshire, WV8 1PX on Tuesday, 28 November 2023 at 16:00

Present:-

Councillor Andrew Adams, Councillor Christopher Evans, Councillor John Michell, Councillor Martin Perry, Councillor Sue Szalapski

25 **MINUTES**

RESOLVED: that the minutes of the meeting of the Audit and Risk Committee held on 3 October 2023 be approved and signed by the Chairman.

26 **APOLOGIES**

Apologies were received from Councillors Bond and Dufty.

27 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

28 **ANNUAL AUDITOR'S LETTER**

RESOLVED: that the Audit and Risk Committee note the Annual Auditors Letter 2022-23.

29 **STATEMENT OF ACCOUNTS 2022/23**

RESOLVED: that the Audit and Risk Committee

a) note the Statement of Accounts appended to the report including the Audit Report contained within.

b) note that the audit of the Staffordshire Pensions Fund, which is conducted separately by Ernst and Young is yet to be finalised.

c) authorise the Chairman of Audit and Risk Committee, alongside the S151 officer to formally sign the Statement of Accounts upon notification that the Pension Fund audit has been completed with no requirement to amend the Statement of Accounts as appended to the report and notify the Committee accordingly.

d) In the event that the conclusion of the Pensions Fund audit required amendment to the Statement of Accounts as appended, the revised Statement of Accounts shall be bought to a subsequent meeting of Audit and Risk Committee for formal approval.

30 **Q2 TREASURY MANAGEMENT UPDATE**

RESOLVED: that the Audit and Risk Committee note that the Council's position at the beginning and the end of the quarter was as follows:

- Total on deposit at the start of the quarter £16,850,000
- Total on deposit at the end of the quarter £21,800,000
- Interest earned in the quarter was £312,512 against a budget of £140,500

- Total borrowing at the start of the quarter was £15,000,000 (long-term borrowing over 40-50 years)
- Total borrowing at the end of the quarter was £15,000,000
- Borrowing costs in the quarter were £59,233 against a budget of £58,750 note the internal audit activity

31 **EXCLUSION OF PRESS AND PUBLIC**

RESOLVED: that the Press and Public be excluded from the meeting during consideration of the following items on the grounds that they are likely to involve the disclosure of exempt information as defined in paragraph 1 of Part 1 of Schedule 12 (A) to the Local Government Act 1972.

32 **INTERNAL AUDIT REPORT - CODSALL LEISURE CENTRE**

This item is exempt in accordance with Schedule 12A Local Government Act 1972

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

33 **DEBTORS AND DEBT RECOVERY UPDATE**

This item is exempt in accordance with Schedule 12A Local Government Act 1972

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

The Meeting ended at: 16:40

CHAIRMAN

South Staffordshire Council

External audit plan

Year ended 31 March 2024

November 2023

Contents

Appendices

Your key team members

Paul Grady
Key Audit Partner
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Martha Charima
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Ava Campbell
In-Charge auditor
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Introduction

Adding value through the audit

All our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Council through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the Council promote improved standards of governance, better management and decision making and more effective use of resources.

Purpose

This audit plan highlights the key elements of our proposed audit strategy and provides an overview of the planned scope and timing of the statutory external audit of South Staffordshire Council ('the Council') for the year ended 31 March 2024 for those charged with governance.

The core elements of our work include:

- An audit of the 2023/24 Statement of Accounts for the Council; and
- An assessment of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (our Value for Money work).

We will conduct our audit in accordance with International Standards on Auditing (ISAs) (UK), the Local Audit and Accountability Act 2014 (the 'Act'), and the National Audit Office Code of Audit Practice. The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Act.

Auditor responsibilities

As auditor we are responsible for performing an audit, in accordance with the Local Audit and Accountability Act 2014, the Code of Audit Practice issued by the National Audit Office and ISAs UK. Our primary responsibility is to form and express an independent opinion on the Council's financial statements, stating whether they provide a true and fair view and have been prepared properly in accordance with applicable law and the CIPFA Code of Practice on Local Authority Accounting in the UK (the 'CIPFA Code).

We are also required to:

- Report on whether the other information included in the Statement of Accounts (including the Narrative Report and Annual Governance Statement) is consistent with the financial statements;
- Report by exception if the disclosures in the Annual Governance Statement are incomplete or if the Annual Governance Statement is misleading or inconsistent with our knowledge acquired during the audit;
- Report by exception any significant weaknesses identified in arrangements for securing value for money and a summary of associated recommendations;
- Report by exception on the use of our other statutory powers and duties; and
- Certify completion of our audit.

continued…..

Introduction

We will conduct our audit in accordance with International Standards on Auditing (ISAs) (UK), the Local Audit and Accountability Act 2014 (the 'Act'), and the National Audit Office Code of Audit Practice. The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Act.

This planning letter has been prepared for the sole use of those charged with governance and management and should not be relied upon by third parties. No responsibility is assumed by Azets Audit Services to third parties.

Auditor responsibilities *(….continued)*

We will issue our Audit Findings Report and an Auditors Annual Report to the Audit Committee setting out the findings from our work.
Under the Act we have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom. These include:

- Reporting matters in the public interest;
- Making written recommendations to the Council;
- Making am application to the court for a declaration that an item of account is contrary to law;
- Issuing and advisory notice; or
- Making an application for judicial review.

The Act also requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts.

On completion of our audit work, we will issue an Audit Findings Report (prior to the approval of the financial statements), detailing our significant findings and other matters arising from the audit on the financial statements, together with an Auditor's Annual Report including our commentary on the value for money arrangements.

If, during the course of the audit, we identify any significant adverse or unexpected findings that we conclude should be communicated, we will do so on a timely basis, either informally or in writing.

The audit does not relieve management or the Audit Committee of your responsibilities, including those in relation to the preparation of the financial statements.

Council responsibilities

The Council has responsibility for:

- Preparing financial statements which give a true and fair view, in accordance with the applicable financial reporting framework and relevant legislation;
- Preparing and publishing, along with the financial statements, an annual governance statement and narrative report;
- Maintaining proper accounting records and preparing working papers to an acceptable professional standard that support its financial statements and related reports disclosures; and
- Ensuring the proper financial stewardship of public funds, complying with relevant legislation and establishing effective arrangements for governance, propriety and regularity.

Audit scope and general approach

This section of our letter sets out the scope and nature of our audit and should be considered in conjunction with the [Terms of Appointment] and [Statement of Responsibilities] issued by Public Sector Audit Appointments Limited (PSAA).

General approach

Our objective when performing an audit is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement and to issue an auditor's report that includes our auditor's opinion.

As part of our risk-based audit approach, we will:

- Perform risk assessment procedures including updating our understanding of the Council, including its environment, the financial reporting framework and its system of internal control;
- Review the design and implementation of key internal controls;
- Identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement level and the assertion level for classes of transaction, account balances and disclosures;
- Design and perform audit procedures responsive to those risks, to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion; and
- Exercise professional judgment and maintain professional scepticism throughout the audit recognising that circumstances may exist that cause the financial statements to be materially misstated.

We will undertake a variety of audit procedures designed to provide us with sufficient evidence to give us reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

We include an explanation in the auditor's report of the extent to which the audit was capable of detecting irregularities, including fraud and respective responsibilities for prevention and detection of fraud.

Audit scope and general approach

Materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements.

Judgments about materiality are made in the light of surrounding circumstances and are affected by our perception of the financial information needs of users of the financial statements, and by the size or nature of a misstatement, or a combination of both. **The basis for our assessment of materiality for the year is set out in Appendix I.**

Any identified errors greater than:

£50,000

will be recorded and discussed with you and, if not adjusted, confirmed as immaterial as part of your letter of representation to us.

Accounting systems and internal controls

The purpose of an audit is to express an opinion on the financial statements. We will follow a substantive testing approach to gain audit assurance rather than relying on tests of controls. As part of our work, we consider certain internal controls relevant to the preparation of the financial statements such that we are able to design appropriate audit procedures. However, this work does not cover all internal controls and is not designed for the purpose of expressing an opinion on the effectiveness of internal controls. If, as part of our consideration of internal controls, we identify significant deficiencies in controls, we will report these to you in writing.

Specialised skill or knowledge required to complete the audit procedures

We will use audit specialists to assist us in our audit work in the following areas:

- The audit of the actuarial assumptions used in the calculation of the defined benefit pension liability/asset; and
- The audit of investment or property valuations, should the need arise during the course of the audit.

We will consult internally with our Technology Risk team for them to support the audit team by assessing the information technology general controls (ITGC) of the following systems:

- AGeneral Ledger - eFinancials
- Real Asset Management
- Pay360
- I-Trent- HR & payroll software

Audit scope and general approach

Significant changes in the financial reporting framework

There have been no significant changes in the financial reporting framework this year, including the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the 'CIPFA Code). As permitted by the CIPFA Code the council has chosen to defer the implementation of IFRS 16 'Leases' until 2024/25.

Significant changes in the Council's functions or activities

We are not aware of any significant changes to the functions and activities of the Council, and management has confirmed they are no such changes.

Going concern

Management responsibility

Management is required to make and document an assessment of whether the Council is a going concern when preparing the financial statements. The review period should cover at least 12 months from the date of approval of the financial statements. Management are also required to make balanced, proportionate and clear disclosures about going concern within the financial statements where material uncertainties exist in order to give a true and fair view.

Going concern

Auditor responsibility

Under ISA (UK) 570, we are required to consider the appropriateness of management's use of the going concern assumption in the preparation of the financial statements and consider whether there are material uncertainties about the Council's ability to continue as a going concern that need to be disclosed in the financial statements.

In assessing going concern, we will consider the guidance published in the CIPFA Code and Practice Note 10 (PN10), which focusses on the anticipated future provision of services in the public sector rather than the future existence of the entity itself.

Audit scope and general approach

Related party transactions

ISA 550 requires that the audit process starts with the audited body providing a list of related parties to the auditor, including any entities under common control. During our initial audit planning you have informed us of the individuals and entities that you consider to be related parties. Please advise us of any changes as and when they arise.

Additional procedures for the NAO

The National Audit Office (the 'NAO') issues group audit instructions which set out additional audit requirements. We expect the procedures for this year to be similar to previous years.

The NAO audit team for the WGA request us to undertake specific audit procedures in order to provide them with additional assurance over the amounts recorded in WGA schedules. The extent of these procedures will depend on whether the Council has been selected by the NAO as a sampled component for 2023/24. As at the date of this report, the draft instructions have not yet been issued by the NAO and the NAO have not yet confirmed which entities will be sampled components.

We will seek to comply with the instructions and to report to the NAO in accordance with their requirements once instructions have been issued.

Auditor reporting delays for previous periods and the impact on our audit

Although we are planning to complete your audit for the year ended 31 March 2024 in line with the timetable set out in section 5, so that we can report our initial findings to your Audit Committee in November 2024, please note that we will not be able to fully complete our audit, issue our auditor's report and certify the closure of the audit until your predecessor auditor has completed their audit for the year ended 31 March 2023. Once the 2023 audit has been completed we will need to review the predecessor auditor's audit file to gain assurance over your opening balances as at 1 April 2023, and consider the impact on our audit of any modifications to their auditor's report.

Further, once the 2023 audit, and earlier years has been completed, we will revisit our planning procedures and audit plan to assess whether any additional procedures are required over and above those we have identified in this audit plan. Should additional procedures or changes to the plan be required, we will report these to you. The cost of additional work to revisit planning upon completion of the prior year audits will also be reported to you.

Significant risks of material misstatement

Significant risks are risks that require special audit consideration and include identified risks of material misstatement that:

- Our risk assessment procedures have identified as being close to the upper range of the spectrum of inherent risk due to their nature and a combination of the likelihood and potential magnitude of misstatement; or
- Are required to be treated as significant risks due to requirements of ISAs (UK), for example in relation to management override of internal controls.

Significant risks at the financial statement level

The table below and overleaf summarises significant risks of material misstatement identified at the financial statement level. These risks are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Identified risk	Planned audit procedures
Management override of controls Auditing Standards require auditors to treat management override of controls as a significant risk on all audits. This is because management is in a unique position to perpetrate fraud by manipulating accounting records and overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Specific areas of potential risk including manual journals, management estimates and judgements and one-off transactions outside the ordinary course of the business. **Risk of material misstatement: Very High**	Procedures performed to mitigate risks of material misstatement in this area will include: • Documenting our understanding of the journals posting process and evaluating the design effectiveness of management controls over journals; • Analysing the journals listing and determining the criteria for selecting high risk and/or unusual journals; • Testing high risk and/or unusual journals posted during the year and after the draft accounts stage back to supporting documentation for appropriateness, corroboration and to ensure approval has been undertaken in line with the Council's journals policy; • Gaining an understanding of the key accounting estimates and critical judgements made by management. We will also challenge assumptions and consider for reasonableness any indicators of bias which could result in material misstatement due to fraud; and • Evaluating the rationale for any changes in accounting policies, estimate or significant unusual transactions.

Significant risks of material misstatement

Significant risks at the assertion level for classes of transaction, account balances and disclosures

The table below summarises significant risks of material misstatement at the assertion level for classes of transaction, account balances and disclosures.

Identified risk	Planned audit procedures
Fraud in revenue recognition and expenditure (rebutted) Material misstatement due to fraudulent financial reporting relating to revenue recognition is a **rebuttable presumed risk in ISA (UK) 240.** Having considered the nature of the revenue streams at the Council, we consider that the risk of fraud in revenue recognition can be rebutted on all income streams because: • there is little opportunity available to manipulate revenue recognition; • there is limited incentives to manipulate revenue recognition • the Council's existing income transactions do not provide a significant opportunity to manipulate income between years in any meaningful way or to adopt aggressive recognition policies. We have also considered Practice Note 10, which comments that for certain public bodies, the risk of manipulating expenditure could exceed the risk of the manipulation of revenue. We have therefore also considered the risk of fraud in expenditure at the Council, and we are satisfied that this is not a significant risk for the reasons set out above. **Inherent risk of material misstatement:** • **Revenue and expenditure recognition: Low**	Whilst we have rebutted the risk of fraud in income and expenditure, we will perform the below procedures based on their value within the financial statements: • Documenting our understanding of the Council's systems for income and expenditure to identify significant classes of transactions, account balances and disclosures with a risk of material misstatement in the financial statements • Evaluating the design of the controls in the key accounting systems, where a risk of material misstatement was identified, by performing a walkthrough of the systems; • Evaluating the Council's accounting policies for recognition of income and expenditure and compliance with the CIPFA Code. • Substantively testing material income and expenditure streams using analytical procedures and sample testing of transactions recognised for the year.

Significant risks of material misstatement

Identified risk	Planned audit procedures
Valuation of other land and buildings and investment property (key accounting estimate) The Council carries out a rolling programme of revaluations to ensure all property, plant and equipment required to be measured at fair value is revalued at least every five years. Management engage the services of Wilks Head & Eve LLP a qualified valuer, who is a Regulated Member of the Royal Institute of Chartered Surveyors (RICS) to undertake these valuations and desktop reviews as at 31 March 2024. The valuations involve a wide range of assumptions and source data and are therefore sensitive to changes in market conditions. ISAs (UK) 500 and 540 require us to undertake audit procedures on the use of external expert valuers and the methods, assumptions and source data underlying the fair value estimates. This represents a key accounting estimate made by management within the financial statements due to the size of the values involved, the subjectivity of the measurement and the sensitive nature of the estimate to changes in key assumptions. We have therefore identified the valuation of land and buildings as a significant risk. We will further pinpoint this risk to specific assets, or asset types, on receipt of the draft financial statements and the year-end updated asset valuations to those assets where the in-year valuation movements falls outside of our expectations. **Inherent risk of material misstatement:** • **Land and buildings and investment property (valuation): Very High**	Procedures performed to mitigate risks of material misstatement in this area will include: • Evaluating management processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • Evaluating the competence, capabilities and objectivity of management's valuation expert; • Considering the basis on which the valuations are carried out and challenging the key assumptions applied; • Evaluating the reasonableness of the valuation movements for assets revalued during the year, with reference to market data. We will consider whether we require an auditor's expert; • For unusual or unexpected valuation movements, testing the information used by the valuer to ensure it is complete and consistent with our understanding; • Ensuring revaluations made during the year have been input correctly to the fixed asset register and the accounting treatment within the financial statements is correct; and • Evaluating the assumptions made by management for any assets not revalued during the year and how management are satisfied that these are not materially different to the current value.

Significant risks of material misstatement

Identified risk	Planned audit procedures
Valuation of the defined pension fund net liability/asset (key accounting estimate) An actuarial estimate of the net defined pension liability/asset is calculated on an annual basis under IAS 19 'Employee Benefits', and on a triennial funding basis, by an independent firm of actuaries with specialist knowledge and experience. The triennial estimates are based on the most up to date membership data held by the pension fund and a roll forward approach is used in intervening years, as permitted by the CIPFA Code. The calculations involve a number of key assumptions, such as discount rates and inflation and local factors such as mortality rates and expected pay rises. The estimates are highly sensitive to changes in these assumptions and the calculation of any asset ceiling when determining the value of a pension asset. ISAs (UK) 500 and 540 require us to undertake audit procedures on the use of external experts (the actuary) and the methods, assumptions and source data underlying the estimates. This represents a key accounting estimate made by management within the financial statements due to the size of the values involves, the subjectivity of the measurement and the sensitive nature of the estimate to changes in key assumptions. We have therefore identified the valuation of the net pension liability/asset as a significant risk. **Inherent risk of material misstatement:** • **Defined pension fund net liability/asset (valuation): High**	Procedures performed to mitigate risks of material misstatement in this area will include: • Evaluating managements processes for the calculation of the estimate, the instructions issued to management's expert (the actuary) and the scope of their work; • Evaluating the competence, capabilities and objectivity of the actuary; • Assessing the controls in place to ensure that the data provided to the actuary by the Council and their pension fund was accurate and complete; • Evaluating the methods, assumptions and source data used by the actuary in their valuations, with the support of an auditors' expert; • Evaluating whether any asset ceiling was appropriately considered (if applicable) when determining the value of any pension asset included in the financial statements; • Assessing the impact of any significant differences between the estimated gross asset valuations included in the financial statements and the Council's share of the investment valuations in the audited pension fund accounts' and • Ensuring pension valuation movements for the year and related disclosures have been correctly reflected in the financial statements.

Other risks of material misstatement

Other material balances and transactions

Under International Standards on Auditing, “irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure”. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as those adopted for the risks identified in this report.

Value for Money arrangements

Under the Code of Audit Practice, we must satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (referred to here as “Value for Money”, or “VFM”).
NAO Auditor Guidance Note 03 ‘Auditors’ Work on Value for Money Arrangements’ (“AGN 03”) was updated and issued on 18 January 2023 and requires us to provide an annual commentary on arrangements, which will be published as part of the Auditor’s Annual Report. Such commentary will highlight any significant weaknesses in arrangements, along with recommendations for improvements.

