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Notice of Meeting:

Audit Committee

Meeting Location:	Committee Room 5 - Perceval House
Date and Time:	Tuesday, 27 February 2024 at 7.00 pm
Contact for Enquiries:	**Email:** democraticservices@ealing.gov.uk **Telephone:** 020 8825 6302
Chief Executive:	Tony Clements

This meeting will be held in public. If you would like attend in person and have any special requirements in order to attend, please email democraticservices@ealing.gov.uk or telephone on 020 8825 6302 at least three clear working days in advance wherever possible.

Committee Membership: Councillors

Y Johnson (Chair), S Khan (Vice-Chair), F Mohamed, I Kingston, G Busuttil.

Independent member:

T Hyun

AGENDA

EXCLUSION OF PRESS AND PUBLIC

On agreement of the Committee, under Section 100(A) of the Local Government Act 1972, the public and press would be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information under the relevant paragraphs of Part 1 of Schedule 12A of the Act for the reasons stated on the agenda.

Published: Monday, 19 February 2024

Minutes of the meeting of the Audit Committee

Date: Thursday, 7 December 2023

Venue: Committee Room 5 - Perceval House

Attendees (in person): Councillors

Y Johnson (Chair), F Mohamed, I Kingston and G Busuttil

Attendees (virtual):

T Hyun (independent member)

Apologies:

S Khan (Vice-Chair)

1 Apologies for Absence and Substitutions

Apologies were received from Councillor S Khan.

2 Urgent Matters

There were none.

3 Declarations of Interest

There were none.

4 Matters to be Considered in Private

There were none.

5 Minutes

RESOLVED:

That the minutes of the meeting held on 27 September 2023 be agreed and signed by the Chair, as a true and correct record.

6 Treasury Management Q2 Update 2023-2024

Bridget Uku, Group Manager Treasury & Investments, introduced the report which was an update on treasury management in quarter 2. Ms Uku noted that investment stood at 547.2 million, borrowing had slightly decreased and that all treasury management in the period had been conducted within the confines of the permissions given to the management team.

The committee was invited to ask questions based on the information in the report. Emily Hill, Strategic Director for Resources, provided the following response:

- Included in the report was information about investments which the council held on behalf of West London Waste Authority and the Board of Mortlake Crematorium. The investments were not made with the Council's funds and the associated risks sat with the West London Waste Authority and Mortlake Crematorium respectively rather than the Council.

The committee requested that, in future, the Council's investments and risks were reported separately from those that the Council was managing on other organisations' behalf.

RESOLVED:

That the committee noted:

1. Noted the Treasury Management activities and performance against targets for the period to 30 September 2023.
2. Noted the Council's investment balance of £547.235m as at 30 September 2023 of which £455.000m was invested in Debt Management Office (DMO).

7 Progress Report on audit recommendations 2020/21 and 2021/22

Emma Horner, Assistant Director Technical Finance, introduced the report and provided an update on Deloitte's draft recommendations for 2020/21 and 2021/22 for the London Borough of Ealing and the Pension Fund. Ms Horner referred the committee to appendix 1, which included the draft recommendations and their implementation to date. Ms Horner noted that 73% of recommendations had now been completed and the remaining recommendations were in progress. Of the 11 still in progress, officers confirmed that 8 had not yet been implemented due to the short period between receipt of the recommendations and the closure of accounts for 2022/23.

The committee was invited to ask questions relating to the report. Ms Horner responded that target dates for completion of recommendations would be added for the remaining recommendations for future reports.

RESOLVED:

That the audit committee noted:

1. Noted the progress made on the draft ISA260 recommendations as illustrated in appendix 1; and
2. Noted that 73% of recommendations are complete and 27% of recommendations are in progress. There were no recommendations

that had not yet started.

8 Accounting Policies

Emma Horner introduced the report which set out the accounting policies which were to form the basis of accounting for the financial year 2023/24. Ms Horner informed the committee that there were no significant changes to the policies from the previous year. It was noted that CIPFA/LASAAC had decided to defer the mandatory implementation of IFRS 16 Leases until 2024/25. Although the Council had the option to adopt this policy early, officers had decided not to adopt it to allow for audit approaches to be agreed and to avoid any further audit delays.

The committee was invited to ask questions relating to the report:

- The decision not to adopt the IFRS 16 Leases policy early was going to be a disclosure in the Council's accounts rather than in annual audit reporting.

RESOLVED:

That the audit committee noted:

1. Noted the accounting policies for the determination of the Council's Statement of Accounts for 2023/24; and
2. Noted the implications of changes in accounting standards for future years.

9 Progress report on the work of internal audit and anti-fraud Q2 2023-24

Mike Pinder, Assistant Director of Audit and Investigation, presented the report, which provided an update on internal audit and investigation in quarter 2 of 2023 – 24. Mr Pinder provided key highlights from the report, including that the audit and investigations team was on target to meet its 2023/24 audit delivery targets, although in quarter 2 of 2023/24 it was slightly behind by one report. Only one finding of limited assurance had been made over the first two quarters and this related to the use and control of credit cards in the Council. In terms of follow up actions from previous audit investigations, the committee was informed that there had been some actions for Ealing Music Service which had not been implemented following reports.

Mr Pinder also provided an update on counter fraud and investigations performance. Performance in counter-fraud was strong and proactive work relating to the national fraud initiative, reviewing the housing waiting list and pilot data match projects had made a valuable difference to the savings made by the Council.

The committee was invited to ask questions relating to the report. In response to questions, Mr Pinder responded:

- From time to time, requests to carry out audits arose mid-year. Some resource from deferred audits was sometimes used to meet these additional requests.
- The deferred audit relating to HR policies was likely to be replaced by another HR related audit.
- Officers agreed that the national fraud initiative was successful, but it was one amongst several projects which were successfully targeting fraud. Officers considered that, in general, the right amount of resource was being allocated to the national fraud initiative at present.
- The council had recently subscribed to the national fraud initiative hub, which was a new facility focused on counter fraud data sharing more regularly, which a number of London Boroughs had signed up to.
- In terms of savings which had arisen from reactive investigations to date during 2023/24, the investigations team had made around £960,000 in savings, in comparison to around £200,000 at the same time the year before.
- Some savings which arose from investigations were notional, which meant that they were not direct financial savings but rather savings which arose from returning a council asset to its proper use. An example was given of the Council recovering the use of one of its council houses from someone who had been allocated it through fraudulent means, allowing the Council to allocate it to someone with a genuine need.
- Where actual financial savings were made, in most cases these were returned to the services in question, although if the savings were large, there was discretion for the council to consider whether the savings would be better used elsewhere in the organisation.

RESOLVED:

That the committee:

1. Noted the performance of the Internal Audit & Investigation team and key issues arising during the period 1 July 2023 – 30 September 2023.
2. Agreed the update to the audit committee report.

10 Date of Next Meeting

The date of the next meeting was 27 February 2024.