When reporting on such arrangements, the Code of Practice requires us to structure our commentary under three specified reporting criteria:

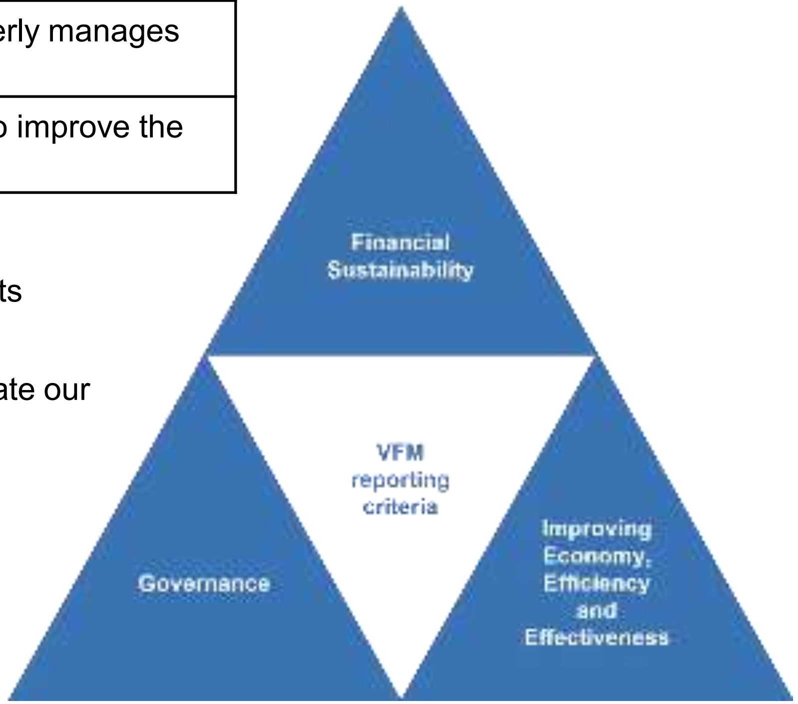
Financial sustainability	How the body plans and manages its resources to ensure it can continue to deliver its services
Governance	How the body ensures that it makes informed decisions and properly manages its risks
Improving economy, efficiency and effectiveness	How the body uses information about its costs and performance to improve the way it manages and delivers its services

As part of the planning process, we are required to perform procedures to identify potential risks of significant weaknesses in the Council’s arrangements to secure VFM through the economic, efficient and effective use of its resources.

We are required to re-evaluate this risk assessment during the course of the audit and, where appropriate, update our work to reflect emerging risks or findings that may suggest a significant weakness in arrangements.

Where we identify significant weaknesses in arrangements as part of our work, we are required to make recommendations setting out:

- Our judgement on the nature of the weakness identified;
- The evidence on which our view is based;
- The impact on the local body; and
- The action the body needs to take to address the weakness.



Value for Money arrangements

Risks of significant weakness in VFM arrangements

We have carried out an initial risk assessment to identify any risks of significant weakness in respect of the three specific areas of proper arrangements using the guidance contained in AGN 03. A significant weakness is a risk requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.

We will re-evaluate this risk assessment during the course of the audit and, where appropriate, update our work to reflect emerging risks or findings that may suggest a significant weakness in arrangements.

When considering the Council's arrangements, we will have regard to the three reporting criteria set out in AGN03, as well as performing additional work in the areas identified below which are the potential areas of significant weaknesses, we have identified at the planning stage.

Criteria	Risk of significant weakness	Our risk based procedures and evaluation approach includes (but is not limited to)
Financial sustainability	None identified	Whilst we have not identified, at this stage, any risks of significant weakness, we will consider as part of our review the arrangements in place to reduce the planned reliance on reserves and the savings and transformation arrangements which will support this.
Governance	None identified	We have not at this stage identified any risks of significant weakness that require specific audit procedures
Improving economy, efficiency and effectiveness	None identified	We have not at this stage identified any risks of significant weakness that require specific audit procedures

Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code of Audit Practice and may not be all that exist.

Audit team and logistics

Your audit team

Role	Name	Contact details
Key Audit Partner	Paul Grady	Paul.grady@azets.co.uk
Engagement Manager	Martha Charima	Martha.Charima@azets.co.uk
In-charge auditor	Ava Campbell	Ava.Campbell@azets.co.uk

Timetable

Event	Date
Planning and risk assessment	Oct – Nov 2023
Reporting of plan to Audit Committee	Nov 2023
Interim audit	Feb - Mar 2024
Year end audit	July 2024
Reporting of Audit Findings (ISA260)	Nov 2024
Auditor's Annual Report (AAR)	Nov 2024
Target date of approval of accounts	Nov 2024
Accounts publication deadline (as specified in the Accounts and Audit Regulations 2015)	TBC (likely 30 November 2024)

Our expectations and requirements

For us to be able to deliver the audit in line with the agreed fee and timetable, we require the following:

- Draft financial statements to be produced to a good quality by the deadlines you have agreed with us. These should be complete including all notes, the Narrative Statement and the Annual Governance Statement;
- The provision of good quality working papers at the same time as the draft financial statements. These will be discussed with you in advance to ensure clarity over our expectations;
- The provision of agreed data reports at the start of the audit, fully reconciled to the values in the accounts, to facilitate our selection of samples for testing;
- Ensuring staff are available and on site (as agreed) during the period of the audit;
- Prompt and sufficient responses to audit queries within two working days (unless otherwise agreed) to minimise delays.

The audit process is underpinned by effective project management to ensure that we co-ordinate and apply our resources efficiently to meet your deadlines. It is therefore essential that the audit team and the Council's finance team work closely together to achieve this timetable.

Please note that we will be unable to complete our 2023/24 audit until your audits for all previous financial years have been completed by your predecessor auditors and auditor's reports covering both the financial statements audit and value for money work have been issued. The National Audit Office continues to explore ways to escalate the timely completion of all outstanding local government audits.

Independence, objectivity and other services provided

Auditor independence

We confirm that we comply with the Financial Reporting Council's (FRC) Ethical Standard and are able to issue an objective opinion on the financial statements. We have also complied with the NAOs Auditor Guidance Note 01, issued in September 2022, which contains supplementary guidance on ethical requirements for auditors of local public bodies. We have considered our integrity, independence and objectivity in respect of audit services provided and we do not believe that there are any significant threats or matters which should be bought to your attention.

Fees

PSAA set a fee scale for each audit that assumes the audited body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. This fee scale is reviewed by PSAA each year and adjusted, if necessary, based on auditors' experience, new requirements, or significant changes to the audited body. The fee may be varied above the fee scale to reflect the circumstances and local risks within the audited body.

Our estimated fee (excluding VAT) is as follows:

Audit fee	2023/24 £
Base fee for the audit of the Council financial statements (as set out in the fee scales issued by PSAA)	139,734
New auditing standards: ISA315 and ISA240	20,960
Additional work over Council Housing Benefit systems for opinion purposes – see note 1	17,500
Initial audit fee for South Staffordshire Council	**178,194**
Additional work arising from prior year audit outcomes	TBC
Proposed audit fee for South Staffordshire Council	**TBC**

Note 1 – this work is necessary to gain required assurance for the opinion as we are not undertaking certification work for the Housing Benefit return.

This fee is estimated based on our understanding at this point in time and may be subject to change.

It is our policy to bill for overruns or scope extensions e.g., where we have incurred delays, deliverables have been late or of poor quality, where key personnel have not been available, or we have been asked to do extra work.

Our policy is to raise fees to account at appropriate stages of the audit such as during the audit planning, the interim visit, the final audit and once the financial statements have been signed.

Appendix I: Materiality

Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to those charged with governance and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these. Under ISA (UK) 260 we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA (UK) 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

An omission or misstatement is regarded as material if it would reasonably influence the users of the financial statements. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the Council and the needs of the users.

When planning, we make judgements about the size of misstatements which we consider to be material, and which provide a basis for determining the nature and extent of our audit procedures. Materiality is revised as our audit progresses, should we become aware of any information that would have caused us to determine a different amount had we known about it during our planning.

Our assessment, at the planning stage, of materiality for the year ended 31 March 2024 was calculated as follows.

	Council £'000	Explanation
Overall materiality for the financial statements	1,000	2% of gross revenue expenditure based on the draft financial statements as at 31 March 2023. This will be reassessed upon receipt of the draft accounts. The financial statements are considered to be materially misstated where total errors exceed this value.
Performance materiality	650	65% of materiality. Audit work will be performed to capture individual errors at this level
Trivial threshold	50	5% of overall materiality for the Council Individual errors above this threshold are communicated to those charged with governance.

In addition to the above, we consider any areas for specific lower materiality. We have determined that no specific materiality levels need to be set for this audit.

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SOUTH STAFFORDSHIRE COUNCIL **AUDIT & RISK COMMITTEE – 6 FEBRUARY 2024** **INTERNAL AUDIT PROGRESS REPORT** **REPORT OF THE CHIEF INTERNAL AUDITOR**

PART A – SUMMARY REPORT

1. SUMMARY OF PROPOSALS

1.1 This report informs Members on the internal audit activity carried out since the Audit & Risk Committee held on 3rd October 2023.

1.2 This report provides scrutiny of the internal audit function during the year.

2. SUMMARY IMPACT ASSESSMENT

POLICY/COMMUNITY IMPACT	Do these proposals contribute to specific Council Plan objectives?	
	Yes	The delivery of the Internal Audit Plan provides management with assurances that their service objectives which support the Council's priorities are being achieved. The work of Internal Audit covers those priorities contained within the Council's Plan 2020-2024
	Has an Equality Impact Assessment (EqIA) been completed?	
	No	The delivery of the Internal Audit Plan and Counter Fraud Plan is not considered to have any adverse implications to equal opportunities and diversity policies.
SCRUTINY POWERS APPLICABLE	No	
KEY DECISION	No	
TARGET COMPLETION/ DELIVERY DATE	Delivery of the Annual Internal Audit Plan and Counter Fraud Plan 31/03/2024	
FINANCIAL IMPACT	No	There are no direct financial implications. The current costs of the Internal Audit Service are contained within the Medium Term Financial Strategy as are the costs of insurance covers to mitigate the cost of any financial loss arising from the failure of internal controls.

LEGAL ISSUES	Yes	Section 151 of the Local Government Act 1972 The Accounts & Audit Regulations 2015 A sound system of internal audit, and monitoring of the same, assists in compliance with the above statutory duties. The results of Internal Audit's work feed into the Council's Annual Governance Statement.
OTHER IMPACTS, RISKS & OPPORTUNITIES	No	Internal audit objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. Internal Audit will continue to align its work with the Strategic and Operational Risk Registers.
IMPACT ON SPECIFIC WARDS	No	No impact.

PART B – ADDITIONAL INFORMATION

3.1 This report updates the Audit & Risk Committee on Internal Audit activity carried out since the last Committee meeting on 3rd October 2023.

Progress Against the revised Internal Audit Plan and Counter Fraud Plan 2023/24

3.2 As at 24th January, 32% of the Internal Audit Plan 2023/24 has been completed. A further 53% of the planned audit reviews are also in progress, including ongoing project support and advice in relation to the Viv-up employee benefits scheme. Remaining work is scheduled to be completed in Quarter 4 of the current financial year and preparations for these reviews is ongoing.

3.3 Since the last Audit & Risk Committee meeting held on 3rd October 2023, the following pieces of work have been finalised:

- Grant Verification – Disability Facility Grant *(Adequate Assurance)*
- Cyber Security – Incident Reporting *(Substantial Assurance)*

3.4 In addition, the following pieces of work have been completed and are at draft report stage, with positive assurance opinions being award for each of these reviews:

- Digital Transformation – Customer Experience Improvement Programme
- Treasury Management
- IT Asset Management – End User Devices

3.5 In relation to the Counter Fraud Plan for 2023/24, a programme of Continuous Controls Monitoring (CCM) continues to be undertaken. CCM is a series of regular data matching/analysis exercises designed to identify 'red flags' that may indicate fraud or error in the Council's databases, which leads to follow up enquiries by auditors. Review of data sets for the current financial year, up to the end of December 2023, have been undertaken. As part of the analytics work completed invoice records have been reviewed for potential duplicates with no adverse findings identified. As previously reported, absence data for the period to the end of December 2023 was provided and has been reviewed against Purchase Card activity to ensure that purchases have not been made during cardholder absence, this work has identified no exceptions to date and remains ongoing.

3.6 The Council takes part in the National Fraud Initiative ('NFI'). The NFI is a biennial data matching exercise, hosted by the Cabinet Office. In October 2022 data sets were uploaded to the Cabinet Office by the Council, including Payroll ,Creditors, Council Tax, Housing Benefit, Housing Waiting List and Pensions data. The Cabinet Office runs analytics on the data sets to identify unexpected matches, duplicates and inconsistencies both within the Council's Data, and against other data sets (e.g. other Councils and DWP Deceased Person records), with the purpose of detecting fraud or error.

3.7 Internal Audit coordinate the investigation of the Council's matches and has referred matches to the relevant service areas for further investigation. This work is ongoing with the final outcomes to be reported as part of Internal Audit's Annual Outturn Report, to be presented to this Committee in June 2024.

3.8 As previously reported to the Committee, Internal Audit investigated a series of cash thefts at a leisure centre in June and July 2023. Evidence was obtained, and the matter promptly reported to Police. An internal disciplinary investigation was instigated, however, the individual resigned from their position with the Council prior to its conclusion. Whilst the Council's internal investigation is now considered closed, the Police investigation is still in progress, the outcome of which will be reported to this Committee at a future meeting.

<u>Other Activities</u>

3.9 The Internal Audit Manager continues to meet with the Director of Finance (S151 Officer) and the Director Legal & Governance (Monitoring Officer) on a regular basis.

4 IMPACT ASSESSMENT – ADDITIONAL INFORMATION

4.1 None identified.

5 PREVIOUS MINUTES

5.1 Not Applicable.

6 BACKGROUND PAPERS

6.1 Not Applicable

7.	**RECOMMENDATIONS**
7.1	To note the internal audit activity to date.

Report prepared by: Susan Bluck
Internal Audit Manager
24 January 2024

SOUTH STAFFORDSHIRE COUNCIL **AUDIT AND RISK COMMITTEE – 6 FEBRUARY 2024** **RISK MANAGEMENT UPDATE** **REPORT OF THE DIRECTOR OF FINANCE AND SECTION 151 OFFICER**

PART A – SUMMARY REPORT

1. SUMMARY OF PROPOSALS

1.1 This report provides an update on the Council's strategic risks as at quarter 2 (end of September 2023).

2. SUMMARY IMPACT ASSESSMENT

POLICY/COMMUNITY IMPACT	Do these proposals contribute to specific Council Plan objectives?	
	Yes	Effective risk management is about identifying and mitigating the risks that could prevent the Council achieving its strategic objectives.
	Has an Equality Impact Assessment (EqIA) been completed?	
	No	This report does not impact upon equality issues.
SCRUTINY POWERS APPLICABLE	No	
KEY DECISION	No	
TARGET COMPLETION/ DELIVERY DATE	April 2024	
FINANCIAL IMPACT	Yes	Effective risk management is linked to effective financial and performance management.
LEGAL ISSUES	Yes	The Council is required to have effective risk management arrangements.
OTHER IMPACTS, RISKS & OPPORTUNITIES	None	This report includes all strategic risks.
IMPACT ON SPECIFIC WARDS	No	All wards are impacted.

PART B – ADDITIONAL INFORMATION

3. INFORMATION

3.1 The Council's strategic risks have been previously identified as:

- Failure to sustain a robust ongoing medium-term financial strategy with adequate reserves to meet unforeseen consequences.
- Failure to develop and keep maintained robust business continuity processes.
- Not delivering waste and recycling services to the required standard.
- Impact of the cost of living pressures.
- Lack of appropriately skilled, experienced and trained staff along with the right culture and organisational conditions.
- Lack of an up-to-date Local Plan.

3.2 The Council's updated strategic risk register is set out in Appendix 1. The majority of the risks are rated amber and are being actively managed to ensure that the scores do not increase. All of these risks have remained stable between quarter 1 and quarter 2 with the exception of the Local Plan risk. This has increased from 12 to 16 due to the continued absence of the NPPF which has meant that the Council has not been able to progress with the Local Plan. However, since the quarter 2 Risk Register was updated, the NPPF has now been published and the team are working through this to ensure the most appropriate and quickest way to develop a plan.

3.3 The only red risk relates to the delivery of the waste contract. The score for this has remained at 20 between quarter 1 and quarter 2. The main contributing factors to this risk are the implementation of the Environment Act 2021 and Environmental Improvement Plan 2023. The Council's waste collection and disposal contracts will also need to be re procured in advance of April 2026. These two elements are interlinked and, without full clarity on what is required through Simpler Recycling, impact on the Council's ability to provide the required service standard and to budget for future costs. As further guidance has been received from the government, this risk is expected to reduce when the quarter 3 Risk Register is produced.

3.4 A number of actions are in place which are aimed at reducing the risk. These include continued engagement with the existing contractor, a Communication Plan to engage with residents and soft market testing from March 2025 to assess the likely impact of re-procuring the contract.

3.5 The Council will be reviewing and updating the Strategic Risk Register and supporting processes when the new Council Plan is introduced to ensure that both are aligned.

4. IMPACT ASSESSMENT – ADDITIONAL INFORMATION

4.1 None identified.

5. PREVIOUS MINUTES

5.1 Not applicable.

6. BACKGROUND PAPERS

6.1 Not applicable

7. APPENDICES

7.1 Risk Management Update – Appendix 1 – Strategic Risk Register Update Q2

8. RECOMMENDATIONS

2.1 It is recommended that Members review the Council's Strategic Risk Register.

Report prepared by: Rebecca Maher, Director of Finance and Section 151 Officer

South Staffordshire Council

Strategic Risk Register

Quarter 2 - 2023/24 Update

Our Risk Management Objectives

We have six key objectives that guide our approach to Risk Management

1. Adopt a strategic approach to risk management in order to make well informed decisions.
2. Integrate risk management into how we run council services and deliver key projects.
3. Support a culture of well measured risk taking throughout the council including setting risk ownership and accountabilities.
4. Accept that even with good risk management and our best endeavours, things can go wrong. We will learn lessons where this happens.
5. Ensure that the council continues to meet all statutory and best practice requirements in relation to risk management.
6. Ensure that risk management continues to be a key and effective element of our Corporate Governance.

Benefits of Effective Risk Management

Improved Strategic Management

- Greater ability to deliver against our corporate objectives and targets.
- Improved decision making, planning and prioritisation.

Improved Operational Management

- Plans in place to response to incidents when they occur.
- Better service delivery.

Improved Financial Management

- Better informed financial decision making.
- Greater financial control.
- Minimising waste and improving value for money.

Improved Customer Service

- Service disruption to customer minimized.

Our Risk Management Process

Identification of risks, deciding what action to take to minimise the risk and assessing how successfully we did it is an activity that we are all doing constantly in our personal lives. The same approach is applied by the council in assessing risks to our priorities and services.

To do this we follow a five step approach:

Our Risk Management Scoring

Likelihood

How possible is it that the risk will occur?

	Likelihood	Chances of occurring	
1. Rare	Unlikely to occur under normal circumstances	**0-10%**	Very unlikely this will ever happen *e.g. Once in 100 years*
2. Unlikely	Potential to occur however likelihood remains low	**10-25%**	Not expected to happen, but is possible *e.g. Once in 25 years*
3. Possible	Possible - Could occur	**25- 50%**	May happen occasionally *e.g. Once in 10 years*
4. Likely	Likely - Most likely will occur	**50-80%**	Will probably happen, but not a persistent issue *e.g. Once in 3 years. Has happened in the past.*
5. Almost Certain	Almost certainly will occur	**80-100%**	Will undoubtedly happen, possibly frequently *e.g. Annually or more frequently. Imminent/near miss.*

Impact

If the risk does occur, what is the impact?

	Impact Category					
	Financial	**Service Quality**	**Reputation**	**Legal/Regulatory**	**Health and Safety**	**Morale/Staffing**
1. Insignificant Impact	Financial loss of less than £10k	Drop in performance or delays to a process or temporary loss of an access route to a service	Limited local interest, single story	Not reportable to regulator/ Ombudsman, simple fix	Minor first aid required	Isolated staff dissatisfaction
2. Minor Risk	Financial loss of between £10k & £100k	Drop in performance or delays to a service area or sustained loss of access routes for services	Local or 'industry' interest, single story over multiple news outlets	Reportable to regulator/ Ombudsman, no or little follow up needed	Minor injuries to employees or third parties	Pockets of staff morale problems and increased turnover
3. Moderate Risk	Financial loss of between £100k & £500k	Drop in performance or delays to a service area or sustained loss of access routes for services	Short-term negative media exposure	Regulator/Ombudsman report with immediate correction to be implemented, or risk of prosecution	Simple 'medical professional' type care for employees or third parties, e.g. GP visit, minor injuries unit visit	General staff morale problems and increased turnover
4. Major Risk	Financial loss of between £500k & £1M	Major drop in performance or inability to deliver discretionary services	Sustained negative media coverage or 'affected industry' publication explosure	Regulator/Ombudsman report requiring major project to correct or prosecution with fines, etc.	Limited hospital care required for employees or third parties	Widespread morale problems and high turnover. Not perceived as employer of choice
5. Catastrophic	Financial loss of over £1M	Major drop in performance or inability to deliver mandatory services	Long-term negative media coverage, or national media exposure	Significant prosecution or fines, incarceration of directors	Significant injuries or fatalities to employees or third parties	Some senior leaders leave / high turnover of experienced staff, insufficient staff to complete statutory functions

To calculate the overall risk score, we multiply the likelihood by the highest impact category score.

Our Risk Management Treatment

Impact	1 Rare	2 Unlikely	3 Possible	4 Likely	5 Almost Certain
5 Catastrophic					*Must be managed down urgently*
4 Major				*Seek to influence short to medium term reduction*	
3 Moderate			*Monitor & Manage to influence a reduction*		
2 Minor		*Accept continue to monitor*			
1 Insignificant	*Close as a Strategic Risk*				

Likelihood

Must be managed down urgently

These risks will be the subject to regular monitoring and action by Lead Members and the Senior Leadership Team. Significant Management action is required.

Influence down in medium-term

These will be regularly monitored by the relevant Director and Assistant Director with plans developed to reduce the risk in the medium-term.

Monitor and manage

These will be monitored by Assistant Directors and plans developed to reduce the risk and prevent escalation.

Accept

These will be monitored however on the whole the risk level is deemed acceptable with normal managing of the activity.

Adherence to Medium Term Financial Strategy

What is the risk?

Failure to sustain a robust on-going medium term financial strategy with adequate reserves to meet unforeseen circumstances. This may be due to increased cost pressures and / or reduced income; council decisions; changes in Government policy with regard to business rates or additional requirements on service provision without funding to support.

Failure to meet savings plans or deliver increased income as detailed within the medium term financial strategy

What could cause the risk to occur?

Reduction in Government grant, increasing demand for services and other cost pressures and increased risks associated with business rate and council tax collection.

Additionally, income from commercial activities may not materialise or may be reduced, e.g. a reduction in sales fees and charges income. The amount of income received can be adversely affected by a fall in collection rates due to economic downturn and other factors such as the bankruptcy/liquidation of large ratepayers or any sizeable rateable value reductions achieved by business rated properties in the area.

Risk Scoring

Likelihood of risk occurring		3 (Possible)
Impact	**Financial**	4 (Major)
	Service Quality	4 (Major)
	Reputation	4 (Major)
	Legal/Regulatory	4 (Major)
	Health and Safety	1 (Insignificant)
	Morale/Staffing	2 (Minor)

What are we doing to reduce the risk?

1. Robust horizon scanning to monitor changes in Government policy. CLT awareness of the risks, cautious approach to budgeting and robust systems of financial control.
2. CLT actively participate in Government consultations, MP discussions and keep aware of changes ensuring where appropriate the learning from this is incorporated into strategic plans.
3. CLT and Members engaged in the development of the MTFS to ensure robust appraisal of any plans put forward.

Current Update

The Council has approved its Medium Term Financial Strategy for the period covering 2023/24 to 2027/28. The budget presents a balanced budget for a three-year period to 2025/26 achieved with the use of reserves.

The budget takes a prudent view of income and expenditure given the continued uncertainty about the level of local government funding for 2024/25 and beyond. Aligned to the MTFS, the Councils Capital, Treasury and Asset Strategies all support the medium term planning.

The Council has closed its Accounts for 2022/23 and the Draft Unaudited Accounts were published in July 2023.

As at 31 March 2023, the Council has £15.666 million in General and Earmarked Reserves. (subject to audit)

2023/24 Resource Planning and Prioritisation has started earlier than in prior years as plans are being formulated to lessen the use of reserves across the MTFS plan period

Overall Scoring

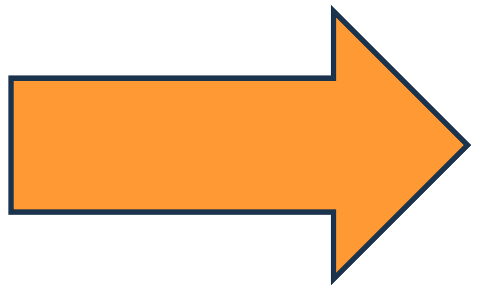
Risk Score (Current)

12

Risk Score History

12

Risk Direction



Business Continuity

What is the risk?

The risk is that we do not develop and keep maintained robust processes to ensure business continuity in the event of a signific ant event occurring, e.g. Failure to ensure the continuous availability of critical IT systems leading to inability to deliver key council services.

Increased risk of successful cyber attacks on main Council systems or on partner organisations

Identified Risks within BCP's: Risk to internal (on premise) IT Systems ,Flooding Risks , Pandemics, COMAH Site, Inclement weather
New risks identified working with CCU: Electricity Supply disruption - Fuel Pipeline incursion - Industrial Action - Concurrent Incidents - Railway incident - Light Air Craft incident

What could cause the risk to occur?

Developing and maintaining robust Business Continuity Plans requires significant and sustained focus. Following Covid 19, the Councils risk profile has changed as we have relied much heavier on working in different ways (for example more staff working from home the majority of time) and with significant pressures being placed on some of our key delivery partners/ contractors.

Work is required to update our BCP 's to the changing environment that we are operating in. Increased and targeted cyber threats, changing weather patterns and ongoing political, social and economic unrest increase the risk of a business continuity event triggering.

Multiple or concurrent incidents may overwhelm the ability to respond to incidents through to recovery without intervention from senior management directing staff away from current day roles , Lack of training for those who are responders in the event of an incident/multiple concurrent incidents occurring at all levels

Risk Scoring

Likelihood of risk occurring		3 (Possible)
Impact	**Financial**	5 (Catastrophic)
	Service Quality	5 (Catastrophic)
	Reputation	4 (Major)
	Legal/Regulatory	2 (Minor)
	Health and Safety	3 (Moderate)
	Morale/Staffing	3 (Moderate)

What are we doing to reduce the risk?

1. Migration to off premise back up of key digital applications and continued move to cloud hosted solutions

2. Agile working further reduces reliance on office buildings.

3. Locality workers can be despatched more easily to ensure resident and business engagement can be maintained during any incident.

4. Business Continuity plans have been updated and are regularly tested with key partner organisation support

Current Update

Continued membership of the Local Resilience Forum . Exercise and Training Hub to provide appropriate training to all roles

Maintaining a modern and stable IT estate, applying both functional and security updates on a regular basis, and regularly testing the cloud backup and restore processes. Key IT applications are moving to being hosted in the cloud over the next 18 months.

Development and testing of a Cyber Incident Response Plan, including associated playbooks containing scenarios that simulate an actual attack. Progress has also been made in updating our Business Continuity and recovery plan for our IT service.

Health check of the council's IT infrastructure, including internal and external hacking attacks, as part of the annual PSN validation.

Overall Scoring

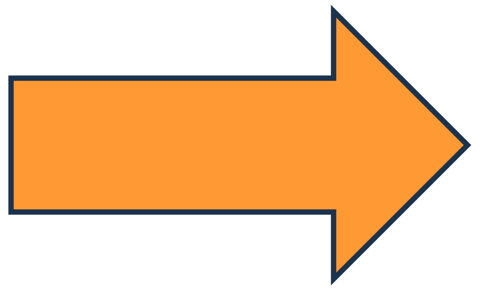
Risk Score (Current)

15

Risk Score History

15

Risk Direction



Delivery of Waste and Recycling Service

Overall Scoring

Risk Score (Current)

20

Risk Score History

20

Risk Direction

What is the risk?

a) To deliver the services to the specified standard and within agreed contractual values.
b) The maintenance of green waste collection revenue
c) The timescale of forthcoming legislative changes not aligning with the necessary timescales to integrate into service design for post-March 2025
d) Changes to funding landscape for waste and recycling services (e.g. EPR, DRS and new burdens)
e) Lack of market interest in contracts for waste collection, and materials processing post-March 2025
g) Further reduction in recycling credits (dry) placing additional pressures on service budget
h) Loss of disposal points and/or fleet
i) Failure to achieve recycling rate target
j) Service assessed as 'ineffective' and/or 'inefficient' under EPR

What could cause the risk to occur?

a) Inadequate resourcing; digital systems; fuel shortages; material market; inaccurate bid; poor contract /service/budget management; inflation
b) Cost of living pressures; poor service standards; inaccessibility of sign-up process; government mandate free of charge collections
c) Lack of government clarity; delays to the outcomes; procurement timeframes for new collection and disposal services
d) Short, fixed timeframes for implementation will result in saturation of the markets for consultants, procurement, vehicles, waste containers etc.
e) Funding design; poor data and evidence use; new burdens limitations
f) Disposal points proximity and capacity; core material ambiguity; material quality, quantity and value; value of material collected; availability of depot/land
g) Dry credit agreement set to expire soon, green credit agreement will result in value tracking contract cost only from 2024 until 2027 when the contract expires.
h) Emergency events; hazardous waste in kerbside bins; local incident obstructing access; lack of suitable contingency provision
i) Not implementing minimum standards; failure to deliver an effective and efficient service; social demographics; communication/participation rates fall
j) Service is deemed to be underperforming and placed on an improvement plan

Risk Scoring

Likelihood of risk occurring		4 (Likely)
Impact	**Financial**	5 (Catastrophic)
	Service Quality	5 (Catastrophic)
	Reputation	5 (Catastrophic)
	Legal/Regulatory	4 (Major Risk)
	Health and Safety	5 (Catastrophic)
	Morale/Staffing	4 (Major Risk)

What are we doing to reduce the risk?

1. Continued engagement with the existing contractor to ensure performance is maintained
2. Developing a comprehensive Communication Plan to better engage with residents
3. Developing risk assessment and business continuity plans for the delivery of services
4. Reviewing contract management practices including audit schedules; contract manual development; and developing how data and evidence is used as contractual intelligence
5. Improved budget monitoring practices to keep a 'real time' record of projected end of year, and current spend against target
6. Soft market testing process for post-March 2025 service to glean market interest
7. Charges for replacement/additional bins; bins for new developments; review charges for garden waste collections; review of services we could charge/make savings from

Current Update

Regular contract meetings held and issues escalated to the Corporate Leadership Team where required.
Introduced increased charges for bulky waste collections
Data led resourcing plan for customer services during green waste sign up period; improved digital service offer for online sign ups, and wrap around refreshed marketing plan including a how-to user video to support demand management and improve the user experience
Maintenance of membership of key groups; attendance of DEFRA workshops and webinars for updates; contributing to design and development of new systems and processes including through providing data and intelligence to government bodies
Recycling credits a fixed item on SWOG agenda, and discussed at a partnership level, and Board level at Staffordshire Sustainability Board. A procurement process if being developed for the Waste Partnership to guide how disposal contracts are procured going forwards.
Delays in government announcements on changes resulting in continued ambiguity and risk for the design and delivery of the waste collection and disposal service.

Cost of Living Pressures

What is the risk?

The risk is that the significant increase in the cost- of- living results in many more residents requiring urgent support to meet their basic needs and to
keep on top of their essential bills. The increase in residents requiring support will put pressure on Council services particularly Housing, Revenues and Benefits as well as for some of our key partners such as Citizens Advice. Additionally, as residents have less disposable income, we are likely to see an impact on discretionary spend services and businesses across the district.
We could also see a rise in homelessness applications due to residents getting into debt and being unable to pay their rent or mortgage and landlords not being able to meet mortgage payments are increasing rents significantly.

What could cause the risk to occur?

There has been a marked increase in the cost of living, largely driven by an increase in energy bills. Inflation has hit a 40 year high in recent months and interest rates are continuing to rise. This will lead to a reduction in the living standards of many residents within the District.

Rents and mortgages are increasing along with other household bills, food and fuel. Although wages for some have increased this has not matched the rate of inflation. For those in receipt of benefits their income has increased significantly less in comparison including Local Housing Allowance Rates compared with rental charges.

Risk Scoring

Likelihood of risk occurring		5 (Almost Certain)
Impact	**Financial**	3 (Moderate)
	Service Quality	3 (Moderate)
	Reputation	3 (Moderate)
	Legal/Regulatory	3 (Moderate)
	Health and Safety	2 (Minor)
	Morale/Staffing	3 (Moderate)

What are we doing to reduce the risk?

1. We have taken steps to quickly progress payments through the government Council Tax energy rebate scheme and launched a discretionary scheme for those households not eligible for the main scheme
2. Invested in the Welfare Team to ensure applications for support including housing are dealt with within expected timescales
3. Established emergency funding ‘Community is the Best Medicine’ to support groups to set up warm spaces or other suitable community support.
4. Cost of Living Checklist which is reviewed monthly by CLT and Cabinet and has reflected in the 2023/24 MTFS

Current Update

Additional grant funding received through the homelessness prevention grant to be used to lease additional temporary supported accommodation.
Staff vacancies now filled.
Q2 23/24 - Processed 367 new benefit claims in average of 17 days
Creating Brighter Futures scheme – supporting people to become financially resilient, moving closer to work, into work and training/qualifications for those in low paid and unskilled jobs. At end of Q2 we have 55 people receiving support of which 26 are economically inactive and 8 people have moved into work.
Community is the Best Medicine – starting to see more applications ready for Autumn Winter community support.

Overall Scoring

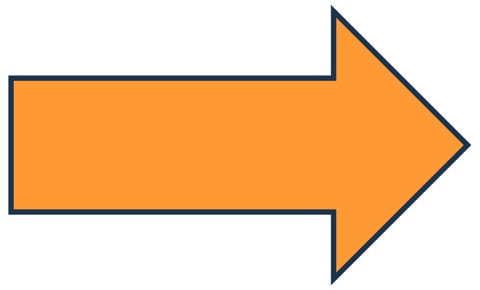
Risk Score (Current)

15

Risk Score History

15

Risk Direction



Inadequate Staffing Resource

Overall Scoring

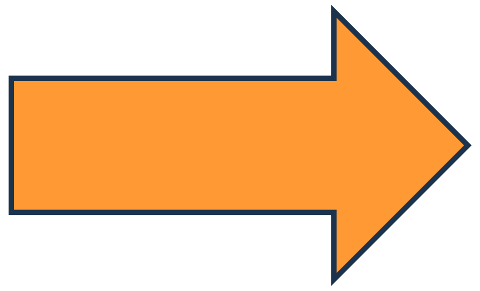
Risk Score (Current)

12

Risk Score History

12

Risk Direction



What is the risk?

The risk is that the Council fails to have appropriately skilled, experienced and trained staff and the right culture and organisational conditions to deliver priorities and customer need. This could lead to poor staff morale and wellbeing, inadequate resources for training and reskilling and inability to recruit and retain business critical posts and roles in known skill shortage areas.

Increased salaries in the wider market are making recruitment increasingly difficult.

What could cause the risk to occur?

Wider economic pressures, rising cost of living, skills shortages and increasing competition for roles is causing difficulties in the attraction and retention of staff.

Risk Scoring

Likelihood of risk occurring	3 (Possible)
Financial	4 (Major)
Service Quality	4 (Major)
Reputation	4 (Major)
Legal/Regulatory	4 (Major)
Health and Safety	4 (Major)
Morale/Staffing	3 (Moderate)

What are we doing to reduce the risk?

1. The Council Workforce Strategy includes a range of targeted interventions to prevent and mitigate against this risk including:

I. Market pay benchmarking/reviews scheduled for 2023/24
II. Recruitment & retention incentive pilots developed
III. Partnerships with schools/education to influence our local labour market
IV. New employee benefits scheme
V. Range of actions to support inclusive positive leadership culture, flexible ways of working and excellent staff wellbeing support.
VI. New recruitment landing site and enhanced marketing of our employer of choice brand

2. Continued conversations via RPP including service reviews where appropriate, implementing recommendations to make a positive impact on our ability to meet customer demands, this has included:

- Restructuring and investing in our Planning Service
- Investing in Customer Services and Welfare Benefits to meet increasing demand
- Appointing a new Assistant Director to drive commercial ambitions

3. We continue to invest in staff development including ASPIRE our talent development programme and hold regular staff engagement sessions to ensure regular timely communication and employee involvement.

Current Update

Following the Covid Pandemic there has continued to be significant challenges presented to our operating environment including responding to the Cost- of-Living crisis, the Afghanistan resettlement programme and supporting the Homes for Ukraine scheme.

Our retention rate is 84% and we have successfully recruited to our known hard to fill posts through our existing recruitment strategies, making use of market supplements where needed.

Our last staff survey confirmed that 93% of staff recommend us as a place to work with many commenting that we are a fair, flexible and supportive employer.

Housing, Infrastructure and Growth

Overall Scoring

What is the risk?

Lack of an up to date Local Plan in place could lead to unplanned ad hoc developments being consented across the district that are not in the appropriate locations, and delivered without a strategic overarching review of what additional infrastructure may be needed (both financial developer contributions as well as delivery of new facilities), therefore burdening existing infrastructure further.

Risk Score (Current)

16

What could cause the risk to occur?