Meeting commenced: 7.04 pm

Meeting finished: 7.28 pm

Signed: Dated: Tuesday, 27 February 2024

Y Johnson (Chair)

Report for: AUDIT COMMITTEE FOR INFORMATION
Item Number:

Contains Private and Confidential Information	**No**	

Title	**Treasury Management Q3 Update 2023/24**
Responsible Officer	Emily Hill, Strategic Director, Resources
Author(s)	Bridget Uku, Finance Manager, Pensions & Treasury Tel: 020 8825 5981 E-mail: UkuB@ealing.gov.uk Amalio Alcazar, Treasury & Investments Technician Tel: 020 8825 6589 Email: AlcazarA@ealing.gov.uk Bhavika Patel, Treasury & Strategic Investments Accountant Tel: 020 8825 6215 Email: PatelBha@ealing.gov.uk
Portfolio	Cllr Steve Donnelly – Inclusive Economy
For Consideration By	Audit Committee
Date to be Considered	27 February 2024
Implementation Date if Not Called In	N/A
Affected Wards	N/A
Area Committees	N/A
Keywords/Index	Treasury, Borrowing, Lending, Investments

Purpose of Report

This report provides an update on the council's borrowing and investment activities for the quarter ending 31 December 2023.

Over the reporting period, all treasury management activities have been carried out within the approved limits. The report also provides information on the prevailing economic conditions over the reporting period.

1. Recommendations

Members are recommended to:

1.1 Note the Treasury Management activities and performance against targets for the period to 31 December 2023.

1.2 Note the Council's investment balance of £554.710m as at 31 December 2023 of which £446.100m was invested in Debt Management Office (DMO).

2. Reason for Decision and Options Considered

2.1 This report updates on both the investment and borrowing decisions made by the Strategic Director, Resources under delegated authority in the context of the prevailing economic conditions and considers Treasury Management Performance measured against the benchmark overnight Sterling Overnight Index Average (SONIA) rate.

2.2 Treasury management is defined as "the management of the council's 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".

Summary

2.3 The key messages from this report are:

- All treasury management activities were executed by authorised officers within the parameters agreed by council.
- All investments were made to counterparties on the council's approved counterparty investment list and within approved limits.
- There was no long-term borrowing raised during the reporting period to 31 December 2023.
- The existing long-term debt to fund capital expenditure has increased slightly by £3.676m from £877.532m to £881.208m due to loan repayments of £4.524m and total new loans of £8.200m held on behalf of West London West Authority (WLWA) (£8.000m) and the Mortlake Crematorium (£0.200m).
- The council earned an average investment return of 4.694% on short term investments, underperforming the rolling average SONIA rate of 4.883%. The underperformance being due to a substantial amount of the investment portfolio being made at lower rates for a fixed duration prior to interest rate increases in the economic backdrop.
- The council currently holds no direct investments with overseas financial institutions, though these are held indirectly through the Money Market Funds (MMF) exposure.
- HRA debt is managed separately from General Fund debt.

A glossary of terms is set out at the end of this report, to make this report as user friendly as possible.

3. Treasury Management Strategy

3.1 The council's Treasury Management Strategy for 2023/24 was approved on 8 March 2023 by Full Council. The strategy outlined how the treasury function would operate throughout the financial year 2023/24 including the limits and criteria to determine which organisations the council would invest its surplus cash with, and the council's policy on long-term borrowing and limits on debt. The council complied with the strategy during the period to 31 December 2023.

Investment of Pension Fund Cash

3.2 The Pension Fund's surplus cash is invested in accordance with the council's Treasury Management Strategy agreed by Full Council in March 2023, which is delegated to the Strategic Director, Resources to manage on a day to day basis within set parameters. The cash is held at the Pension Fund's custodian bank account from where it is swept nightly into a MMF operated by Goldman Sachs, however some of it is held within the Lloyds Pension Fund bank account for the day to day running of the Pension Fund.

3.3 The Treasury Management Strategy is reviewed on a monthly basis at the Treasury Risk & Investment Board (TRIB), a meeting consisting of senior corporate finance officers and chaired by the Strategic Director, Resources. The Pension Fund Panel (PFP) is updated on Pension Fund investment activities and the Chair of the PFP is briefed regularly.

4. Economic Background

4.1 The following is a summary of key economic conditions prevailing during the third quarter of the financial year 2023/24:

- The United Kingdom (UK) economy shrank by 0.3% in October 2023.
- The Consumer Price Index (CPI) rose to 4% in December 2023.
- The unemployment rate remained unchanged at 4.2% in the three months to October 2023.
- United States of America (USA) economy grew an annualised rate of 4.9% during Quarter (Q) 3 2023.
- European Union (EU) economy contracted by 0.1% during Q3 2023.

4.2 The UK economy shrank 0.3% month on month in October, reversing the growth from the previous two months, and worse than market forecasts of a flat reading. The services sector shrank 0.2% and was the largest contributor to the fall. Meanwhile, output in consumer-facing services fell by 0.1%. Also, production declined 0.8% driven by widespread drops in manufacturing output, namely computer, electronic and optical products, and machinery and equipment while construction output went down 0.5% partly due to the poor weather. Considering the three months to October, UK GDP stalled. Elsewhere, the UK's trade deficit widened to £4.480 billion in October, the largest in five months, as imports jumped 4.6% to a four-month high and exports rebounded 0.6% from an over one-year low.

4.3 UK inflation, as measured by CPI rose by 4.0% in the 12 months to December 2023, up from 3.9% in November, and the first time the rate has increased since February 2023. On a monthly basis, CPI rose by 0.4% in December 2023, the same rate as in December 2022. The largest upward contribution to the monthly change in CPI annual rates came from alcohol and tobacco while the largest downward contribution came from food and non-alcoholic beverages. Core CPI (excluding energy, food, alcohol and tobacco) rose by 5.1% in the 12 months to December 2023, the same rate as in November; the CPI goods annual rate slowed from 2.0% to 1.9%, while the CPI services annual rate increased from 6.3% to 6.4%.

4.4 The UK registered an increase of 50,000 jobs in the three months to September, slightly lower than a downwardly revised 52,000 gain in the previous reading. Meanwhile, average weekly earnings, including bonuses in the UK increased 7.2% year on year in the three months to October, the lowest in five months and below market forecasts of a 7.4% rise. The adjusted "experimental" unemployment rate in the UK remained unchanged at 4.2% in the three months leading up to October. The adjusted "experimental" employment rate stood at 75.7%, and the economic inactivity rate remained unchanged at 20.9%.

4.5 The USA economy added 199,000 jobs in November, surpassing the 150,000 added in October and exceeding market expectations of a 180,000 gain. Nonetheless, it marked the second consecutive month with job additions below the average monthly gain of 240,000 observed over the past year, signalling a slowdown in the labour market. The final GDP reading showed the USA economy expanded at an annualised rate of 4.9% in the third quarter of 2023, slightly below the 5.2% seen in the second estimate, but matching the 4.9% initially reported. It still marks the strongest growth since Q4 2021. Furthermore, the annual inflation rate in the USA slowed to 3.1% in November, the lowest reading in five months, from 3.2% in October and in line with market forecasts.

4.6 The Eurozone inflation rate decreased to 2.4% year on year in November, the lowest since July 2021, from 2.9% in October and in line with the preliminary release. However, inflation is likely to pick up in the near-term on account of an upward base effect for the cost of energy, European Central Bank (ECB) President Lagarde said during the regular press conference after the latest ECB monetary policy decision of the year where rates were left unchanged, as expected. In 2024, the ECB expects inflation to decline slower because of further upward base effects and the phasing-out of past fiscal measures aimed at limiting the repercussions of the energy price shock. GDP in the Euro Area contracted by 0.1% in Q3 2023, marking a reversal from a downwardly revised 0.1% growth in the preceding three-month period.

Economic Forecast

4.7 The council's treasury advisor, Link Asset Services (LAS), has provided the following interest rate forecasts which predict reductions in rates over the next 18 months:

Table 1 – Interest Rate Forecasts

	Dec-23 %	Mar-24 %	June-24 %	Sep-24 %	Dec-24 %	Mar-25 %	Jun-25 %
Bank of Rate							
Link	5.25	5.25	5.00	4.50	4.00	3.50	3.25
Capital Eco.	5.25	5.25	5.25	4.75	4.25	3.75	3.25
5yr PWLB Rate							
Link	4.90	4.80	4.70	4.40	4.20	4.00	3.80
Capital Eco.	4.50	4.40	4.30	4.20	4.10	3.90	3.80
10yr PWLB							
Link	5.00	4.80	4.70	4.40	4.20	4.00	3.80
Capital Eco.	4.60	4.50	4.40	4.30	4.30	4.20	4.10
25yr PWLB							
Link	5.30	5.10	4.90	4.70	4.50	4.30	4.20
Capital Eco.	4.90	4.80	4.60	4.40	4.40	4.50	4.50
50yr PWLB							
Link	5.10	4.90	4.70	4.50	4.30	4.10	4.00
Capital Eco.	4.60	4.50	4.50	4.40	4.40	4.40	4.40

4.8 The Bank of England Bank Rate increased steadily throughout the early part of 2023/24, starting at 4.25% and as at the end of December 2023 stood at 5.25%.

5. Treasury Management Strategy Statement 2023/24

Annual Investment Strategy

5.1 The Annual Investment Strategy is an integral part of the approved Treasury Management Strategy for 2023/24. It outlines the council's investment priorities as follows (in order of priority):

- Security of Capital
- Liquidity
- Yield

5.2 The council will aim to achieve the optimum return on investments commensurate with proper levels of security and liquidity.

5.3 The council managed its investments in-house and invested with institutions on the council's approved counterparty investment list. Following the global financial crises and persistent uncertainties, the council remains relatively risk averse and operates a restricted counterparty investment list. Currently investments are restricted to MMFs and the DMO. Officers have suspended investments in local authorities as a sector as it is clear that the wider financial pressures are having an impact on their finances and sustainability. A summary of the institutions to which the Council can invest with is outlined below:

1. UK Government directly (DMO)
2. UK Government (Treasury Bill via King & Shaxson)
3. Royal Bank of Scotland
4. The council's banker (Lloyds)
5. HSBC
6. Standard Chartered Bank (Certificate of Deposit via King & Shaxson)
7. Barclays Bank
8. Nationwide Building Society

9. AAA rated MMFs

5.4 The Council's temporary investment and borrowing activity (that is 365 days or less) over the period is set out below:

Table 2: Overall Treasury Cash Flow Position as at 31 December 2023

Description	Investments	Borrowing	Net Position
	£m	£m	£m
Outstanding 31 March 2023	**506.836**	-	**506.836**
Raised during period	1,435.042	-	1,435.042
Repayments during period	-1,387.168	-	-1,387.168
Outstanding 31 December 2023	**554.710**	-	**554.710**

5.5 Over the period to 31 December 2023, the council's cash flows were maintained through borrowing and investment activities on the wholesale money market and the net investment position at the reporting date was £ 554.710m.

5.6 There is no temporary borrowing outstanding at 31 December 2023.

Investments Held on Behalf of External Parties

5.7 The council has an agreement with WLWA and the Board of Mortlake Crematorium to invest funds on behalf of the organisations. The total funds under the arrangement at 31 December 2023 were £40.500m (WLWA £36.000m and Mortlake £4.500m).

Investments held by the Council

5.8 The council maintained an average balance of £578.513m of internally managed funds and held an outstanding balance of £554.710m at 31 December 2023. The internally managed funds earned an average rate of 4.694% which is expected to improve further as some investments with longer maturities at lower rates mature. The comparable performance indicator is the average SONIA rate, which returned 4.883% during the same period. This is illustrated in the table below.

Table 3: Performance vs Benchmark

Month	Council Performance	Benchmark Rate (SONIA O/N rate)	Under/Over Performance
Apr-23	3.802%	4.177%	-0.375%
May-23	3.963%	4.347%	-0.384%
Jun-23	4.108%	4.578%	-0.470%
Jul-23	4.626%	4.930%	-0.304%
Aug-23	4.877%	5.168%	-0.291%
Sep-23	5.060%	5.185%	-0.126%
Oct-23	5.220%	5.187%	0.032%
Nov-23	5.293%	5.188%	0.105%
Dec-23	5.294%	5.187%	0.107%
Average	**4.694%**	**4.883%**	**-0.190%**

5.9 Total investments held at 31 December 2023 are outlined below:

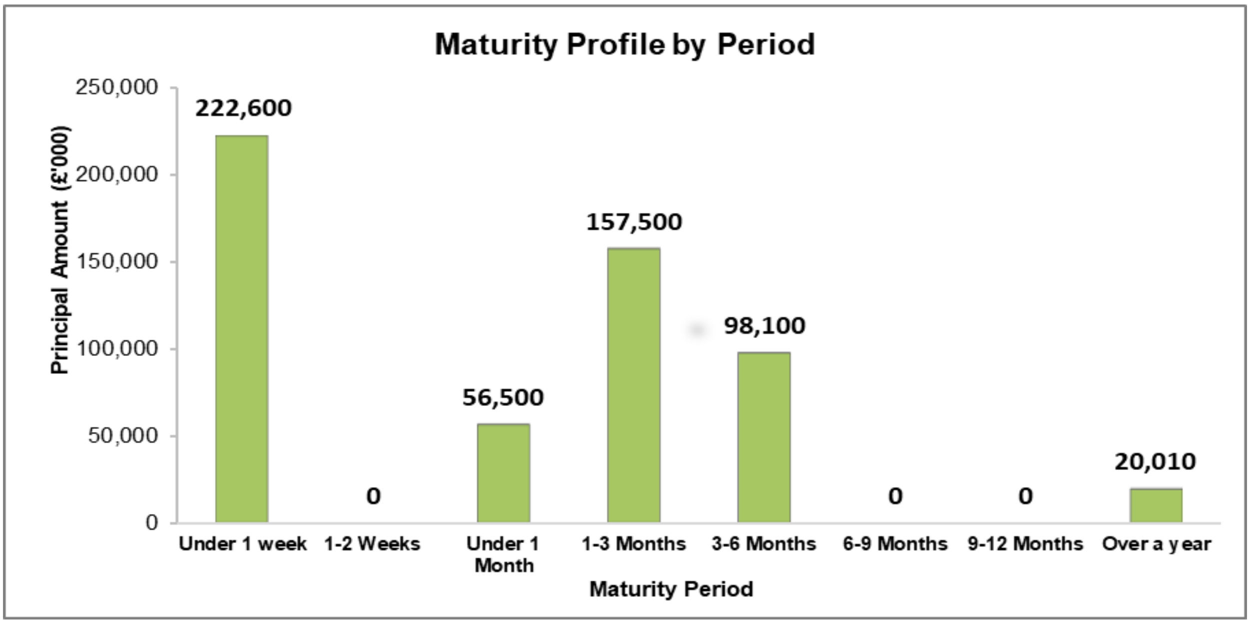
Table 4: Treasury Investment Portfolio

Counterparty Name	Total Investments at 31/03/2023	Total Investments at 31/12/2023
	£m	£m
Local authorities	-	-
Lloyds	30.000	20.600
Debt Management Office	443.500	446.100
Money Market Funds	-	50.000
Other *	33.336	38.010
Total Investments	**506.836**	**554.710**