The recent government proposals to change the NPPF and the planning system have created a great deal of uncertainty around what our Local Plan should deliver. In the light of this uncertainty, Members may fail to reach agreement on the Local Plan. Without an up to date plan in place quickly, the Council may soon fail to demonstrate a 5 year housing land supply (5YHLS), which will lead to the 'presumption in favour of sustainable development' being engaged, and then lead to an increase in applications for housing on non Green belt sites. The increase in planning applications in the absence of a 5YHLS will also be compounded by the delay to Biodiversity Net Gain recently announced, and landowners desire to gain consent and avoid needing to deliver such requirements.

Risk Scoring

Likelihood of risk occurring		**4 (Likely)**
Impact	**Financial**	3 (moderate)
	Service Quality	4 (major)
	Reputation	4 (major)
	Legal/Regulatory	3 moderate)
	Health and Safety	1 (insignificant)
	Morale/Staffing	3 (moderate)

What are we doing to reduce the risk?

1. We have taken steps to quickly progress Member engagement on Planning, particularly the Local Plan, post elections. We aim to get a clear steer from Members in July, with a view to making our position public and restarting the Local Plan.
2. Invested in the Planning Team to ensure both the Local Plan can be prepared swifty and correctly, as well as fully staff Development Management to effective manage planning applications in a timely manner.
3. Support our non-statutory paid planning functions to ensure that pre-application advice can be given to prospective applications, to ensure infrastructure is given full consideration on a case-by-case basis. On larger sites, continue to work under paid Planning Performance Agreements (PPAs) to ensure sites can deliver necessary onsite infrastructure.
4. Maintain good relations with service and infrastructure providers to respond swiftly to ad hoc applications.

Risk Score History

Was 12 (4 likely, 3 moderate risk)

12

Current Update

Member Engagement workshops on Local Plan – 29th June and 6th July. Members have now given officers a steer on what housing growth strategy option they wish officers to work and firm up for a further Reg 19 consultation. Further Member engagement planned for November 2023 and indications from government are that the NPPF will be published in Autumn to inform this forum.
Parish Council Forum to be arranged – date to be agreed as certainty on NPPF and Local Plan direction needed first.
Consultation on New Local Plan (whichever option member prefer) likely to be early 2024, with a view to submit before the June 2025 deadline.

Risk Direction

SOUTH STAFFORDSHIRE COUNCIL

AUDIT AND RISK COMMITTEE – 6 FEBRUARY 2024

TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS 2024/25 – 2028/29

REPORT OF THE DIRECTOR FINANCE AND SECTION 151 OFFICER

PART A – SUMMARY REPORT

1. SUMMARY OF PROPOSALS

1.1 The Council is required to annually approve a Treasury Management Strategy that, in light of the Council's approved budget, establishes investment and borrowing policies for the Council for the current and future financial years. The Strategy also includes the Council's Prudential Indicators and sets out the expected treasury operations for the period 2024/25 – 2028/29. Prudential Indicators are designed to demonstrate that the Council has a prudent, affordable and sustainable approach to financing its capital spending plans. It fulfils four key legislative requirements:

- The reporting of the **prudential indicators** setting out the expected capital activities (as required by the CIPFA Prudential Code for Capital Finance in Local Authorities - Appendix A):
- The Council's **Minimum Revenue Provision (MRP) Policy**, which sets out how the Council will pay for capital assets through revenue each year (as required by Regulation under the Local Government and Public Involvement in Health Act 2007 – Also Appendix A);
- The **Treasury Management Strategy** which sets out how the Council's treasury service will support the capital decisions taken above, the day to day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the **Authorised Limit**, the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term. This is the Affordable Borrowing Limit required by s3 of the Local Government Act 2003. This is in accordance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code and shown at Appendix A:
- The **Investment Strategy** which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the sector's Investment Guidance and also shown in Appendix A.

2. RECOMMENDATIONS

2.1 The Audit & Risk Committee is requested to recommend for adoption by Council each of the five key elements of this report.:

1) The Prudential Indicators and Limits for 2024/25 - 2028/29 contained within Appendix A of the report.
2) The Minimum Revenue Provision (MRP) Statement contained within Appendix A (paragraph 2.3) which sets out the Council's policy on MRP.
3) The Treasury Management Strategy 2024/25 - 2028/29 contained within Appendix A.
4) The Authorised Limit Prudential Indicator contained within Appendix A (para 3.2).
5) The Investment Strategy 2024/25 contained in the Treasury Management Strategy (Appendix A), and the detailed criteria (included in Appendix B)

3. SUMMARY IMPACT ASSESSMENT

POLICY/COMMUNITY IMPACT	Do these proposals contribute to specific Council Plan objectives?	
	Yes	Maximising investment income whilst managing risks and minimising borrowing costs helps to support the council's overall financial position and therefore the delivery of all policy objectives.
	Has an Equality Impact Assessment (EqIA) been completed?	
	No	The setting of a Treasury Management Strategy does not impact on equalities.
SCRUTINY POWERS APPLICABLE	No (Council decision)	
KEY DECISION	No (Council decision)	
FINANCIAL IMPACT	Yes	Where appropriate these are detailed in the body of the report.
LEGAL ISSUES	Yes	The Council's Treasury Strategy has to comply with the relevant statue, codes and guidance which are set out both in the main body of this report and Appendix A. The Finance Director (Section 151 Officer) has responsibility for the administration of the financial affairs of the Council. In providing this report the Finance Director is meeting one of the key responsibilities of the post.
OTHER IMPACTS, RISKS & OPPORTUNITIES	Yes	The key opportunities and risks associated with treasury management activities are set out in the body of the report and in the Treasury Management Strategy and Policy approved by Council and will be regularly monitored throughout the year.
IMPACT ON SPECIFIC WARDS	No	

PART B – ADDITIONAL INFORMATION

4.1 The Prudential Code operates by the provision of prudential indicators which highlight particular aspects of capital expenditure planning. Each indicator has been updated and provided for the next three years and included in Appendix A section 2. This is in accordance with the Prudential Code which requires that the Council approves as a minimum, certain mandatory prudential indicators.

4.2 The purpose of the indicators is to provide a framework for capital expenditure decision-making. It is intended to highlight, through the prudential indicators, the level of capital expenditure, the impact on investment levels and the overall controls in place to ensure the activity remains affordable, prudent and sustainable.

4.3 The Treasury Management Strategy outlined in detail in Appendix A sets the Council's **operational boundary limit** for external debt at £42 million and the **authorised limit** at £45 million. These limits are based on prior years spend on the capital programme as well as the planned capital programme for 2024/25 onwards of £18.460 million subject to approval by Council on 20 February 2024. Should these plans change, these limits will be revisited.

4.4 Within this overall capital expenditure framework there is a clear impact on the Council's treasury management activity through the application of investment balances. As a consequence, the Treasury Management Strategy for 2024/25 is also included at Appendix A (section 3) to the report to draw out the expected treasury activity. This report also includes the treasury prudential indicators. The production of the Treasury Management Strategy covers the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and the sector's MRP and Investment Guidance.

4.5 The Treasury Management Strategy requires the formulation of an Annual Investment Strategy. In accordance with guidance, and in order to minimise the risk to investments, the Council has clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The detailed criteria utilised are included in Appendix B.

4.6 Security, Liquidity and Yield has always been at the forefront of the councils thinking when making investment decisions, however we will now also consider non-financial factors when making investment decisions, these include any ethical considerations as well as any environmental, social and governance (ESG) factors, this is detailed further in Appendix A 4.1.

4.7 The above policies and parameters provide an approved framework within which officers undertake the day-to-day capital and treasury activities.

4.8 It should be noted that this strategy is closely aligned to the Council's Capital Strategy with the Capital Programme being the main determinant of the council's borrowing need.

4.9 It should also be noted that at the time of writing this report, there are various geo-political events taking place both nationally and internationally that are impacting financial markets. The impacts of these are continuously monitored and any political or economic shocks that require any adjustment to the Treasury Management Strategy will be reported back to the Audit and Risk Committee (and Council) at a later date.

5. IMPACT ASSESSMENT – ADDITIONAL INFORMATION

5.1 None identified.

6. PREVIOUS MINUTES

6.1 Not Applicable

7. BACKGROUND PAPERS

Appendix A - Treasury Management Strategy and Capital Prudential Indicators 24/25 – 28/29
Appendix B - Credit and Counterparty Risk Management
Appendix C - Approved Countries for Investment
Appendix D - Treasury Management Scheme of Delegation
Appendix E – Prospect for Interest Rates & Economic Background

Report by:
Rebecca Maher, Director of Finance and Section 151 Officer
John Mayhew, Finance Team Manager and Deputy Section 151 Officer

Treasury Management Strategy and Capital Prudential Indicators 2024/25 to 2028/29

1 INTRODUCTION

1.1 Background

The Council is required to operate a balanced revenue budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

> *"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

1.2 Reporting Requirements

1.2.1 Capital Strategy

The CIPFA Prudential Code for Capital Finance in Local Authorities (the code) requires all local authorities to prepare a 'Capital Strategy'.

The Council's Capital Strategy (subject to approval by Council on 20th February 2024) builds upon the Council's Commercial Asset Strategy and Treasury Management Strategy to ensure that:

- Property acquisitions and commercial developments to deliver economic growth, are properly appraised, budgeted and financed to ensure Council Plan objectives are achieved.
- Capital acquisitions that do not clearly meet economic objectives can demonstrably achieve other objectives listed in the Council Plan.

- The proper maintenance of the capital asset base is considered in the medium term and appropriately budgeted for and financed.
- Processes exist for the ongoing appraisal of the asset base and a rigorous methodology applied should any decision be required in relation to disposal.
- The required budget and financing in relation to all capital decisions is fully incorporated into the Medium Term Financial Strategy (MTFS).

The aim of the Capital strategy is to ensure that all the Authority's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

1.2.2 Treasury Management reporting

Members receive for noting and approval, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals.

1. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report covers:
   - the capital plans (including prudential indicators);
   - a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
   - the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and an Investment Strategy (the parameters on how investments are to be managed).

2. **An annual treasury report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny - The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit & Risk Committee who, in addtion to the above, also receive periodic Treasury Management reports. These update Committee members with the capital position and any necessary amendments to prudential indicators.

1.3 Treasury Management Strategy for 2024/25

The strategy for 2024/25 covers two main areas:

Capital issues
- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, DLUHC Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

1.4 Training

The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

Furthermore, the Code states that they expect "all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

The scale and nature of this will depend on the size and complexity of the organisation's treasury management needs. Organisations should consider how to assess whether treasury management staff and board/ council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/council members.
- Require treasury management officers and board/council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis."

In further support of the revised training requirements, CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management', which is available from the CIPFA website to download.

The training needs of treasury management officers are periodically reviewed.

1.5 Treasury Management Consultants

The Council uses Link Group, Link Treasury Services Limited as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2 THE CAPITAL PRUDENTIAL INDICATORS 2024/25 – 2028/29

The Council's capital expenditure plans are a key driver of treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, which are designed to assist member's overview and confirm capital expenditure plans.

2.1 Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans. The capital expenditure forecasts to 2028/29 (which form part of the Capital Programme subject to approval by Council on 20 February 2024) are as follows:

Capital expenditure £000s	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**	**2027/28 Estimate**	**2028/29 Estimate**
Community Services	3,904	132	494	322	190
Digital Transformation & Estate Management	6,940	455	175	45	170
Welfare Services	1,127	1,127	1,127	1,127	1,127
Total	**11,971**	**1,714**	**1,796**	**1,494**	**1,486**

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a borrowing need (to be met either through internal funds or external borrowing).

Capital expenditure £000s	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**	**2027/28 Estimate**	**2028/29 Estimate**
Total	**11,971**	**1,714**	**1,796**	**1,494**	**1,486**
Financed by:					
Capital Receipts	178	335	55	45	170
Capital Grants & Other Contributions	1,127	1,127	1,127	1,127	1,127
Revenue	126	0	0	0	0
Total Internal Financing	**1,430**	**1,462**	**1,182**	**1,172**	**1,297**
Net External Financing Requirement	**10,541**	**252**	**614**	**322**	**190**

2.2 The Council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes.

Audit & Risk Committee is asked to recommend to Full Council that the following CFR projections are approved:

Capital Financing Requirement (CFR) £000s	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Capital Financing Requirement (CFR)	**42,207**	**41,680**	**41,527**	**40,965**	**40,217**
Movement in CFR	9,975	-527	-153	-562	-748
Movement in CFR is represented by					
Net financing need for the year	10,541	252	614	322	190
Less MRP & other financing movements	-566	-779	-767	-884	-938
Movement in CFR	**9,975**	**-527**	**-153**	**-562**	**-748**

The above table shows that as a result of the Council's capital plans (as set out in 2.1) the CFR (which essentially is a measure of the Council's underlying borrowing need) will increase to £42.207m in 2024/25 before starting to reduce from 2025/26 as the planned capital spend slows down and MRP contributions are made.

2.3 Liability Benchmark

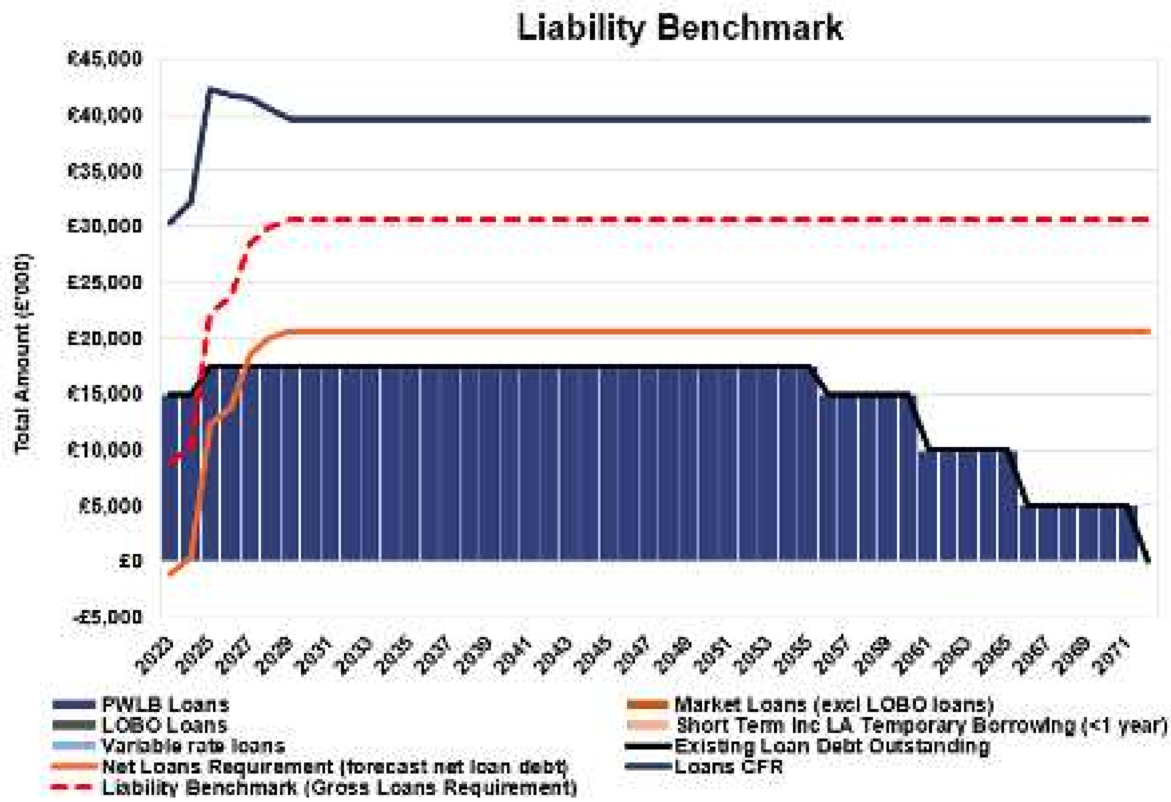
The third prudential indicator for 2024/25 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

Please note, CIPFA strongly recommends that the LB is produced for at least 10 years and should ideally cover the full debt maturity profile of a local authority. In this case we havce produced a LB up to the point at which the authority becomes debt free in 2072.

There are four components to the LB: -

1. **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding in future years.
2. **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
3. **Net loans requirement**: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

   Liability benchmark (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.



2.4 Core Funds (available to invest or cover the borrowing position)

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are prudent estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources £000s	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
General Fund Balance	6,207	5,028	2,199	-137	-2,038
Capital Receipts Reserve	1,883	1,548	1,493	1,448	1,278
Earmarked Reserves	5,709	5,709	3,709	3,709	3,709
Total Core Funds	**13,799**	**12,285**	**7,401**	**5,020**	**2,949**
Working Capital*	1,000	1,000	1,000	1,000	1,000
Total Core Funds Available to Invest	**12,799**	**11,285**	**6,401**	**4,020**	**1,949**

*Working capital balances shown are estimated year-end; these may be higher mid-year

2.5 Minimum Revenue Provision (MRP) Policy Statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP). DLUHC regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:

For capital expenditure which in the future will be Supported Capital Expenditure, the MRP policy will be based on the CFR.

From 1 April 2008 for all unsupported borrowing (including finance leases) the MRP policy will be based on the Asset life methodology:

- MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3).

This option provides for a reduction in the borrowing need over approximately the asset's life. Finance leases are applied to revenue as MRP.

MRP Overpayments - A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. At the date of this report the council has not made, nor has any plans to make, any VRP overpayments.

3 TREASURY MANAGEMENT

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current Portfolio Position

The current treasury position as at 31.12.23 and the estimated portfolio as at 31.03.24 are shown below for both investments and borrowing

Treasury Position £000s	Current 31.12.23	Estimated 31.03.24
Investments		
CCLA	11,000	2,000
Federated MMF	7,100	4,800
Internal Investments	5,000	5,000
Total Investments	**23,100**	**11,800**
External Borrowing		
PWLB	15,000	15,000
Total External Borrowing	**15,000**	**15,000**

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

External Debt £000s	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**	**2027/28 Estimate**	**2028/29 Estimate**
Debt at 1 April	**15,000**	**15,000**	**17,500**	**17,500**	**17,500**
Expected change in Debt	0	2,500	0	0	0
Actual gross debt at 31 March	**15,000**	**17,500**	**17,500**	**17,500**	**17,500**
The Capital Financing Requirement	42,207	41,680	41,527	40,965	40,217
Under/(over) borrowing	**27,207**	**24,180**	**24,027**	**23,465**	**22,717**

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Finance Director reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future – as set out in the above table. This view takes into account current commitments, existing plans, and the proposals in the proposed MTFS.

3.2 Treasury Indicators: Limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and internally available funds.

Operational boundary £000s	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**	**2027/28 Estimate**	**2028/29 Estimate**
Debt	42,000	42,000	42,000	41,000	40,000
Other long-term liabilities	1,000	1,000	1,000	1,000	1,000
Total	**43,000**	**43,000**	**43,000**	**42,000**	**41,000**

The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Audit and Risk Committee is asked to recommend to Full Council that the following authorised limit is approved:

Authorised Limit £000s	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Debt	45,000	45,000	45,000	44,000	43,000
Other long-term liabilities	1,000	1,000	1,000	1,000	1,000
Total	**46,000**	**46,000**	**46,000**	**45,000**	**44,000**

In order to ensure that the Council has the overall scope to borrow, the Authorised Limit has been adjusted upwards to reflect the approved Capital Programme. This provides the flexibility to borrow, but not the obligation.