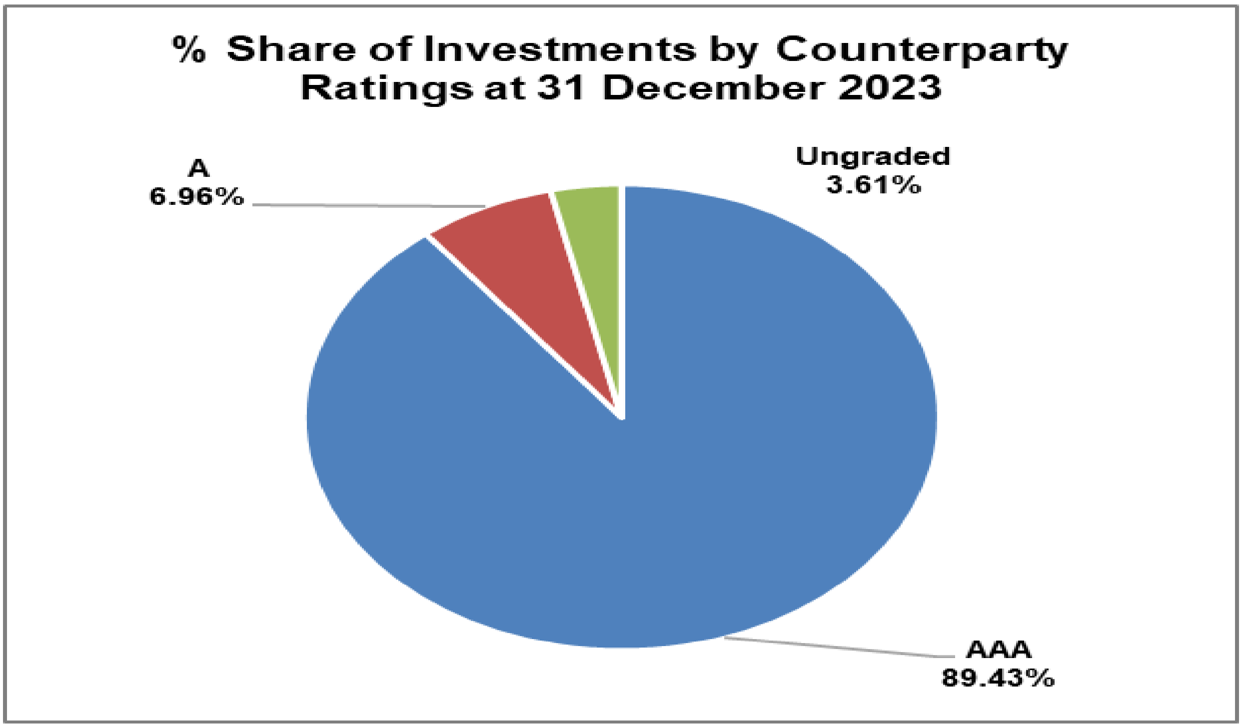
** Broadway Living Registered Provider (BLRP) £19.209m investment, £0.068m in Gunnersbury Estate CIC, £18.000m with Nationwide Building Society invested on behalf of West London Waste Authority (at their request and directly bearing any risk associated with this investment) and Greener Ealing £0.733m.*

5.10 Investment activities during the quarter conformed to the approved strategy, and the council did not experience any liquidity difficulty.

5.11 The council continues to place investments with DMO and market loans. These are included in the maturity profiling below:



The council currently has eighteen investments that has a maturity period of over one year, Gunnersbury estate, Greener Ealing and BLRP.



Ungraded includes Gunnersbury estate, Greener Ealing, and Broadway Living Registered Provider (BLRP), AAA, A – Fitch credit rating.

5.12 The council's counterparty list includes MMFs which are liquid funds investing globally in a diversified range of underlying instruments with highly rated counterparties. All the funds chosen are AAA rated with low volatility Net Asset Value (NAVs) strong sponsors and should provide a safe home for short term cash, with ready liquidity and relatively better returns given the transient nature of the council's cash flows.

5.13 This does mean that the council has indirect exposure to foreign institutions, but officers feel it is prudent for the council to diversify away from a solely UK focused stance. At 31 December 2023, the balance of MMFs investments was £50.000m.

5.14 MMFs are categorised into Short Term MMFs and Standard MMFs with three structural options within these two categories per below.

Structural Options	Short Term Money Market Funds	Standard Money Market Funds
Government Constant Net Asset Value (CNAV)	x	
Low Volatility Net Asset Value (LVNAV)	x	
Variable Net Asset (VNAV)	x	x

5.15 In the past the European MMFs had CNAV and VNAV funds and the council only used CNAV funds. CNAV funds have now been restricted to government portfolios while a new structural option for non-government funds, the Low Volatility NET Asset Value (LVNAV) MMF has been introduced.

5.16 The LVNAV MMF allows investors to purchase and redeem at stable NAV to two decimal places provided the fund is managed to certain maturity and liquidity constraints. If these constraints are breached the funds must be valued at mark to market. The board of the MMF also have powers to take protective action in times of market stress or when more than 10% of the fund is redeemed in one day. These include gating or restricting the amount that can be drawn down in one day and levying liquidity fees on investors.

5.17 Currently the council restricts its use of MMFs to CNAV and LVNAV funds although the strategy provides the authority to use VNAV MMF should this be deemed appropriate at a future date.

6 Long-Term Borrowing Requirement and Debt

6.1 The Treasury Management Strategy Report approved in March 2023 outlined the long-term borrowing strategy for the financial year 2023/24. Over the course of the reporting period, the council's cash flow requirements were financed through internal borrowing.

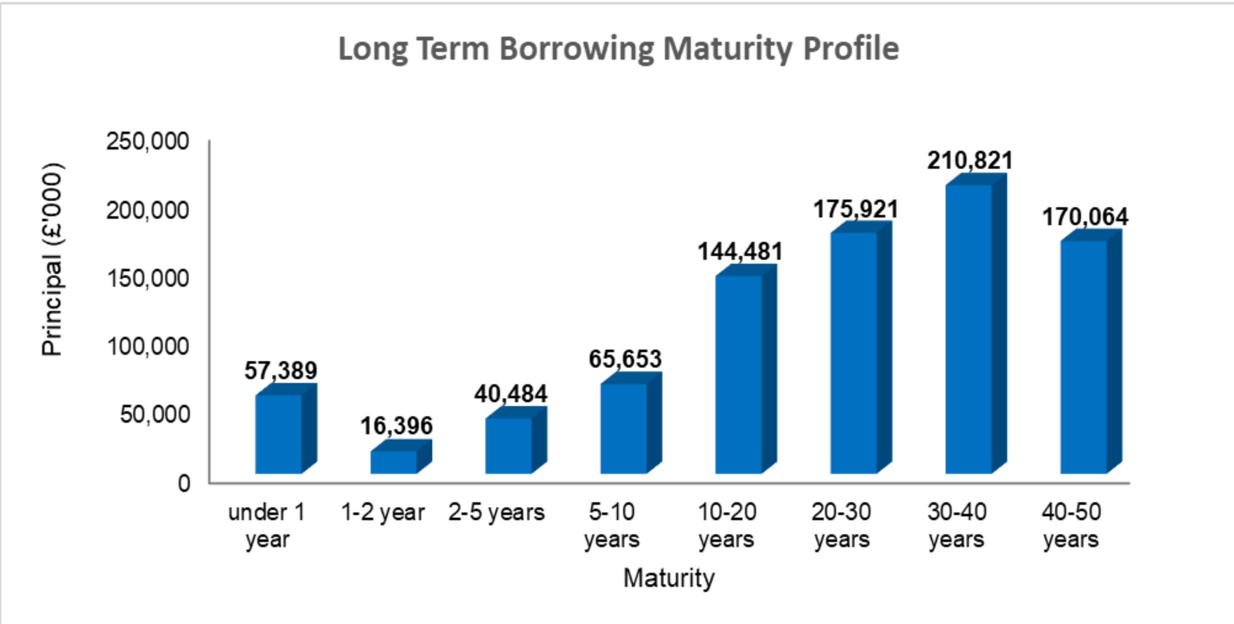
6.2 The total long-term borrowing at 31 December 2023 was £881.208m (including Mortlake Crematorium Board Loan and WLWA loan). The following table shows the split between General Fund (GF) and HRA borrowing. There were maturities of total £4.524m and no additional PWLB loans were raised in the reporting period. Mortlake Crematorium invested a further £0.200m and WLWA invested £8.000m.

Table 5: External Debt

Source	Debt as at 31/03/2023	Loans raised	Loans repaid	Debt as at 31/12/2023
	£m	£m	£m	£m
General Fund :				
PWLB	502.776	-	- 3.188	499.588
Market Loans	62.016	-	-	62.016
*Mortlake Crematorium	4.300	0.200	-	4.500
*WLWA	28.000	8.000	-	36.000
Total General Fund	**597.092**	**8.200**	**- 3.188**	**602.104**
HRA :				
PWLB	163.473	-	- 1.336	162.137
Market Loans	25.984	-	-	25.984
Total HRA	**189.457**	**-**	**- 1.336**	**188.121**
Broadway Living Register Provider(BLRP)	90.983	-	-	**90.983**
Total Long-Term Borrowing	**877.532**	**8.200**	**- 4.524**	**881.208**
****Memo Item: Other Long-Term Liabilities (OLTL)**	**95.166**	**-**	**(0.757)**	**94.409**

**The £0.200m and £8.000m 'loan raised' figure relates to monies which are transferred by Mortlake Crematorium Board and WLWA for investment by the council on their behalf.*
***Other Long-Term Liabilities (OLTL) are shown on the balance sheet as long-term creditors and are not classified under accounting rules as debt so are shown for completeness.*

Graph 3: Long-term borrowing maturity profile at 31 December 2023



6.3 The council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). The Council's actual borrowing at the end of the quarter was within the anticipated year end CFR of £918.966m. The table below shows the breakdown of the total CFR.

Table 6: Capital Financing Requirement for 2023/24

Capital Financing Requirement	2022/23 Actual	2023/24 Estimate
	£m	£m
CFR-Non Housing	630.378	642.627
CFR-Housing	213.906	243.346
CFR-Housing Loan/Equity to BL/BLRP	26.993	32.993
Total CFR	**871.277**	**918.966**

Debt Rescheduling

6.4 Movements in interest rates over time can produce dislocations, which can present opportunities to replace existing loans with new loans at lower rates. The council can also repay existing loans early without necessarily replacing the loans. These activities will attract a discount or premium depending on the prevailing market conditions. Debt rescheduling opportunities have been limited following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010.

6.5 There were no debt rescheduling opportunities in the reporting period, as the cost of premium to repay debt outweighed savings that could be achieved from the lower PWLB borrowing rates.

PWLB Certainty Rate

6.6 The PWLB certainty rate was introduced in November 2012, allowing local authorities to borrow at a discount of 0.20% on the Standard Rate for GF. From June 2023 the HRA has a discounted rate of 0.40%. The council is currently reapplying to borrow at the preferential certainty rate during the financial year 2023/24.

7. Treasury Management Update Outside the Reporting Period

7.1. There were no notable activities outside the reporting period.

8. Treasury Management Governance and Scrutiny

8.1 The council continues to review and ensure that it embraces best practice in the risk management, control, monitoring and reporting of its treasury management processes.

8.2 In addition to the regular quarterly reports to Audit Committee, regular monitoring of treasury management activities is carried out by the senior management team, the portfolio holder for Inclusive Economy and the Treasury Risk and Investment Board (TRIB) which is chaired by the Strategic Director, Resources.

8.3 The purpose of these reporting arrangements is to ensure that those with the ultimate responsibility for the Treasury Management function have an appreciation of the implications of treasury management policies and activities, and that those implementing the policies and executing transactions have properly fulfilled their responsibilities with regards to delegation and reporting.

9. Financial implications

9.1 The Treasury Management forecast outturn position has continued the trend of recent years, with lower financing costs and reduced spending mainly attributable to deferred borrowing and slippage on the capital programme. However, with current market conditions starting to shift, the borrowing position is under constant review and the council will consider new borrowing at appropriate times. The current forecast for 2023/24 shows finance costs to underspend as a result of deprogramming and slippage.

10 Prudential Indicators

10.1 The Local Government Act 2003 and supporting regulations requires the council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that capital investment plans are affordable, prudent and sustainable.

10.2 The benefit of the indicators will be derived from monitoring them over time rather than from the absolute value of each. The indicators are not intended to be used as comparators between councils. An update on the prudential indicators will be included with the outturn report.

11 Legal

11.1 The investment of surplus funds and any borrowing must comply with the Local Government Act 2003 as amended by regulations from time to time by the Government. Local authorities by virtue of section 15 (1) (a) of the 2003 Act must have regard to any guidance on investments issued by the Secretary of State, the latest such guidance was issued in February 2018. Further, local authorities must have regard to other guidance specified by the Secretary of State under section 15 (1) (b) of the 2003 Act. Section 24 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 specifically mentions that local authorities shall also have regard to the code of practice contained in the document entitled "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes" published by CIPFA, as amended or reissued from time to time.

11.2 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 requires Full Council to approve an Annual Statement of Minimum Revenue Provision which is included in the annual budget setting reports.