The authorised limit has been set at a level higher than the (net) external borrowing need in 3.1. This provides some headroom for changes in available funds/working balances.

It should be noted that these limits have been set based on the current planned capital programme. Should proposals come forward for additional capital items these limits would be reviewed and risks and rewards reconsidered.

3.3 Borrowing Strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used.

The table below summarises the council forecast under-borrowing position.

Year End Resources £000s	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Under borrowing	27,207	24,180	24,027	23,465	22,717

The Finance Director will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances and projected forecasts of interest rate changes.

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be delayed or taken short term*.

- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast,* fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the Audit and Risk Committee at the next available opportunity.

Treasury Management Limits on Activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs/improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments:
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates:
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Audit and Risk Committee is asked to recommend to Full Council that the following treasury indicators and limits are approved:

Interest Rate Exposures £000s	2024/25 Upper	2025/26 Upper	2026/27 Upper	2027/28 Upper	2028/29 Upper
Limits on fixed interest rates	45,000	45,000	45,000	44,000	43,000
Limits on variable interest rates	15,000	15,000	15,000	15,000	14,000

Maturity Structure of borrowing
These gross limits are set to reduce the Council's exposure to large, fixed rate sums falling due for refinancing and are required for upper and lower limits.

Audit and Risk Committee is asked to recommend to Full Council that the following treasury indicators and limits are approved:

Maturity structure of variable interest rate borrowing 2024/25		
	Lower	**Upper**
Under 12 months	0%	50%
12 months to 2 years	0%	50%
2 years to 5 years	0%	50%
5 years to 10 years	0%	50%
10 years and above	0%	50%

**Please note that this excludes other long term liabilities (leases)*

There are no limits to fixed rate borrowing which can be upto 100% of our debt portfolio.

3.4 Policy on Borrowing in Advance of Need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.5 Debt Rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a large difference between premature redemption rates and new borrowing rates.

If rescheduling is to be undertaken, it will be reported to the Audit & Risk Committee, at the earliest meeting following its action.

The reasons for any rescheduling to take place will include:
- the generation of cash savings and / or discounted cash flow savings:
- helping to fulfil the treasury strategy:
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the Audit & Risk Committee, at the earliest meeting following its action.

3.6 New financial institutions as a source of borrowing and / or types of borrowing

The Public Works Loans Board (PWLB) forms part of HM treasury, part of its function is to provide loans to local authorities in the UK, primarily to fund capital projects. The council has the ability to borrow from PWLB at the Certainty Rate, which is a rate set at 0.20% below its standard interest rate.

Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both Housing Revenue Account (HRA) and non-HRA borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

3.7 Approved sources of long- and short-term borrowing

On Balance Sheet	Fixed	Variable
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Local authority bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance leases	●	●

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy – Management of risk

The DLUHC and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of assets regeneration, are covered in the Capital Strategy, (a separate report).

The Council's investment policy has regard to the following: -

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Code Guidance Notes 2021

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

The above guidance from the DLUHC and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

3. **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix B under the categories of 'specified' and 'non-specified' investments.

    - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
    - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being 40% of the total investment portfolio, (see Appendix B).

6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.

7. **Transaction limits** are set for each type of investment in paragraph 4.2.

8. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 4.4).

9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).

10. This authority has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in **sterling**.

12. As a result of the change in accounting standards for 2023/24 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. In November 2018, the Ministry of Housing, Communities and Local Government (MHCLG), concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023. More recently, a further extension to the over-ride to 31.3.25 has been agreed by Government.

This authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

It is also recognised that Security, Liquidity and Yield should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector in relation to the economic and political environments in which institutions operate. In addition, there are other risks of material importance to the treasury portfolio from an ethical, environmental, social and governance perspective. It is important, therefore, to assess these categories as well and to understand if these create potential longer-term financial and reputational risks for the Council, and if there are any commonalities with the Council's key objectives in this regard. To this end, the Council will use information sources and its advisors as appropriate to assist it in scrutinising and understanding if these might affect the suitability of potential counterparties.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4.2 Creditworthiness policy

The Council has utilised and applied the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- Credit watches and credit outlooks from credit rating agencies:
- CDS spreads to give early warning of likely changes in credit ratings:
- Sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

•	Yellow	5 years*
•	Dark Pink	5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
•	Light pink	5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5

•	Purple	2 year
•	Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
•	Orange	1 year
•	Red	6 months
•	Green	100 days
•	No colour	Not to be used

The Link creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically, the minimum credit ratings criteria the Council use will be a short-term rating (Fitch or equivalents) of F1 and a long-term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings are regularly monitored. The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition, this Council will also use market data and market information, as well as information on any external support for banks to help support its decision-making process.

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long-term rating where applicable)	Money and / or % Limit	Time Limit
Banks	**Yellow**	**£4m / 25%**	**5 years**
Banks	**Purple**	**£3m / 25%**	**2 years**
Banks	**Orange**	**£3m / 25%**	**1 year**
Banks – part nationalised	**Blue**	**£3m / 25%**	**1 year**

	Colour (and long-term rating where applicable)	Money and / or % Limit	Time Limit
Banks	**Red**	**£1m / 10%**	**6 months**
Banks	**Green**	**£1m / 10%**	**100 days**
Banks	**No colour**	**Not to be used**	
Limit 3 category – Council's banker (not meeting Banks 1)	**n/a**	**£10m**	**14 days**
Other institutions limit*	**-**	**£100,000**	**3 years**
DMADF	**AAA**	**100%**	**6 months**
Local authorities	**n/a**	**£4m / 25%**	**3 years**
	Fund rating	**Money and / or % Limit**	**Time Limit**
Money market funds	**AAA**	**£15m per MMF**	**liquid**
Ultra-Short Dated Bond funds with a credit score of 1.25	**Dark pink / AAA**	**£4m / 25%**	**liquid**
Ultra-Short Dated Bond funds with a credit score of 1.5	**Light pink / AAA**	**£3m / 25%**	**liquid**

*The Council, from time to time, may also issue small, short-term loans to local parishes, charities and similar organisations. These organisations do not have a credit rating and so fall outside of the normal credit rating assessments. However, these are covered under other institutions within the criteria set above.

4.3 Other limits

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

a) **Non-specified treasury management investment limit.** The Council has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being 40% of the total treasury management investment portfolio.

b) **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of *AA1*** from Fitch *or equivalent*. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix C. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

c) **Other limits.** In addition:

- no more than 50% will be placed with any non-UK country at any time:
- limits in place above will apply to a group of companies:
- sector limits will be monitored regularly for appropriateness.

4.4 Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations.

Interest rate forecasts are included in Appendix E. Interest rates have continued to increase since the autumn of 2022 with current BoE base rate being 5.25% at the time of writing this report. Latest indications are that the BoE base rate may have peaked and there is an expectation of a gradual reduction in base rate from summer 2024.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year.

Year	Average Interest Rate Earned
2023/24 (remainder)	4.75%
2024/25	4.25%
2025/26	3.25%
2026/27	2.75%
2027/28	2.25%
2028/29	2.00%

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested longer than 365 days					
£m	2024/25	2025/26	2026/27	2027/28	2028/29
Principal sums invested longer than 365 days*	£4m	£4m	£4m	£4m	£4m

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits in order to benefit from the compounding of interest.

*Please note that currently the council does not have any investments invested for more than 365 days.

4.5 Property Funds

The Council current uses CCLA as one of its main Money Market Funds, who also offer investments in property funds. The use of these instruments can be deemed capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any additional funds it may consider using. Appropriate due diligence will also be undertaken before investment of this type is undertaken.

The council does not currently have any investments in property funds.

4.6 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. A maximum of 40% will be held in aggregate in non-specified investment.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria / colour band	**£ limit per institution / Max % of total investment**	**Max. maturity period**
Specified			
DMADF – UK Government	Yellow	100%	6 months (max set by DMO)
UK Government gilts	Yellow	£4 million / 50%	5 Years
UK Government Treasury bills	Yellow	£4 million / 50%	364 days (Max set by DMO)
Bonds issued by multilateral development banks	Yellow	£2m / 25%	5 Years
Local authorities	N/A	£4m / 25%	3 Years
Council's banker (Barclays)		£10 million	14 days
Money Market Funds CNAV	AAA	£15 million Per fund	Liquid
Money Market Funds VNAV	AAA	£15 million per fund	Liquid
Money Market Funds LVNAV	AAA	£15 million per fund	Liquid

Ultra-Short Dated Bond Funds with a credit score of 1.25 *	AAA	£4 million / 25%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5*	AAA	£3 million / 25%	Liquid
Term Deposits with part nationalised banks	Blue Orange Red Green	Max £3 million / 25%	1 Year 1 Year 6 Months 100 days
Term deposits with banks and building societies	Blue Orange Red Green	Max £3million/ 25%	1 Year 1 Year 6 Months 100 days
CDs or corporate bonds with banks and building societies	Blue Orange Red Green	Max £3million/ 25%	1 Year 1 Year 6 Months 100 days
Non-Specified			
Term Deposits with part nationalised banks	Red Green	Max £1 million / 10%	6 months 100 days
Term deposits with banks and building societies	Red Green	Max £1 million / 10%	6 months 100 days
CDs or corporate bonds with banks and building societies	Red Green	Max £1 million / 10%	6 months 100 days
Ultra-Short Dated Bond Funds with a credit score of 1.25*		Max £3 million / 25%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5*		Max £3 million / 25%	Liquid
Property funds - The use of these instruments will normally be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. The key exception to this is an investment in the CCLA Local Authorities Property Fund. This Authority will seek guidance on the status of any fund it may consider using.	AAA	£4 million / 25%	10 years

***Any investments in ultra short-dated bond funds will be considered on an individual basis due to the complex nature of this type of investment. These types of funds do not always have an official rating, in the event that the Council wishes to invest in the type of fund the council will seek guidance from its treasury advisors and undertake additional due diligence prior to any decision.

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link credit worthiness service.

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)

AA-

- Belgium
- France
- Qatar
- **U.K.**

THIS LIST IS CORRECT AS AT 22.12.23

Treasury management scheme of delegation

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

(ii) Audit & Risk Committee (responsibility for scrutiny)

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- receiving and reviewing regular monitoring reports and acting on recommendations;

The treasury management role of the section 151 officer

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

Prospects for Interest Rates

The Authority has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Link provided the following forecasts on 07 November 2023. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View 07.11.23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

Additional notes by Link on this forecast table: -

- Our central forecast for interest rates was previously updated on 25 September and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least H2 2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and that there is a likelihood of the overall economy enduring at least a mild recession over the coming months, although most recent GDP releases have surprised with their on-going robustness.
- Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.
- In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.
- On the positive side, consumers are still anticipated to be sitting on some excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing somewhat better at this stage of the economic cycle than may have been expected. However, as noted previously, most of those excess savings are held by more affluent households whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

PWLB RATES

- Gilt yield curve movements have broadened since our last Newsflash. The short part of the curve has not moved far but the longer-end continues to reflect inflation concerns. At the time of writing there is 60 basis points difference between the 5 and 50 year parts of the curve.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is to the downside.

Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).

- **The Bank of England** has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.

- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

- **Geopolitical risks,** for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates: -

- Despite the recent tightening to 5.25%, the **Bank of England proves too timid** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.

- **The pound weakens** because of a lack of confidence in the UK Government's pre-election fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Longer-term **US treasury yields** rise strongly if inflation remains more stubborn there than the market currently anticipates, consequently pulling gilt yields up higher. (We saw some movements of this type through October although generally reversed in the last week or so.)

- Projected **gilt issuance, inclusive of natural maturities and QT,** could be too much for the markets to comfortably digest without higher yields compensating.

LINK GROUP FORECASTS

We now expect the MPC will keep Bank Rate at 5.25% for the remainder of 2023 and the first half of 2024 to combat on-going inflationary and wage pressures. We do not think that the MPC will increase Bank Rate above 5.25%, but it is possible.

Gilt yields and PWLB rates

The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, as inflation starts to fall through the remainder of 2023 and into 2024.

Our target borrowing rates are set **two years forward** (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below: -

PWLB debt	Current borrowing rate as at 06.11.23 p.m.	Target borrowing rate now (end of Q3 2025)	Target borrowing rate previous (end of Q3 2025)
5 years	5.02%	3.80%	3.90%
10 years	5.15%	3.80%	3.80%
25 years	5.61%	4.20%	4.10%
50 years	5.38%	4.00%	3.90%

Borrowing advice: Our long-term (beyond 10 years) forecast for Bank Rate has increased from 2.75% to 3% and reflects Capital Economics' research that suggests AI and general improvements in productivity will be supportive of a higher neutral interest rate. As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates will remain elevated for some time to come but may prove the best option whilst the market continues to wait for inflation, and therein gilt yields, to drop back later in 2024.

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are rounded to the nearest 10bps and set out below. You will note that investment earnings have been revised somewhat higher for all years from 2025/26 as Bank Rate remains higher for longer.

Average earnings in each year	Now	Previously
2023/24 (residual)	5.30%	5.30%
2024/25	4.70%	4.70%
2025/26	3.20%	3.00%
2026/27	3.00%	2.80%
2027/28	3.25%	3.05%
Years 6 to 10	3.25%	3.05%
Years 10+	3.25%	3.05%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Our interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

Economic Background

- The first half of 2023/24 saw:
  - Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.

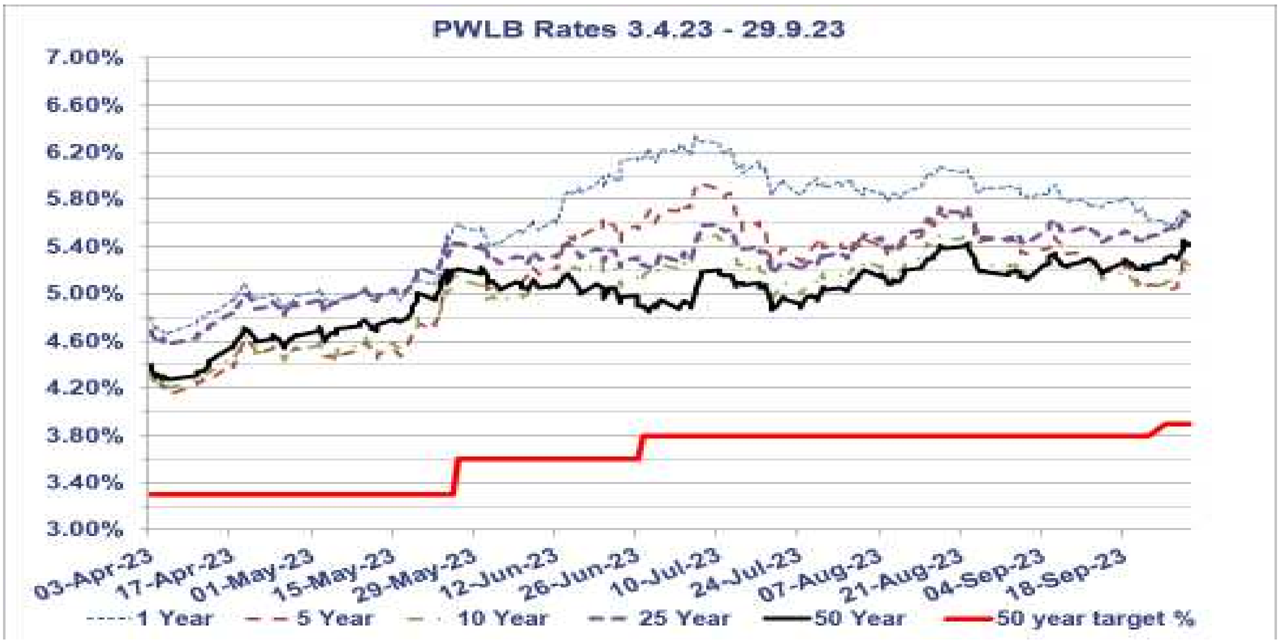
- Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
- CPI inflation falling from 8.7% in April to 6.7% in September, its lowest rate since February 2022, but still the highest in the G7.
- Core CPI inflation declining to 6.1% in September from 7.1% in April and May, a then 31 years high.
- A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose by 7.8% for the period June to August, excluding bonuses).

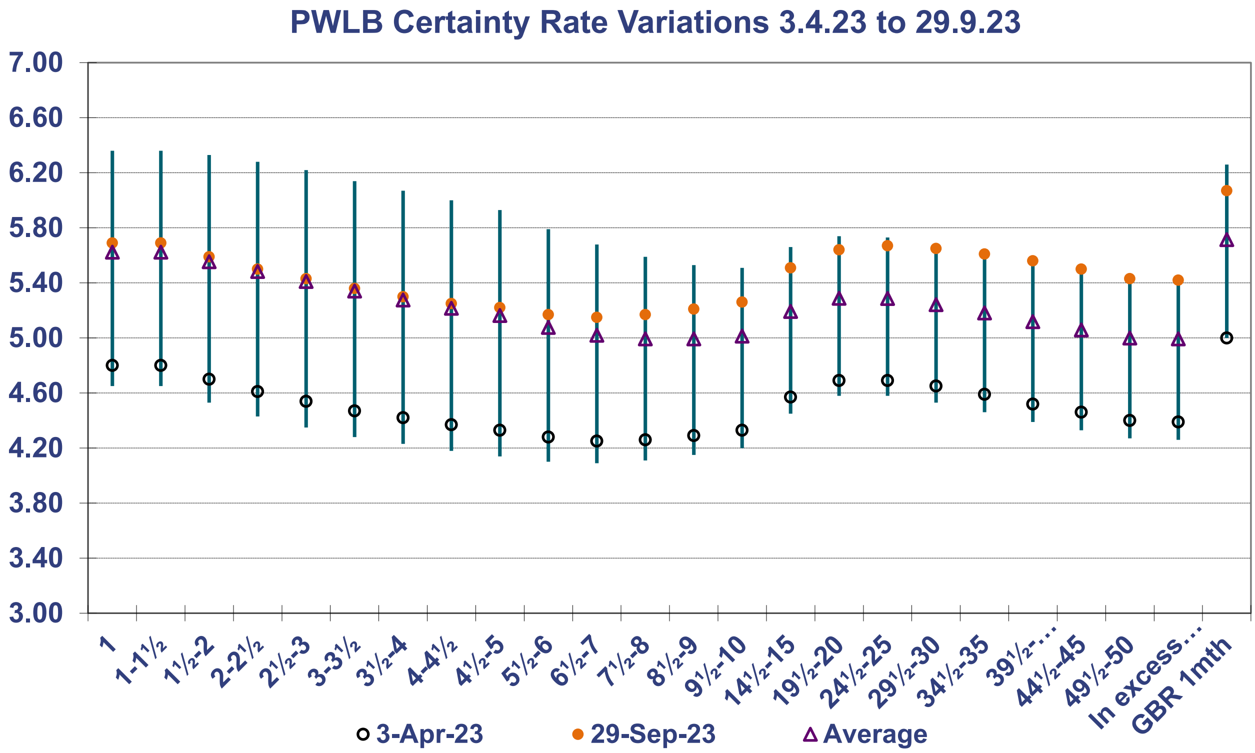
- The registering of 0% GDP for Q3 suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.
- The fall in the composite Purchasing Managers Index from 48.6 in August to 46.7 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0% q/q rise in real GDP in the period July to September, being followed by a contraction in the next couple of quarters.
- The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.
- As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of- living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.
- The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.
- But the cooling in labour market conditions still has not fed through to an easing in wage growth. The headline 3myy rate rose 7.8% for the period June to August, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular annual average total pay growth for the private sector was 7.1% in June to August 2023, for the public sector this was 12.5% and is the highest total pay annual growth rate since comparable records began in 2001. However, this is affected by the NHS and civil service one-off non-consolidated payments made in June, July and August 2023. The Bank of England's prediction was for private sector wage growth to fall to 6.9% in September.

- CPI inflation declined from 6.8% in July to 6.7% in August and September, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.1%. That reverses all the rise since March.
- In its latest monetary policy meeting on 06 November, the Bank of England left interest rates unchanged at 5.25%. The vote to keep rates on hold was a split vote, 6-3. It is clear that some members of the MPC are still concerned about the stickiness of inflation.
- Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. In terms of messaging, the Bank once again said that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures", citing the rise in global bond yields and the upside risks to inflation from "energy prices given events in the Middle East". So, like the Fed, the Bank is keeping the door open to the possibility of further rate hikes. However, it also repeated the phrase that policy will be "sufficiently restrictive for sufficiently long" and that the "MPC's projections indicate that monetary policy is likely to need to be restrictive for an extended period of time". Indeed, Governor Bailey was at pains in his press conference to drum home to markets that the Bank means business in squeezing inflation out of the economy.
- This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates in the future.

In the table below, the rise in gilt yields across the curve as a whole in 2023/24, and therein PWLB rates, is clear to see.

PWLB RATES 01.04.23 - 29.09.23





HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.23 – 29.09.23

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.14%	4.20%	4.58%	4.27%
Date	06/04/2023	06/04/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.51%	5.73%	5.45%
Date	06/07/2023	07/07/2023	22/08/2023	17/08/2023	28/09/2023
Average	5.62%	5.16%	5.01%	5.29%	5.00%
Spread	1.71%	1.79%	1.31%	1.15%	1.18%

The peak in medium to longer dated rates has generally arisen in August and September and has been primarily driven by continuing high UK inflation, concerns that gilt issuance may be too much for the market to absorb comfortably, and unfavourable movements in US Treasuries.

The S&P 500 and FTSE 100 have struggled to make much ground through 2023.

CENTRAL BANK CONCERNS

Currently, the Fed has pushed up US rates to a range of 5.25% to 5.5%, whilst the MPC followed by raising Bank Rate to 5.25%. EZ rates have also increased to 4% with further tightening a possibility.

Ultimately, however, from a UK perspective it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

SOUTH STAFFORDSHIRE COUNCIL

AUDIT AND RISK COMMITTEE 6 FEBRUARY 2024

QUARTERLY TREASURY MANAGEMENT REPORT: QUARTER 3 – 1 October 2023 to 31 December 2023

REPORT OF THE FINANCE TEAM MANAGER AND DEPUTY SECTION 151 OFFICER

PART A – SUMMARY REPORT

1. SUMMARY OF REPORT

1.1 The report presents the 3rd quarter summary information relating to treasury management activities and interest during 2023/24. The Council's position at the beginning and end of the quarter was as follows.

- Total on deposit at the start of the quarter £21,800,000
- Total on deposit at the end of the quarter £23,100,000
- Interest earned in the quarter was £366,627 against a budget of £140,500.
- Total Borrowing at the start of the quarter was £15,000,000 (long-term borrowing over 40-50 years)
- Total borrowing at the end of the quarter was £15,000,000.
- Borrowing costs in the quarter were £59,233 against a budget of £58,750.

2. RECOMMENDATIONS

2.1 Members are asked to note the position as set out in the report.

3. SUMMARY IMPACT ASSESSMENT

POLICY/COMMUNITY IMPACT	Do these proposals contribute to specific Council Plan objectives?	
	Yes	The reporting of financial information on a regular basis contributes to providing value for money and quality services.
	Has an Equality Impact Assessment (EqIA) been completed?	
	No	This proposed decision does not give rise to any change in policy, nor does it give rise to any new expenditure, and it is not considered to have any adverse implications.
SCRUTINY POWERS APPLICABLE	No	
KEY DECISION	No	

TARGET COMPLETION/ DELIVERY DATE	Not applicable	
FINANCIAL IMPACT	Yes	The Council makes assumptions about the level of investment income over the financial year based on the Council's expected cash position and interest rates forecasts provided by its treasury advisors. Delays in the delivery of the capital programme will have an impact on the council's cash position and therefore interest earned, and interest paid. Likewise increases or decreases in interest rates will affect interest earned and paid on investments and borrowings. During the 3rd quarter rates have continued at a higher rate than what we had budgeted for, with the UK base rate sitting at 5.25% for the quarter. In addition to this cash balances remain higher than anticipated due to slippage within the capital programme. As a result, at the end of Q3 year-to-date interest earned was £891,837 against a year-to-date budgetary target of £421,500. The Council has a borrowing portfolio of £15m, all sourced through the PWLB. Year to date interest paid is £177,054 against a year-to-date budget of £176,250 up to the end of Q3. For monitoring purposes, assumptions are made based on the strategies agreed by Council. The Capital Programme for 2023/24 and future years was approved by Council 21 February 2023.
LEGAL ISSUES	Yes	The proposed actions are in accordance with the Council's Constitution and Financial Procedure Rules.
OTHER IMPACTS, RISKS & OPPORTUNITIES	None	
IMPACT ON SPECIFIC WARDS	No	

PART B – ADDITIONAL INFORMATION

4.1 CIPFA (the Chartered Institute of Public Finance and Accountancy) in its Code of Practice for Treasury Management recommends that members should be updated on treasury management activities at least twice a year. This report therefore ensures this council is implementing best practice in accordance with the Code.

The following items are set out in the report below:

- annual investment strategy/the Council's current treasury position.
- interest earned for Quarter 3.
- the borrowing outturn for Quarter 3.
- compliance with treasury limits.

4.2 Annual Investment Strategy/Current Treasury Position

The Treasury Management Strategy Statement (TMSS) for 2023/24, which includes the Annual Investment Strategy, is approved by the Council. It sets out the Council's investment priorities as being:

- Security of Capital.
- Liquidity; and
- Yield

The Council will aim to achieve the optimum return (yield) on investments while considering levels of security and liquidity. In the current economic climate, it is considered appropriate to keep investments short term to cover short term cash flow needs but also to seek out value available in higher rates in periods up to 12 months or in some circumstances beyond, with highly credit rated financial institutions.

The Council's position at the beginning and end of quarter dates was as follows:

Investments	30 Sep 2023 £	31 Dec 2023 £
Money Market Funds:		
Federated Investors LLP	5,800,000	7,100,000
CCLA	11,000,000	11,000,000
Total	**16,800,000**	**18,100,000**
Internal Investments:		
Lloyds Bank (ATS)	1,000,000	1,000,000
National Bank of Kuwait (ATS)	1,000,000	1,000,000
Standard Chartered Bank (ATS)	1,000,000	1,000,000
Lanbesbank Hessem Frankfurt (ATS)	2,000,000	2,000,000
Total	**5,000,000**	**5,000,000**
Grand Total	**21,800,000**	**23,100,000**

*ATS is a service provided by our treasury advisors. By using this facility, it allows us to access investments at higher interest rates and a wider list of counterparties than we would be able to get by going directly to the market.

Investments in Money Market Funds are held to manage the daily cash flows. Surplus funds are placed on short term deposit to meet predicted outflows of funds for example the precept payments to the County, Fire and Police authorities.

Internally managed funds are used to generate a higher return on investments when funds are not required in the very short term. In most cases these investments are kept relatively short term up to a maximum of 1 year.

Due to the timings of these cashflows, balances generally build up during the first three quarters of the year and then fall significantly in quarter 4 due to the profiled collection of taxation revenues for council tax and business rates.

4.3 Details of Investments and Interest during Quarter 3

Due to inflationary pressures over the last 18 months the Bank of England has continued to raise interest rates to combat this, as a result interest rates have risen throughout the year and currently stand at 5.25%.

This has had a positive impact on the interest earning potential of our investments. Interest earned during Quarter 3 2023/24 was £366,627, £226,127 above budget (£140,500).

A breakdown of interest earnings is detailed in the table below:

Interest Earned	Quarterly Budget £	Quarterly Actual £
Investment Income Budget	140,500	
Money Market Funds:		
Federated Investors LLP		135,261
CCLA		147,147
Internal Investments		73,373
Bank Accounts		10,846
Grand Total	**140,500**	**366,627**

4.4 Borrowing Outturn for Quarter 3 2023/24

During Q3 of 2021/22 the council made the decision to take out some longer term borrowing to fund the capital programme. Due to the impending rate raise that was expected it was felt that this was the right time to take out a portion of borrowing to take advantage of the historically low rates on offer and reduce the risk of the council undertaking borrowing at much higher rates in the future. As a result, the council took the option to borrow £15,000,000 over 40-50 years at fixed rates ranging from 1.51%-1.62%.

Loan Amount	Interest Rate	Loan Length	Annual Interest	Repayment Date
5,000,000.00	1.62%	40 years	81,000.00	14/11/2061
5,000,000.00	1.57%	45 years	78,500.00	12/11/2066
5,000,000.00	1.51%	50 years	75,500.00	13/11/2071
			235,000.00	

Additional borrowing will be required in the future to fund further aspects of the capital programme however some of this borrowing may not be required for some time and so whilst rates are still volatile it was felt prudent to leave a portion of the borrowing requirement until a time where we feel it would be most beneficial to the council's long-term finances. With that in mind the council will continue to monitor the markets and take advice from our professional advisors to take advantage of any changes in market conditions. It is likely that once further spend on the capital programme is undertaken further long-term borrowing will be taken in accordance with the approved treasury management strategy.

Details of the Councils borrowing position at the beginning and end of the quarter are detailed as follows:

	30 Sep 23 £	31 Dec 23 £
PWLB	15,000,000	15,000,000
Grand Total	**15,000,000**	**15,000,000**

4.5 Compliance with Treasury Limits

Compliance with the Council's Treasury Management Limits as set out in the Treasury Management Strategy, underpins all investment and borrowing decisions made at all times.

The Table below details the applicable lending limits for investments made during the 3rd quarter of 2023/24.

Investments	Institute Rating (at time of investment)	Highest value During Quarter	Monetary Limit (As per TMSS)	Period of Investment	Time Limit as per TMSS
Federated	AAA+	15,000,000	15,000,000	Liquid	Liquid
CCLA	AAA+	11,000,000	15,000,000	Liquid	Liquid
Lloyds Bank (ATS)	A+	1,000,000	1,000,000	6 months	6 months
National Bank of Kuwait (ATS)	A+	1,000,000	1,000,000	6 months	6 months

Standard Chartered Bank (ATS)	A+	1,000,000	1,000,000	6 months	6 months
Lanbesbank Hessem Frankfurt (ATS)	A+	2,000,000	3,000,000	1 year	1 year

The Table below details the applicable limits between fixed and variable rate borrowing during the 3rd quarter of 2023/24.

Borrowing	Borrowing in Quarter	Monetary Limit (As per TMSS)
Fixed	15,000,000	44,000,000
Variable	0	15,000,000

5. IMPACT ASSESSMENT – ADDITIONAL INFORMATION

None

6. PREVIOUS MINUTES

None

7. BACKGROUND PAPERS

Appendix A – Link Asset Services Q3 2023/24 Report

Report by: Rebecca Maher, Director of Finance and Section 151 Officer
John Mayhew, Finance Team Manager and Deputy Section 151 Officer

QUARTERLY TREASURY MANAGEMENT REPORT

QUARTER THREE – 1 OCTOBER 2023 TO 31 DECEMBER 2023

Detailed economic commentary on developments during quarter ended 31 December 2023

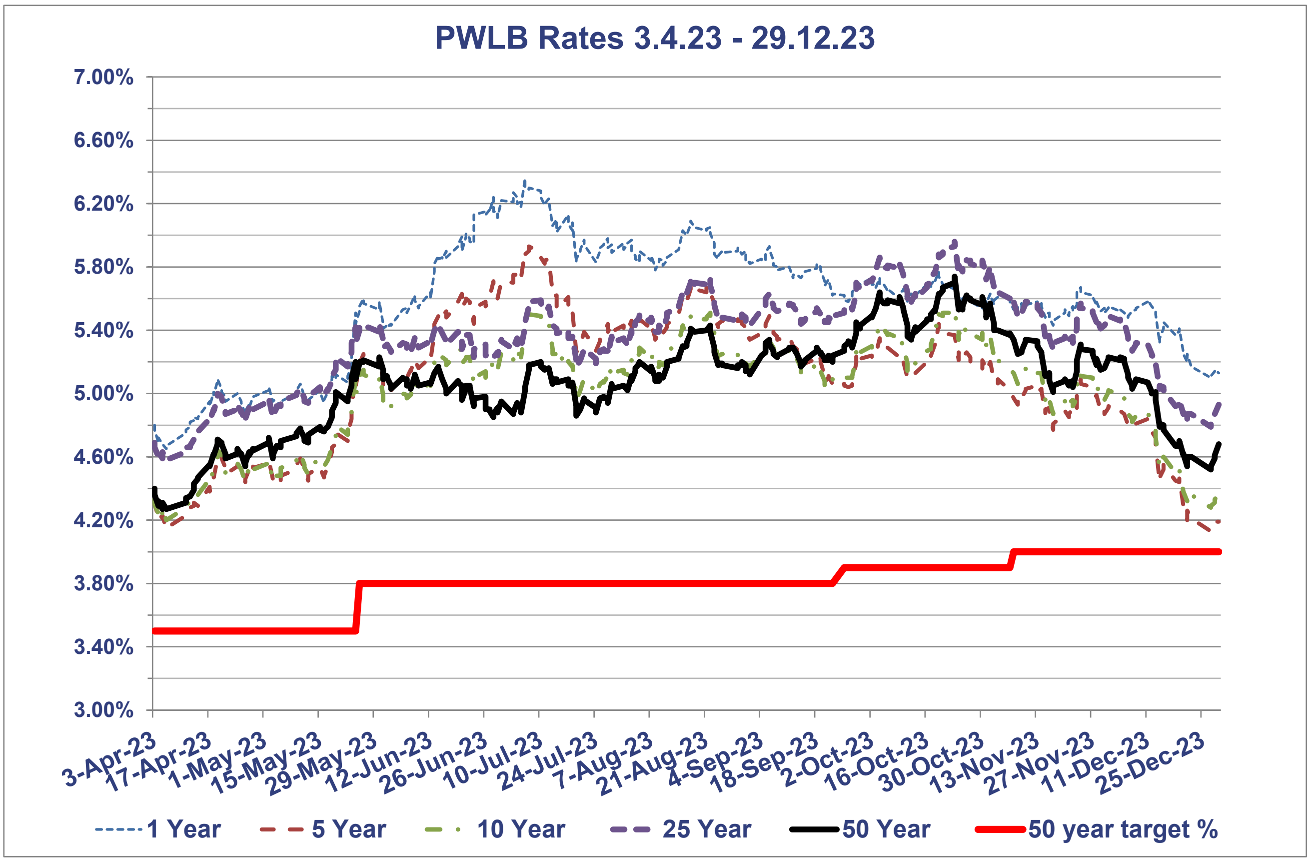
- The third quarter of 2023/24 saw:
  - A 0.3% m/m decline in real GDP in October, potentially partly due to unseasonably wet weather, but also due to the ongoing drag from higher interest rates. Growth for the second quarter, ending 30th September, was revised downwards to -0.1% and growth on an annual basis was also revised downwards, to 0.3%;
  - A sharp fall in wage growth, with the headline 3myy rate declining from 8.0% in September to 7.2% in October, although the ONS "experimental" rate of unemployment has remained low at 4.2%;
  - CPI inflation continuing on its downward trajectory, from 8.7% in April to 4.6% in October, then again to 3.9% in November;
  - Core CPI inflation decreasing from April and May's 31 years' high of 7.1% to 5.1% in November, the lowest rate since January 2022;
  - The Bank of England holding rates at 5.25% in November and December;
  - A steady fall in 10-year gilt yields as investors revised their interest rate expectations lower.
- The revision of GDP data in Q2 to a 0.1% q/q fall may mean the mildest of mild recessions has begun. Indeed, real GDP in October fell 0.3% m/m which does suggest that the economy may stagnate again in Q3. The weakness in October may partly be due to the unseasonably wet weather. That said, as the weakness was broad based it may also be the case that the ongoing drag from higher interest rates is more than offsetting any boost from the rise in real wages.
- However, the rise in the flash composite activity Purchasing Managers Index, from 50.7 in November to 51.7 in December, did increase the chances of the economy avoiding a contraction in Q3. The improvement was entirely driven by the increase in the services activity balance from 50.9 to 52.7. (Scores above 50 point to expansion in the economy, although only tepid in this instance.) The press release noted that this was primarily driven by a revival in consumer demand in the technological and financial services sectors. This chimes with the further improvement in the GfK measure of consumer confidence in December, from -24 to -22. The services PMI is now consistent with non-retail services output growing by 0.5% q/q in Q3, but this is in stark contrast to the manufacturing sector where the output balance slumped from 49.2 to 45.9 and, at face value, the output balance is consistent with a 1.5% q/q fall in manufacturing output in Q3.
- The 0.3% m/m fall in retail sales volumes in October means that after contracting by 1.0% q/q (which was downwardly revised from -0.8% q/q) in Q2, retail activity remained weak at the start of Q3. That suggests higher interest rates are taking a bigger toll on real consumer spending.
- Higher interest rates have filtered through the financial channels and weakened the housing market but, overall, it remains surprisingly resilient with only marginal falls showing year on year on the Halifax (-1%) and Nationwide (-1.8%) indices. However, the full weakness in real consumer spending and real business investment has yet to come as currently it is estimated that around two thirds to a half of the impact of higher interest rates on household interest payments has yet to be felt.
- Overall, we expect real GDP growth to remain subdued throughout 2024 as the drag from higher interest rates is protracted but a fading of the cost-of-living crisis and interest rate cuts in the second half of 2024 will support a recovery in GDP growth in 2025.