12 Value for Money

12.1 Assessment of value for money is achieved through:

- Monitoring against benchmarks
- Operating within budget

12.2 Internally managed investment returns **underperformed** the SONIA benchmark on the 31 December 2023, this is due to rapid rise in interest rate in Q2 and some of our investments are tied down to older rates, this is expected to improve throughout the year. PWLB borrowing was monitored throughout the year, the budgeted rate for 2023/24 was 4.43%. In addition, the treasury function operated within budget over the reporting period.

13 Risk Management

13.1 There is no treasury management activity without risk. Risk management plays a fundamental role in treasury activities, due to the value of transactions involved. When placing investments with counterparties, risk management and security of capital always remain the priority over returns.

13.2 The adoption of the CIPFA Code for Treasury Management in Public Services, the use of an investment list and receiving advice from Link Asset Services mitigate some of the risk associated with optimising performance returns. Security of capital remains the priority in the investment with counterparties. The Treasury team continues to be alert to concerns regarding Eurozone debt situation (e.g. Portugal, Ireland, Greece, Spain and Italy) and this is reflected in the Counterparty Investment List.

14 Links to Strategic Objectives

14.1 Proper and effective management of the Treasury Management function is an essential element of the financial administration process. Income generated from this source and borrowing to meet the requirements of capital investment make a significant contribution to the resources available to fund strategic objectives.

15 Consultation

15.1 Link Asset Services provides the council with advice on treasury management.

16 Appendices

16.1 Appendix 1 – Treasury Management Strategy Statements, MRP Strategy and Annual Investment Strategy 2024/25

17 Background Information

17.1 Investment and borrowing activity files are kept electronically and at Perceval House.

Consultation

Name of Consultee	Department	Date sent to consultee	Date response received	Comments appear in report para:
Emily Hill	Strategic Director, Resources	09/02/2024	10/02/2024	Throughout
Emma Horner	Assistant Director Technical Finance	09/02/2024	09/02/2024	Throughout

Report History

Decision type: For Action/Information	Urgency item? No

Authorised by Cabinet member:	Date report drafted:	Report deadline:	Date report sent:
	02/02/2024	27/02/2024	12/02/2024

Report no.:	Report author and contact for queries:
	Bridget Uku, Finance Manager - Treasury & Investments, ext. 5981 Amalio Alcazar, Treasury & Investments Technician, ext. 6589 Bhavika Patel, Treasury & Strategic Investments Accountant, ext. 6215

Glossary of terms used in the report

CFR – Capital Financing Requirement – a measure of the underlying need to borrow to finance capital expenditure.

Counterparties – Organisations the council invests its surplus money with such as banks, local authorities and MMFs.

CPI & RPI – Consumer Prices Index & Retail Prices Index. The main inflation rate used in the UK is the CPI. The Chancellor of the Exchequer bases the UK inflation target on CPI. The CPI inflation target is 2%. The CPI differs from the RPI in that CPI excludes housing costs. Also used is RPIX, which is a variation of RPI, one that removes mortgage interest payments.

Credit Default Swap (CDS) – A kind of protection that can be purchased by MMF companies from insurance companies (for their investment) in exchange for a payoff if the organisation they have invested in does not default (repay the loan).

Credit watch – programs offered by credit rating agencies and financial institutions to monitor organisation/individual's credit report for any credit related changes. A credit watch allows the organisation/individuals to act on any red flags before they can have a detrimental effect on credit score/history.

DMO – Bank of England's Debt Management Office.

Escrow Account – A money account held by an independent third party and disbursed upon fulfilment of certain contractual conditions.

GDP – Gross Domestic Product; a measure of a country's economic growth.

Gilts – Bonds issued by the UK government. The holder is paid a fixed cash amount (coupon) every six months until maturity, at which point the final coupon is paid along with the principal.

IMF – The International Monetary Fund is an intergovernmental organisation which states its aims as to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduces poverty around the world.

Impaired investment – An investment that has had a reduction in value to reflect changes that could impact significantly on the benefits expected from it.

SONIA - Sterling Overnight Index Average is the effective overnight interest rate for unsecured transactions in the British sterling market.

Capital Eco. - Capital Economics is an independent economic research company who provides macroeconomic, financial market and sectoral analysis, forecasts, and consultancy.

Market Loans – Loans from banks which are available on the London Money Market including LOBOs (Lender Option, Borrowing Option) which enable the council to take advantage of low fixed interest for a number of years before an agreed variable rate comes into force.

MMF – Money Market Funds are a 'pool' of different types of investments managed by a fund manager, that invests in lightly liquid short term financial instruments with high credit rating.

MPC – Monetary Policy Committee designated by the Bank of England, whose main role is to regulate interest rates.

MRP – Minimum Revenue Provision is the amount which must be set aside from the revenue budget each year to cover future repayment of debt.

Premium – Cost of early repayment of loan to PWLB to compensate for any losses that the lender may incur.

Prudential Indicators – Set of rules for local authorities borrowing for capital projects under a code of practice developed by CIPFA and providing measures of affordability and prudence reflecting capital expenditure, debt and treasury management.

PWLB – Public Works Loan Board, a statutory body whose function is to lend money to local authorities and other prescribed bodies. The PWLB is normally the cheapest source of long-term borrowing for local authorities.

QE – Quantitative Easing, in the way central banks try to raise the amount of lending and activity in the economy indirectly, by cutting interest rates. Lower interest rates encourage people to spend, not save. But when short term interest rates can go no lower, a central bank can buy government bonds (including long-term bonds) or other financial assets (such as corporate bonds) in an effort to increase money supply and stimulate the economy.

Treasury Bill – Short term debt instruments issued by the government. They provide a return to the investor by virtue of being issued at a discount to their final redemption value.

Appendix 1

Treasury Management Strategy Statements, MRP Strategy and Annual Investment Strategy 2024/25

March 2024

Ealing
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CREATING GOOD JOBS

TACKLING THE CLIMATE CRISIS

FIGHTING INEQUALITY

Contents

Section 1 – Overview

1. Background

1.1 The Council is required to operate a balanced budget i.e. cash raised during the year will meet cash expenditure. In pursuit of this objective, amongst other things, the Council operates a treasury management function which incorporates the management of the Council's cash flows, lending and borrowing activities and the control management and mitigation of the risks associated with these activities.

1.2 Borrowing facilitates the funding of the Council's capital programme. The Council's 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. If the right circumstances prevail, debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 The contribution the treasury management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity and 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 maintain the balance between the interest costs of debt and the investment income arising from cash deposits to manage 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

1.4 Although policy spending 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.

1.5 The Chartered Institute of Public Finance and Accountancy (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."

1.6 Revised reporting has been required since 2018/19 due to revisions of the Ministry for Housing Communities and Local Government (MHCLG) (now the Department for Levelling Up, Housing and Communities (DLUHC)) Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes included the introduction of a requirement for all local authorities to have a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011 especially using the 'General Powers of Competence' provision. The capital strategy is being reported separately, though some key prudential indicators will be retained within this document.

2. Reporting Requirements

2.1 CIPFA revised the Prudential and Treasury Management Codes in December 2021, these updates were implemented by the Council in 2023/24. The Prudential Codes requires all local authorities to prepare an additional report, a capital strategy report, which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed; and
- the implications for future financial sustainability.

2.2 The aim is to ensure that all elected Members fully understand the long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

2.3 The expected income, costs and contributions, debt and associated interest costs and the MRP policy are included in the Treasury Management Strategy. The Capital Strategy and Treasury Management Strategy have been reviewed to ensure compliance with the updated requirements across the two strategies.

2.4 Non-treasury investments are reported through the Capital Strategy. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the service and policy investments usually driven by expenditure on an asset. The capital strategy outlines:

- the corporate governance arrangements for these types of activities;
- any service objectives relating to the investments;
- the expected income, costs and resulting contribution;
- the debt related to the activity and the associated interest costs;
- the payback period (Minimum Revenue Provision (MRP) policy);
- for non-loan type investments, the cost against the current market value; and
- the risks associated with each activity.

2.5 Should a physical asset be bought for investment purposes, details of market research, advisers used (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

2.6 If any non-treasury investment sustains a loss this will be reported through the final accounts, outturn and audit process, including the strategy and revenue implications.

2.7 To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this strategy document.

3. Treasury Management Reporting

3.1 The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice (Treasury Code) to set prudential and treasury indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The Council must also have regard to the DLUHC statutory guidance, Capital finance: guidance on minimum revenue provision.

3.2 In pursuit of the above, the Council must produce as a minimum three treasury reports each year:

a) Treasury Strategy, a requirement fulfilled by the production of this strategy document which includes:
   - capital plans (including prudential indicators);
   - minimum revenue provision (MRP) policy;
   - the treasury management strategy (including treasury indicators); and
   - an investment strategy;

b) A mid-year report which updates members on treasury progress, the capital position, the prudential indicators (and any amendments) and whether any strategies or policies require revision; and

c) An annual treasury outturn report (a backward looking review).

3.3 Full Council approves the Treasury Strategy as part of the annual budget-setting process. This appendix sets out the Treasury Strategy for 2024/25.

3.4 The scrutiny of the treasury management function within the Council is undertaken by Audit Committee, which carries out quarterly reviews.

3.5 The Council is also required to comply, and its Investment Strategy is compliant with, the DLUHC investment guidance, revised in 2018.

3.6 The Treasury Code was adopted by Council on the 9 March 2010. This strategy report complies with the revised Treasury Code.

3.7 In addition to the reporting schedule outlined above the Code requires the:

- Creation and maintenance of a treasury management policy statement which sets out the policies and objectives of the Council's treasury management activities. The Treasury Management Policy Statement is attached for reapproval as Annex 1.

- Creation and maintenance of Treasury Management Practices (TMPs) which set out the way the Council will seek to achieve those policies and objectives; these are maintained and kept under review by officers.

- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions. The scheme of delegation is attached as Annex 2.

3.8 The Council complies with the necessary requirements and its governance process is strengthened by its Treasury Risk and Investment Board (TRIB), which meets regularly to support the Strategic Director, Resources in the execution of their delegated powers.

Section 2 – Treasury Management Strategy for 2024/25

4. 2024/25 Strategy Overview

4.1 The Treasury Management Strategy for 2024/25 addresses capital issues including capital expenditure plans, prudential indicators, MRP and other treasury management issues such as the investment strategy and creditworthiness policy.

4.2 The proposed Treasury Management Strategy and Policy for the remainder of 2023/24 and for financial year 2024/25 adheres to the Council's policy on investments of "safety before returns" and investments are currently being placed with the following:

- United Kingdom (UK) Government (Debt Management Office);
- The Council's banker (Lloyds Bank);
- Nationwide; and
- Money Market Funds (see point 5 for regulatory changes to MMFs introduced from 21 January 2019).

4.3 Although current investments are per above, the investment parameters permissible under the Treasury Management Strategy are much broader as outlined in the Annual Investment Strategy (Annex 5) under specified and non-specified investments. After due consideration the Strategic Director, Resources can invest in any of the instruments/strategies if satisfied that the rewards are within acceptable risk parameters.

4.4 The proposed Treasury Management Strategy for 2024/25 is based upon treasury officers' views on interest rates and market forecasts (supplemented by forecasts provided by the Council's treasury advisors, Link Asset Services). The proposals in this report will assist the Council in mitigating risk in the treasury management activities and allow the borrowing necessary to finance the capital programme.

4.5 The strategy report covers:

- Pension Fund and West London Waste Authority cash;
- Capital Plans and Prudential Indicators;
- MRP;
- Borrowing (para 8);
- Treasury Limits for 2024/25 to 2026/27;
- Economic Background;
- Borrowing Strategy;
- Debt Rescheduling;
- Housing Revenue Account (HRA) Self Financing;
- Annual Investment Strategy;
- Financial Implications;
- Balanced Budget Requirement;

- Treasury Management Policy Statement; and
- Scheme of Delegation.

4.6 The strategy incorporates the requirements of the Local Government Act 2003, the CIPFA Prudential Code, DLUHC MRP Guidance, the CIPFA Treasury Code and DLUHC Investment Guidance.

5. Money Market Funds (MMFs)

5.1 Officers have previously reported that some MMFs faced difficulty during the global financial crisis, so the European Commission proposed new rules to safeguard investors. The changes to MMFs came into effect from January 2019.

Summary of Revised Rules

5.2 The revised regulations focus on the structure, composition, liquidity requirements, fees, redemption gates and understanding investor behaviour and information reporting. MMFs are categorised into structural options within the two categories below.

Structural Options	Short-Term Money Market Funds	Standard Money Market Funds
Government Constant Net Asset Value (CNAV)	x	
Low Volatility Net Asset Value (LVNAV)	x	
Variable Net Asset Value (VNAV)	x	x

5.3 Until changes were introduced European MMFs had CNAV and VNAV funds and the Council only used only CNAV funds. CNAV funds have now been restricted to government portfolios while a revised structural option for non-government funds, the Low Volatility Net Asset Value (LVNAV) MMF was introduced.

5.4 LVNAV MMFs retain stable NAV to two decimal places provided the fund is managed to certain maturity and liquidity constraints. If these constraints are breached the funds must be marked to market. The board of the MMF can take protective action in times of market stress or when more than 10% of the fund is redeemed in one day. These include gating or restricting the amount that can be drawn down in one day and levying liquidity fees on investors.

5.5 Currently the Council restricts its use of MMFs to CNAV and LVNAV funds although the strategy permits the use VNAV MMF should this be deemed appropriate at a future date.

6. Training

6.1 The Treasury Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training on treasury management and related issues. This especially applies to Members responsible for scrutiny, who regularly receive training.

6.2 Audit Committee members received training from the Council's treasury management advisers in December 2023. The training needs of treasury management officers are met through attendance at relevant courses, conferences and forums and are periodically reviewed and addressed as part of the Council's appraisal scheme.

7. Treasury Management Consultants

7.1 The Council uses Link Asset Services, 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 external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, treasury advisers.

7.2 The Council also recognises that there is value in employing external providers of treasury management services to access 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.