- The labour market remains tight by historical standards, but the sharp fall in wage growth seen in October will reinforce the growing belief in markets that interest rates will be cut mid-2024. Wage growth eased in October much faster than the consensus expected. Total earnings fell by 1.6% m/m, which meant the headline 3myy rate eased from 8.0% in September to 7.2% in October. This news will be welcomed by the Bank of England. Indeed, the timelier three-month annualised rate of average earnings growth fell from +2.4% to -1.2%. Excluding bonuses, it fell from 5.3% to 2.0%. Furthermore, one of the Bank's key barometers of inflation persistence, regular private sector pay growth, dropped from 7.9% 3myy to 7.3%, which leaves it comfortably on track to fall to 7.2% by December, as predicted by the Bank in November.
- The fall in wage growth occurred despite labour demand being stronger in October than expected. The three-month change in employment eased only a touch from +52,000 in September to +50,000 in October. But resilient labour demand was offset by a further 63,000 rise in the supply of workers in the three months to October. That meant labour supply exceeded its pre-pandemic level for the first time, and the unemployment rate remained at 4.2% in October. In the three months to November, the number of job vacancies fell for the 17th month in a row, from around 959,000 in October to around 949,000. That has reduced the vacancy to unemployment ratio as demand for labour eases relative to supply, which may support a further easing in wage growth in the coming months.
- CPI inflation fell from 6.7% in September to 4.6% in October, and then again to 3.9% in November. Both these falls were bigger than expected and there are clear signs of easing in domestic inflationary pressures. The fall in core CPI inflation from 5.7% to 5.1% in November was bigger than expected (consensus forecast 5.6%). That's the lowest rate since January 2022. Some of the decline in core inflation was due to the global influence of core goods inflation, which slowed from 4.3% to 3.3%. But some of it was due to services inflation falling from 6.6% to 6.3%. The Bank views the latter as a key barometer of the persistence of inflation and it came in further below the Bank's forecast of 6.9% in its November Monetary Policy Report. This will give the Bank more confidence that services inflation is now on a firmly downward path.
- The Bank of England sprung no surprises with its December monetary policy committee (MPC) meeting, leaving interest rates at 5.25% for the third time in a row and pushing back against the prospect of near-term interest rate cuts. The Bank continued to sound hawkish, with the MPC maintaining its tightening bias saying that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures". And it stuck to the familiar script, saying that policy will be "sufficiently restrictive for sufficiently long" and that "monetary policy is likely to need to be restrictive for an extended period of time". In other words, the message is that the MPC is not yet willing to endorse investors' expectations that rates will be cut as soon as May 2024.
- Looking ahead, our colleagues at Capital Economics forecast that the recent downward trends in CPI and core inflation will stall over the next few months before starting to decline more decisively again in February. That explains why we think the Bank of England won't feel comfortable cutting interest rates until H2 2024.
- The fall in UK market interest rate expectations in December has driven most of the decline in 10-year gilt yields, which have fallen in line with 10-year US Treasury and euro-zone yields. 10-year gilt yields have fallen from 4.68% in October 2023 to around 3.70% at the time of writing, with further declines likely if the falling inflation story is maintained.
- Investors' growing expectations that the Fed will cut interest rates soon has led to an improvement in risk sentiment, which has boosted the pound and other risky assets. In addition, the rise in the pound, from \$1.21 in November to \$1.27 now, has also been supported by the recent relative decline in UK wholesale gas prices.
- The further fall in 10-year real gilt yields in December has supported the recent rise in the FTSE 100. That said, the index remains 5% below its record high in February. This modest rise in equities appears to have

been mostly driven by strong performances in the industrials and rate-sensitive technology sectors. But UK equities have continued to underperform US and euro-zone equities. The FTSE 100 has risen by 2.2% in December, while the S&P 500 has risen by 3.8%. This is partly due to lower energy prices, which have been a relatively bigger drag on the FTSE 100, due to the index's high concentration of energy companies.

In the chart below, the rise in gilt yields across the curve in the first half of 2023/24, and therein PWLB rates, is clear to see, prior to the end of year rally based on a mix of supportive domestic and international factors.

PWLB RATES 3.4.23 - 29.12.23



MPC meetings 2nd November and 14th December 2023

- On 2nd November, the Bank of England's Monetary Policy Committee (MPC) voted to keep Bank Rate on hold at 5.25%, and on 14th December reiterated that view. Both increases reflected a split vote, the latter by 6 votes to 3, with the minority grouping voting for an increase of 0.25% as concerns about "sticky" inflation remained in place.
- Nonetheless, with UK CPI inflation now at 3.9%, and core inflating beginning to moderate (5.1%), markets are voicing a view that rate cuts should begin in Q1 2024/25, some way ahead of the indications from MPC

members. Of course, the data will be the ultimate determinant, so upcoming publications of employment, wages and inflation numbers will be of particular importance, and on-going volatility in Bank Rate expectations and the gilt yield curve can be expected.

- In addition, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has kept short-term rates in the range of 5.25%-5.50%, whilst the ECB has moved its Deposit rate to a probable peak of 4%. Markets currently expect both central banks to start cutting rates in 2024.

2. Interest rate forecasts

The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

Link Group Interest Rate View 07.11.23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

- Our central forecast for interest rates was previously updated on 7th November and reflected a view that the MPC would be keen to underpin its anti-inflation credentials by keeping Bank Rate at 5.25% until at least H2 2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are unequivocally supportive of such a move, and that there is a strong likelihood of the overall economy enduring tepid growth (at best) or a mild recession (at worst) over the coming months.

- Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

- In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

- On the positive side, consumers are still anticipated to be sitting on some excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing a little better at this stage of the economic cycle than may have been expected. Nonetheless, with approximately 400,000 households per quarter facing a mortgage interest reset at higher levels than their current rate, the economy will face on-going headwinds from that source, in addition to lower income households having to spend disproportionately on essentials such as food, energy and rent payments.

PWLB RATES

- As illustrated in the charts in section 1, gilt yields have endured a volatile nine months with yields rising significantly on the back of inflation concerns before retracing much of those increases in November and December. With the market now anticipating rate cuts by H2 2024, the short and medium parts of the curve are now close to where they started 2023/24, but the longer part of the curve is still a little higher. At the time of writing there is c50 basis points difference between the 5 and 50 year parts of the curve.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is to the downside.

Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).

- **The Bank of England** has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.

- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

- **Geopolitical risks,** for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates: -

- Despite the recent tightening to 5.25%, the **Bank of England proves too timid** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.

- **The pound weakens** because of a lack of confidence in the UK Government's pre-election fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Longer-term **US treasury yields** rise strongly if inflation remains more stubborn there than the market currently anticipates, consequently pulling gilt yields up higher.

- Projected **gilt issuance, inclusive of natural maturities and Quantitative Tightening (QT),** could be too much for the markets to comfortably digest without higher yields compensating.

SOUTH STAFFORDSHIRE COUNCIL

AUDIT & RISK COMMITTEE – 6 FEBRUARY 2024

ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

REPORT OF THE FINANCE TEAM MANAGER AND DEPUTY SECTION 151 OFFICER

PART A – SUMMARY REPORT

1. SUMMARY OF PROPOSALS

The purpose of this report is to:

a) Review and seek Audit and Risk Committee approval of the critical judgements used in applying the accounting policies and the assumptions about the future and other major sources of estimation uncertainty.

b) Explain any key changes and provide additional information for items that are considered to require Member's consideration.

2. RECOMMENDATIONS

2.1 It is recommended that members review and approve the critical judgements that have been used in applying the accounting policies along with the assumptions about the future and other major sources of estimation uncertainty detailed at Appendix 1.

3. SUMMARY IMPACT ASSESSMENT

POLICY/COMMUNITY IMPACT	Do these proposals contribute to specific Council Plan objectives?	
	Yes	The values of a customer focussed organisation and also of value for money underpin the Council's priorities – both of which are central to the production and publishing of the Statement of Accounts.
	Has an Equality Impact Assessment (EqIA) been completed?	
	No	Accounting policies and critical accounting judgements underpin the preparation of the annual statement of accounts. The reporting of income and expenditure is prescribed by regulation and the

		CIPFA Code and does not directly impact on the delivery of services.
SCRUTINY POWERS APPLICABLE	No	
KEY DECISION	No	
TARGET COMPLETION/ DELIVERY DATE	The statutory date for completion of the audit of the Statement of Accounts is September 30 2024. Draft accounts should be published on the Council website by 31 May 2024.	
FINANCIAL IMPACT	Yes	The appropriate adoption of accounting policies and application of critical judgements ensures that information within the accounts is relevant and reliable.
LEGAL ISSUES	Yes	The report contributes to Members' ability to discharge their responsibilities under the Accounts and Audit Regulations 2015 which require the Council to have their audited statement of accounts approved by a resolution of an authorised member meeting by the date shown above, and draft, unaudited accounts published for scrutiny on the Council website by the date shown. Under the Council's constitution this power has been delegated to the Audit & Risk Committee.
OTHER IMPACTS, RISKS & OPPORTUNITIES		The financial health of the Authority as determined within its Statement of Accounts will be used to inform the Council's overall financial risk assessment and the Council's reserve strategy. The accounting policies, critical judgements and assumptions made about the future and other major sources of estimation uncertainty are key to the presentation and understanding of the Council's financial health.
IMPACT ON SPECIFIC WARDS	No	

PART B – ADDITIONAL INFORMATION

4.1 Under Section 151 of the Local Government Act 1972, the appointed Chief Finance Officer is charged with the proper administration of the Council's financial affairs and as such must make good judgements and estimates that are reasonable and prudent.

4.2 In applying the Authority's accounting policies the Council has to make certain judgements about future events. In accordance with International Accounting Standards, the notes to the accounts contain details of the critical judgements made.

4.3 The Statement of Accounts by necessity, contains some estimated figures that are based on the assumptions made by the Council about the future or that are otherwise uncertain. These include (but are not limited to) useful lives of assets, valuations of land and buildings and bad debt provisions. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because some balances cannot be determined with certainty, actual results could be different from the assumptions and estimates.

4.4 It is considered good practice for the Audit and Risk Committee to consider these judgements and the major sources of estimation uncertainty that are going to be applied to the accounts and to approve their adoption in compiling the draft Statement of Accounts.

4.5 Appendix 1 therefore includes an excerpt from an early draft of the Council's Statement of Accounts in relation to Accounting Policies, Judgements, Assumptions and Uncertainties.

4.6 Members attention is particularly drawn to Section 2 of Appendix 1 which makes reference to IFRS16. This Accounting standard, detailing a change in how finance leases are accounted for will be introduced by local authorities on a mandatory basis from 1 April 2024 for inclusion in the 2024/25 accounts. However, disclosures will be required in the 2023/24 accounts to the extent that the accounts would have been different had the standard been imposed from 1 April 2023.

5. IMPACT ASSESSMENT

5.1 None

6 PREVIOUS MINUTES

6.1 Not applicable

7. BACKGROUND PAPERS

7.1 Appendix 1 –Statement of Accounts Excerpt: Accounting Policies, Judgements, Assumptions and Uncertainties

Report prepared by:

John Mayhew
Finance Team Manager and Deputy Section 151 Officer

APPENDIX 1

ACCOUNTING POLICIES, ACCOUNTING STANDARDS AND CRITICAL JUDGEMENTS

1. Accounting Policies

General

The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 and the Service Reporting Code of Practice 2023/24, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which are recognised by statute as representing proper accounting practices. The code has adopted International Financial Reporting Standards (IFRS).

The accounts are prepared on an historic cost basis except where specifically stated.

Accruals of Income and Expenditure

Activity is accounted for in the year in which it takes place, irrespective of when cash payments are made or received. In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or service:
- Supplies are recorded as expenditure when they are consumed:
- Interest receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract:
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down (impaired) and a charge made to revenue accounts for the income that might not be collected.
- On the basis of materiality and consistency with previous financial years, accrued overtime will be recorded in the month payment is received.

Should any unanticipated invoices be received post 19th April which would normally be recognised in 2023/24 accounts a de minimis level of materiality of £10,000 shall be applied for inclusion in the 2023/24 financial statements.

Material Income and Expenditure

Should there be any items of income or expense that are determined to be material, their nature and amount is disclosed separately.

Examples may include:

a) disposal of items of property, plant and equipment

b) disposal of investments, and

c) other reversals of provisions

d) Material items of government grant support

e) Any other windfall items.

Tax Income (Council Tax, Non-Domestic Rates and Tariff payment)

- Council Tax income included in the Comprehensive Income and Expenditure Statement (CIES) for the year will be treated as accrued income.
- Retained Business Rate income included in the CIES for the year will be treated as accrued income. Income from business rate payers includes adjustments for previous years including those arising from appeals against the rating list.
- Payment of the Tariff included in the CIES for the year will be treated as accrued expenditure.

Cash and Cash Equivalents

Cash is represented by cash in hand and on demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The category includes all balances held in call accounts and money market funds but excludes all fixed term deposits, even when these are for less than three months at the date of investment. Fixed term deposits are excluded on the basis that they are not deemed to be readily convertible to cash.

Charges to Revenue for Long-Term Assets

Services are debited with the following amounts to record the cost of holding long-term assets during the year:

- Depreciation attributable to the assets used by the relevant service:
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off:
- Amortisation of intangible long-term assets attributable to the service.

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. The Council is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by this contribution (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Contingent Assets and Liabilities

Contingent assets are sums due from individuals or organisations that may arise in the future but for which the amount due cannot be determined in advance (contingent liabilities are similarly those sums due to individuals or organisations for which the amount due cannot be determined). These are not recognised in the accounts. They are disclosed as a note to the accounts as there is a possible receipt (or payment in the case of a contingent liability), which may result in a transfer of economic benefits.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment and Intangible Assets using a straight-line method over their estimated useful lives. The useful life of properties is determined by a qualified valuer. The useful life of vehicles, equipment and intangible assets is determined by a suitably qualified officer. Land and assets under construction are not depreciated.

Where an item of Property, Plant or Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Employee Benefits

Benefits payable during employment - Employee benefits, such as salaries and wages and paid annual leave, are recognised in the year in which they are earned (excepting overtime as per previous note). The Council has adopted a policy to pay holiday pay on non-guaranteed overtime following the Employment Appeal Tribunal decision in November 2014. The policy was implemented in March 2015 and included a back pay element to the date of the judgement. An accrual is made for the cost of holiday entitlement earned but not taken before the year end which employees can carry forward into the following year. The balance is recognised within the CIES and under statutory guidance an offsetting balance is included within the reserves section of the Balance Sheet.

Termination benefits – Termination benefits are amounts payable as a result of the Council's decision to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. Such costs are charged to the CIES in the period when the Council is demonstrably committed to the termination of the employment of an officer or a group of officers or when the Council makes an explicit offer to employees to take up voluntary redundancy.

Post-Employment Benefits – Employees of the Council are members of the Local Government Pension Scheme, administered by Staffordshire County Council. The Local Government scheme is accounted for as a defined benefits scheme.

Pension Fund liabilities are measured on an actuarial basis using the projected unit method. This requires the use of various assumptions about future events.

Liabilities are discounted to their current value using a discount rate (based on the indicative rate of return on a basket of high quality corporate bonds, Government gilts and other factors).

The assets of the Staffordshire Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

- Quoted securities – current bid price
- Unquoted securities – professional estimate
- Unitised securities – current bid price
- Property – market value

The change in the net pension liability is analysed into the following components:

- **Service cost comprising:**

- Current service cost – the increase in the liabilities as a result of years of service earned this year – allocated in the CIES to the service for which the employees worked.

- Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years will be debited to the Surplus or Deficit on the Provision of Services in the CIES as part of Non-Distributed Costs.
- Net interest on the net defined benefit liability i.e. net interest expense for the Council – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the CIES. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period, taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

• **Re-measurement comprising:**

- The return on plan assets – excluding amounts included in net interest on the net defined benefit liability – charged to the Pensions Reserve as Other CIES
- Actuarial gains and losses – changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the pensions Reserve as Other CIES.
- Contributions paid to the Staffordshire pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.
- Prepayment of LGPS deficit costs - The option to pay contributions expressed as a monetary amount by way of a prepayment continues to be exercised. Any prepayment outstanding in any three-year cycle is used to offset the pensions liability held on the balance sheet.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but un-paid at the year-end. The negative balance that arises on the pensions reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Within the CIES account service revenue accounts have been charged with their current service cost which represents the extent to which pension liabilities have increased as a result of employee service during the year. Any past service costs, settlements and curtailments have been charged to Other CIES. The interest cost and expected return on assets have been included in net operating expenditure.

Legislation requires that an appropriation to the pensions reserve be made to reverse out the IAS19 based pension costs in the CIES Account and replace them with the actual pensions related payments made in the year. This ensures that the Council Tax requirement is based on the employer's contributions payable to the pension fund.

Events after the Balance Sheet date

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – the statement of accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date when the Statement of Accounts is authorised for issue are not reflected in the Statement of Accounts. For South Staffordshire Council this date has been determined as no later than 30th September 2023which is the statutory date by which the s151 Officer is due to certify the accounts.

Financial Instruments

Financial Assets

Financial Assets (e.g. investments and debtors) are classified into two types:

- Loans and receivables - assets that have fixed or determinable payments but are not quoted in an active market:
- Available for sale assets - assets that have a quoted market price and/or do not have fixed or determined payments.

Loans and receivables are initially measured at fair value and carried at their amortised cost (the interest received is spread evenly over the life of the loan). Credits to the Financing and Investment Income and Expenditure line within the CIES for interest received are based on the Balance Sheet amount of the asset multiplied by the effective interest rate for the financial instrument. For most of the loans that the Council has made, that means the amount shown in the Balance Sheet is the outstanding principal receivable plus accrued interest. The amount of interest credited to the CIES is the amount receivable for the year per the loan agreement.

The Council has, on occasion made loans to Parish Councils at less than market rates of interest (these are known as soft loans). In such circumstances, subject to materiality, the amount of interest forgone is charged to the CIES (debited to the appropriate service line) and the outstanding principal is reduced on the Balance Sheet. This represents the present value of the interest that will be forgone over the life of the loan agreement. Statutory provisions require that the impact of the soft loans on the General Fund balance is the interest receivable in the year, so the amount of foregone interest charged is managed by a transfer from the Financial Instruments Adjustment Account to the Movement in Reserves Statement.

However, where the interest foregone is so immaterial as to be deemed inconsequential no charge to the CIES account is to be made. This has been the case to date in respect of the soft loans issued to Parish Councils.

Available for sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the CIES for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the CIES when it becomes receivable by the Council.

Available for Sale assets are maintained in the Balance Sheet at fair value. Values are based on the following hierarchy:

- Instruments with quoted market prices in active markets for identical assets – market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis
- Equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the CIES, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the CIES. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Financial Liabilities

Financial liabilities (e.g. borrowings and creditors) are initially measured at fair value and carried at their amortised cost. Charges to the Financing and Investment Income and Expenditure line in the CIES for interest payable are based on the carrying amount of the liability multiplied by the effective rate of interest for the instrument. For any borrowing that the Council undertakes this means that the amount shown in the Balance Sheet is the outstanding principal repayable plus accrued interest and the amount charged to the CIES is the amount payable per the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited or debited to the Financing and Investment Income and Expenditure line in the CIES in the year of repurchase or settlement. However, if the repurchase takes place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is deducted from or added to the amortised cost of the new or modified loan and the write down to the CIES is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts (amounts paid or received on the rescheduling of a loan) have been charged to theCIES, regulations allow the impact of premiums on the General Fund balance to be spread over the longer of the outstanding period of the replaced loan or the period of the replacement loan or any other shorter period that the Council wishes to choose. Discounts are required to be credited to revenue over a maximum period equal to the outstanding term of the replaced loan or ten years (if shorter). The reconciliation of amounts charged to the CIES to the net charge against the General Fund balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement of Reserves Statement.

Government Grants and Contributions

Grants and contributions relating to capital and revenue expenditure shall be accounted for on an accruals basis, and recognised immediately (providing there is reasonable assurance the authority will comply with conditions attached and that the grant will be received) in the CIES as income, except to the extent that the grant or contribution has a condition(s) (as opposed to restrictions) relating to initial recognition that the authority has not satisfied.

Grants and contributions that satisfy the recognition criteria, but which have a condition attached that remains to be satisfied are recognised initially in the relevant Grants Receipts in Advance Account.

General grants and contributions (comprising Revenue Support Grant, NNDR redistribution and un-ring-fenced government grants) are required to be disclosed as one or more items on the face of the CIES.

Where conditions have been met specific revenue grants and contributions are matched in service revenue accounts with the service expenditure to which they relate. When the expenditure relating to specific grants has not been incurred, the Council contributes equivalent to the unspent amount of grant to an earmarked reserve. This reserve will be released in future financial years when the expenditure to which the grant relates is incurred.

Donated assets transferred to an authority for nil consideration shall be recognised immediately at fair value as an asset on the Balance Sheet. The asset shall be recognised in the CIES as income, except to the extent that the transfer has a condition(s) (as opposed to restrictions) that the authority has not satisfied. In this case the asset is credited to the Donated Assets Account and recognised in the CIES once the condition(s) has been satisfied.

Capital Grants and Contributions

Where no grant conditions exist, or conditions have been met, capital grants and contributions are credited to Taxation and Non Specific Grant Income in the CIES. The balance of the grant or contribution that has not been used to finance expenditure is transferred to the Capital Grants Unapplied Account via the Movement in Reserves Statement. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account when they have been applied to fund capital expenditure.

Where grant conditions exist and have not initially been met, the grant is recognised in the Capital Grants Receipts in Advance Account. When grant conditions have been met the grant is then recognised in the CIES and transferred via the Movement in Reserves Statement to the Capital Adjustment Account. If the grant conditions are not and/or are unlikely to be met, then the grant will be repaid.

Grants and Contributions attributable to Revenue Expenditure Funded from Capital under Statute (REFCUS)

Where conditions have been met, these grants and contributions are credited to the relevant service line in the CIES. The balance of the grant or contribution that has not been used to finance expenditure is transferred to the REFCUS Grants Unapplied Account via the Movement in Reserves Statement. Amounts in the REFCUS Grants Unapplied Account are transferred to the Capital Adjustment Account when they have been applied to fund expenditure.

Heritage Assets

Heritage assets are defined as assets which have historical, artistic, scientific, technological, geographical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture. They are initially recognised at cost if this is available. If cost is not available, values are only included in the Balance Sheet where the cost of obtaining a valuation is not disproportionate to the benefit derived. For the Council's heritage assets, insurance valuations are used. The Council has adopted a £10,000 de-minimis threshold. Where no market exists or the asset is deemed to be unique, and it is not practicable to obtain a valuation, the asset is not recognised in the Balance Sheet but disclosed in the notes to the accounts.

Heritage assets are depreciated over their useful life if this can be established. If an asset is considered to have an indefinite life, no depreciation is charged. Disposals, revaluation gains and losses and impairments of heritage assets are dealt with in accordance with the Council's policies relating to PPE. The cost of maintenance and repair of heritage assets is written off in the year incurred.

Impairment

Assets are reviewed for impairment at the end of each reporting period. Examples of impairment include: a significant reduction in a specific asset's value and evidence of physical damage.

The amount of impairment is charged to the Revaluation Reserve to the extent that the impairment does not exceed the amount in the Revaluation Reserve for the same asset. Thereafter the impairment is charged to the Surplus/Deficit on the Provision of Services.

This charge is reversed out through the Movement in Reserves Statement to the Capital Adjustment Account.

Where an impairment loss is subsequently reversed, the reversal is credited to the relevant service line in the CIES, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. It is controlled by the Council as a result of past events and future economic or service benefits flow to the Council from the intangible asset. The most common type of intangible asset is computer software licences.

Intangible assets are carried at cost less accumulated depreciation and any impairment. The intangible asset is amortised over its estimated useful life to the relevant service line in the CIES. This amortisation is reversed in the Movement in Reserves Statement and a transfer made to the Capital Adjustment Account.

An intangible asset is derecognised on disposal. Gains or losses arising from the disposal are recognised in the Surplus / Deficit on the Provision of Services.

Long-Term Contracts

Long-term contracts are accounted for by charging the relevant service line with an amount equal to the value of the works or services provided under the contract during the applicable financial year.

Investment Property

Investment Properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to provide services by the Council.

The Council does not currently hold any Investment Properties.

Leases

Leases are presently classified as either finance or operating leases based on the extent to which risks and rewards incidental to ownership of the asset lie with the lessor or lessee ahead of adoption of IFRS 16 (from 1 April 2024).

Classification of the lease is dependent on the substance of the transaction rather than the contract. Land and building elements of a lease are considered separately for the purpose of lease classification.

Arrangements that do not have the legal status of a lease but convey the right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of a specific asset. This is referred to as an embedded lease.

Leases (operating)

Rentals paid under operating leases are charged to the CIES as an expense of the service benefiting from use of the leased property, plant or equipment.

Rental income from operating leases for Council owned assets is recognised on a straight-line basis over the period of the lease and is shown in the Other Operating Expenditure line in the CIES. Assets held for use as operating leases are recorded as assets in the Council's Balance Sheet.

Leases (finance)

A lease arrangement where it is judged that substantially all of the risks and rewards incidental to ownership of the asset have been transferred to the lessee is classified as a finance lease. A finance lease gives rise to the recognition of the long-term asset on the balance sheet at its fair value at the commencement of the lease together with a corresponding liability for future payments.

Lease payments are apportioned between a charge for the acquisition of the interest in the property, plant or equipment which is applied to write down the deferred liability and a finance charge which is recognised in the Financing and Investment Income and Expenditure line within the CIES. The items are subject to depreciation.

The criteria for determining a finance lease under IFRS has become broader and more subjective. This has given rise to certain leases being reclassified as finance leases that were previously determined as operating leases under SORP/UKGAAP.

Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than its continued use it is reclassified as an asset held for sale.

Assets held for sale are:

- Available for immediate sale in its present condition,
- Those where the sale is highly probable,
- Actively marketed,
- Expected to be sold within one year of the date of classification.

The asset is revalued immediately before reclassification and then carried at the lower of this amount and the fair value less costs to sell. Where this results in a loss in value this loss is posted to Other Operating Expenditure in the CIES. Once an asset is classed as held for sale it is no longer depreciated.

If assets no longer meet the classification as assets held for sale they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale (adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classed as held for sale) and their recoverable amount at the date of the decision not to sell.

Prior Period Adjustments, Changes in Accounting Policies, Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policy giving rise to a material change or to correct a material error. Changes in estimation techniques are accounted for prospectively (i.e. in the current and future years affected by the change) and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or if the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless otherwise stated) by adjusting opening balances and comparative amounts for the prior period.

Property Plant and Equipment (PPE)

Property, Plant and Equipment assets have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis (e.g. land and buildings).

Expenditure on the acquisition, creation and enhancement of PPE has been capitalised on an accruals basis provided that it yields benefit to the Council and the services it provides for more than one financial year. Expenditure on maintenance is charged to revenue as it is incurred.

PPE are initially shown on the Balance Sheet at cost, comprising the purchase price, all expenditure that is directly attributable to bringing the asset into working condition for its intended use and the initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located.

The assets are then revalued using methods of valuation on the basis recommended by CIPFA and in accordance with the guidance notes issued by the Royal Institution of Chartered Surveyors (RICS).

- Land and buildings and other operational assets are valued at current value. Where sufficient market evidence is not available current value is estimated at depreciated replacement cost, using the modern equivalent asset method.
- Short life assets, such as vehicles, are held at depreciated historical cost as a proxy for current value on the grounds of materiality.
- Community assets and infrastructure are valued at historical cost net of depreciation.
- Assets under construction are held at historical cost until brought into use.
- Investment properties and surplus assets – current value, determined by the measurement of the highest and best use of the asset.

Revaluations of property are planned at five yearly intervals unless there has been a material change in the value (ascertained by an annual impairment review). Valuations are undertaken with a valuation date of 31 March.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. In exceptional circumstances, where the increase is reversing a previous impairment loss charged to the Surplus/Deficit on the Provision of Services on the same asset or where the increase is reversing a previous revaluation decrease charged to the Surplus/Deficit on the Provision of Services on the same asset, the increase in valuation is credited to the CIES.

Where decreases in value are identified and there is a balance of revaluation gains in the Revaluation Reserve relating to the asset, the value of the asset is written down against that balance (up to the amount of the accumulated gains). Where there is no or insufficient balance in the Revaluation Reserve, the value of the asset is written down against the relevant service line in theCIES. Where revaluation gains or losses are credited or charged to the CIES, they are reversed in the Movement of Reserves Statement to the Capital Adjustment Account. The Revaluation Reserve contains gains recognised since 1 April 2007 only, the date of its formal implementation. Revaluation gains arising before that date are included in the Capital Adjustment Account.

De-recognition of Property, Plant and Equipment

An item of Property, Plant or Equipment is derecognised at disposal or when no future economic benefit or service potential is expected from its use. The carrying amount of the asset in the Balance Sheet is written off to Other Operating Expenditure within the CIES as part of the gain or loss on disposal. Sale proceeds from disposals are credited to the same line in the CIES also as part of the gain or loss on disposal. Any revaluation gains on the Revaluation Reserve, for assets disposed of or decommissioned, are transferred to the Capital Adjustment Account.

Income from asset disposals in excess of £10,000 is classed as capital receipts. The balance of capital receipts is credited to the Capital Receipts Reserve and used to either fund new capital expenditure or repay debt. The written off value of disposals is reversed through the Movement in Reserves Statement to the Capital Adjustment Account.

Provisions

Provisions are charged to the CIES for liabilities that have been incurred by the Council, but where the amounts or dates on which they will arise are uncertain.

Provisions are required to be recognised when the Council has a present obligation as a result of a past event, where it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation (IAS 37).

When expenditure is incurred to which the provision relates, it is charged directly against the provision in the Balance Sheet and not against the CIES Account.

The estimated value and the timing of settlements are reviewed at the end of each financial year. Where it becomes more likely than not that a transfer of economic benefits will not now be required the provision is reversed and credited back to the relevant service line in the CIES.

Where some or all of the payment required to settle a provision is expected to be met by another third party (e.g. from an insurance claim), this is only recognised as income in the relevant service line if it is virtually certain that reimbursement will be received if the obligation is settled.

Reserves

The Council maintains a General Fund working balance and also holds reserves earmarked for specific purposes which are detailed in the Notes to the Core Financial Statements. Reserves are created by appropriating amounts in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred it is charged to the appropriate service line in the CIES in the year and represents a charge against the Net Cost of Services. The reserve is then appropriated back to the General Fund balance statement so that there is no net charge against Council Tax for the expenditure.

Unusable (non-distributable) reserves include the Revaluation Reserve and the Capital Adjustment Account and represent “technical non-cash” reserves which are maintained to manage the accounting processes for non-current assets. The Pension Reserve is a reserve which has been set up to manage the accounting process for retirement benefits and does not represent usable resources for the Council. These reserves do not impact upon the level of local taxation and cannot be utilised to support service delivery.

Revenue Expenditure Funded from Capital under Statute (REFCUS)

Revenue Expenditure Funded from Capital under Statute (REFCUS) is expenditure of a capital nature that does not result in the creation of a long-term asset on the Balance Sheet. These are generally grants and expenditure on property not owned by the Council. Expenditure is charged to the Surplus / Deficit on the Provision of Services as the expenditure is incurred. This is reversed out through the Movement in Reserves Statement and a transfer made to the Capital Adjustment Account.

Details of the accounting policy relating to grants and external contribution funding of REFCUS expenditure is shown above on page xx.

VAT

Value Added Tax (VAT) is included within the accounts only to the extent that it is irrecoverable and therefore charged to service expenditure or capital expenditure as appropriate.

2. Accounting Standards that have been issued but have not yet been adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

The Council will be applying IFRS16 (Leases) at the mandatory inception date of 1 April 2024 for inclusion in the Statement of Accounts for 2024/25.

In accordance with IFS8, disclosures for standards issued and not yet adopted therefore, the Council shall separately disclose the impact of IFRS16 had it been adopted on the Core Statements of the Council.

3. Critical judgements in applying accounting policies

In applying the Council's accounting policies, the Council has to make certain judgements about complex transactions or those involving uncertainty about future events. The most significant critical judgements made in the Statement of Accounts are:

Classification of Leases

The Council has undertaken an analysis to classify the leases it holds, both as a lessee and lessor, as either operating or finance leases. The accounting policy for leases has been applied to these arrangements and additional assets are recognised as PPE in the Council's Balance Sheet.

With effect from 1 April 2024, this application of this judgement will be superseded by application of IFRS16.

Arrangements Containing a Lease

The Council is deemed not to control assets that fall within contractual and other arrangements which involve the provision of a service using specific underlying assets and as a result there are no additional assets to be recognised as PPE in the Council's Balance Sheet.

IFRS16 from 1 April 2024 will require Council's to account for embedded leases separately and disclose accordingly.

Assets Held for Sale

The Council has reviewed all property assets in accordance with the accounting policy and has determined that no properties need to be reclassified.

Investment Properties

Properties have been assessed using the identifiable criteria under the international accounting standards of whether they are being held purely for rental income or capital appreciation or whether there is an operational reason for holding the property such as regeneration or economic development.

The Council does not hold any properties which are held purely for rental income or capital appreciation.

4. Assumptions Made about the future and other major sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty actual results could be different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2023 for which there is a risk of adjustment in the following financial year are:

Revaluation of Property, Plant and Equipment (PPE)

The valuations of Property, Plant and Equipment (PPE) reported in the balance sheet and the related depreciation charges made to the CIES is based on an estimate of their value and asset life.

A firm of qualified valuers are engaged by the Council to carry out, for the major assets, a programme of physical valuations to ensure that their carrying values are subject to professional and independent assessment to guard against material misstatement. PPE (with the exception of infrastructure, community assets, assets under construction and small value items of vehicle, plant and equipment) are revalued on a periodic basis and tested annually for indicators of impairment.

The appointed valuers were fully aware of the risks associated with PPE valuations and the ongoing impact of the Covid-19 pandemic in determining their valuations in accordance with Royal Institute of Chartered Surveyors (RICS) guidance.

Depreciation of Property, Plant and Equipment

Assets are depreciated based on useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. If the useful life of assets is reduced, depreciation increases and the carrying amount of assets is overstated in the current year.

Arrears

At 31 March 2023, the Council had outstanding sundry debtors, housing rent debtors, housing benefit overpayments and council tax debtors.

A review of these outstanding balances is routinely undertaken and a provision for bad and doubtful debts is made taking into account prevailing economic conditions (an increased provision was made for example during the height of the Covid-19 pandemic.

If collection rates were to differ from that estimated, doubtful debt provisions would need to be revisited.

Pensions Liability

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the expected rate of price inflation, the rate at which salaries and pensions are expected to increase, mortality rates and rate of commutation of pensions.

A firm of actuaries are engaged to provide the Staffordshire Pension Fund (of which South Staffordshire is a member) with expert advice about the assumptions to be applied.

In calculating the asset share as at the Accounting Date, the Actuary rolls forward the Employer's share of the assets calculated at the latest formal valuation date (or date the Employer joined the Fund if later), allowing for investment returns (estimated where necessary), the effect of contributions paid into (estimated where necessary), and estimated benefits paid from, the Fund by the Employer and its employees.

The main impacts of the COVID-19 pandemic, and subsequent lockdowns, on these accounting figures can be summarised as follows:

- Asset returns and values have followed the market movements prompted by the pandemic and lockdowns, among other factors, which will therefore affect the asset share value.
- Bond yields and inflation expectations have also followed market movements, which will therefore affect the obligations value.
- Life expectancy assumptions have not been updated:

(a) The actuary has not updated its baseline longevity tables due to the lack of relevant mortality data and analysis from the period of the pandemic for the Fund or Employer.
(b) The actuary has not amended our future longevity trends assumption for COVID-19 specifically (as per paragraph 4.9, we have applied a 0% weighting to 2020 data within the CMI model) as the data is not yet available to make an evidence-based assessment on the pandemic's impact on longer term expectations.

Formal actuarial valuations are carried out every three years, where each employer's assets and liabilities are calculated on a detailed basis, using individual member data, for cash contribution setting purposes.

The most recent, triennial, formal valuation of the LGPS was concluded in March 2023.

If the assumptions upon which the valuation is based prove inaccurate over time, the pension's liability could be over or understated.

The effects on the net pension's liability of changes in individual assumptions is measurable. The sensitivities regarding the potential assumptions used to measure the scheme liabilities are set out as follows:

<table>
<tr><th>Change in Assumptions at y/e 31st March 2023</th><th>Approximate %ge increase to Employer</th><th>Approximate Monetary Amount</th><th>Approximate Monetary Amount Last year for Comparison</th></tr>
<tr><td></td><td>%</td><td>£'000</td><td>£'000</td></tr>
<tr><td>0.5% decrease in real discount rate</td><td colspan="3" rowspan="3">Table to be completed as integral part of closedown process once sensitivity figures calculated and disclosed by the actuary</td></tr>
<tr><td>0.5% discount in the salary increase rate</td></tr>
<tr><td>0.5% increase in the pension increase rate</td></tr>
</table>

The principal demographic assumption is the longevity assumption (i.e. member life expectancy). For sensitivity purposes, the actuary estimates that a one-year increase in life expectancy would approximately increase South Staffordshire's Defined Benefit Obligation by around 3-5%. In practice the actual cost of a one-year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominantly apply at younger or older ages).

There may also be an impact on employer pension liabilities as a result of the Court of Appeal judgements in cases affecting judges' pensions (McCloud, 2019). The ruling has implications for the LGPS (of which South Staffordshire is a member).

The final situation in terms of employer pension liabilities and financial impact remains unclear, since the government may appeal and any remediation process, including cost cap considerations, may affect the resolution and financial impact for entities. Timescales for the resolution of this matter may be lengthy and outcomes may be challenging for entities to assess and quantify, especially at Fund or Authority level.

To date, South Staffordshire has sought advice from our Pensions authority and actuary and has received assurance that potential implications of the pending judgement were factored into the required payments from employers to eventually make good liabilities by 2040. South Staffordshire remains fully compliant with minimum levels of repayment in accordance with actuary advice.

Business Rate Appeals

Since the introduction of the Business Rate Retention Scheme, effective from 1 April 2013, local authorities are liable for successful appeal against business rates charged to businesses in 2018/19 and earlier financial years in their proportionate share.

A provision has been recognised for the best estimate of the amount that businesses have been overcharged up to 31 March 2021. The estimate has been calculated using the latest Valuation Office (VOA) rating list of appeals and an analysis of successful appeals to date.

Whilst it is considered that this gives a reasonably reliable figure, it is not certain that actual experience will match our assumptions.