7.3 The scope of investments within the Council's operations now includes both conventional treasury investments (the placing of residual cash from the Council's functions) and more policy/ service driven investments, such as policy loans for housing. The policy investments require specialist advisers, and the Council uses Link Asset Services and other commercial and legal advisors in relation to this activity.

8. Pension Fund Cash

8.1 The Council's arrangement for pension fund cash changed from 1 April 2011 to meet the requirements of (then) MHCLG regulations. In the past all pension fund transactions flowed through the Council's main bank account with monthly transfers to and from the Pension Fund bank account to manage surplus and deficit cash positions. A separate Pension Fund ledger has been operational since December 2018, to enable comprehensive and ring-fenced use of the Pension Fund bank account. All money due to/owed by Pension Fund to the Council is treated as a Debtor/Creditor and cash transfers are made to/from Pension Bank account for settlement.

8.2 All surplus Pension Fund cash will continue to be transferred monthly to the Custodian's (BNY Mellon) bank account where it is swept for overnight investment into a money market bank account. Pension Fund cash retained locally to manage cash flow will be invested in either the Pension Fund MMF or fixed term deposits.

8.3 The Council is responsible for managing the pension fund cash (that may be retained in house) in accordance with this Treasury Management Strategy. The Pension Fund Panel is updated of progress on a quarterly basis.

9. West London Waste Authority (WLWA) Cash

9.1 From 1 April 2014, the London Borough of Ealing started to carry out treasury management services for the WLWA. There are significant benefits in the WLWA engaging with one of the boroughs to provide treasury management services on their behalf.

9.2 During 2023/24, WLWA transferred surplus funds to the Council for joint investment purposes. Specifically, £18 million was allocated for direct investments with Nationwide, and an additional sum was designated for investments to be managed jointly with Ealing's Investments. The returns on these jointly managed investments will be determined by the average interest rate achieved by the Council, calculated based on WLWA's average balance. The portion invested directly with Nationwide will yield returns in line with the corresponding rate. The WLWA has also subscribed to Link Asset Management Services, and they will mirror the Council's investment strategy.

9.3 The performance of the treasury management service is reviewed from time to time. The annual charge for the WLWA using the Council's treasury management services has been agreed for at £8,700 and the current service contract will run to 2025/26.

10. MIFID II

10.1 As reported in previous years, on the 3 January 2018, the EU Market in Financial Instruments Directive II (MiFID II) came into effect and requires regulated bodies to classify Local Authorities as retail clients, unless they provide evidence that they should be opted up to 'professional client' status.

10.2 The Council has opted up to 'professional client' categorisation with all brokers and counterparties. In order to achieve this, the Council had to provide evidence that it held an investment balance of at least £10m and that the person(s) authorised to make investment decisions on behalf of the authority has at least one year's relevant professional experience. The Council currently meets these criteria and training needs will be regularly monitored to ensure compliance.

11. Prudential Indicators

11.1 The Local Government Act 2003 and supporting regulations requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

11.2 The Council's Prudential Indicators for the period 2024/25 – 2026/27 are set out in **Annex 3** and Full Council is asked to approve these.

11.3 The benefit of the indicators are derived from monitoring them over time rather than the absolute value of each. A reporting schedule is maintained, with a mid-year report to Full Council to highlight any significant deviations from expectations. The indicators can be amended and reported to Full Council for approval at the earliest opportunity. The updated Prudential Indicators schedule will be taken to Full Council in 5 March 2024.

11.4 The indicators for later years are broad estimates since a number of factors including the level of Government support beyond 2024/25 are not firmed up. These estimates will be revised, as more accurate information becomes available.

12. Minimum Revenue Provision (MRP) Policy Statement

12.1 Changes to statutory guidance for MRP were introduced effective from 2019/20.

12.2 The key changes were that:

- The option to calculate MRP in retrospect thereby creating a credit or a reduction in MRP for future years was closed, though the ability to reset a provision prospectively remains – any changes should use the residual CFR at that point in time;

- MRP should not be £nil in any year – unless CFR is nil or negative or a voluntary MRP is being clawed back;

- Maximum asset life is 50 years unless supported by expert opinion; and

- Where the asset life methodology (option 3) is being used, the guidance is prescriptive on the maximum number of years over which the type of expenditure can be written off – in the absence of a quantifiable asset life, 25 years is considered the reasonable default.

12.3 Full Council is asked to approve the MRP policy statement as set out in Annex 4.

13. Core funds and expected investment balances

13.1 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.). Outlined below are estimates of the year end balances on investments.

Table 1 – Estimate of Year End Balance

Year End Resources	2022/23 Outturn	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
	£m	£m	£m	£m	£m
Expected Investments	568	578	400	350	300

14. Affordability Prudential Indicators

14.1 Within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. Full Council is asked to approve the indicators as set out in Annex 3.

15. Borrowing

15.1 The capital expenditure plans set out in this strategy document outline service activity for the Council. The treasury management function ensures that the Council adheres to the relevant treasury codes of practice as well as organising the Council's cash flow and borrowing needs to meet the requirements of service activity. It is a statutory requirement under the Local Government Finance Act 1992, for the Council to produce a balanced budget. Section 31A and S31B requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

- increases in interest charges caused by increased borrowing to finance additional capital expenditure; and
- any increases in running costs from new capital projects

are limited to a level which is affordable, prudent and sustainable within the projected income of the Council for the foreseeable future.

15.2 The strategy document covers the relevant treasury/ prudential indicators, the current and projected debt positions and the annual investment strategy.

15.3 The Council's current treasury management portfolio position is set out in table 2A and 2B below. The overall portfolio as at the 31 March 2023 and the position at 31 December 2023 are shown below for borrowing and investments.

Table 2A – Treasury Management Portfolio

TREASURY PORTFOLIO				
	Actual	Actual	Current	Current
	31.03.2023	31.03.2023	31.12.2023	31.12.2023
	£000		£000	
Treasury Investments				
Banks	30,000	5.92%	20,600	3.71%
Building Societies - Unrated	0	0.00%	0	0.00%
Building Societies - Rated	18,000	3.55%	18,000	3.24%
Local Authorities	0	0.00%	0	0.00%
DMADF (HM Treasury)	443,500	87.50%	446,100	80.32%
Money Market Funds	0	0.00%	50,000	9.00%
Other	15,336	3.03%	20,708	3.73%
Certificate Of Deposit	0	0.00%	0	0.00%
Total Managed In House	**506,836**	**100.00%**	**555,408**	**100.00%**
Bond Funds	-	0.00%	0	0.00%
Property Funds	-	0.00%	0	0.00%
Total Managed Externally	**-**	**0.00%**	**0**	**0.00%**
Total Treasury Investments	**506,836**	**100.00%**	**555,408**	**100.00%**
Treasury External Borrowing				
Local Authorities				
PWLB	757,232	86.29%	746,676	83.51%
LOBOs	78,000	8.89%	78,000	11.85%
Market Fixed Term Loan	10,000	1.14%	10,000	1.52%
Other	32,300	3.68%	40,450	3.12%
Total External Borrowing	**877,532**	**100.00%**	**875,126**	**100.00%**
Net Treasury Investments / (Borrowing)	**(370,696)**	**100.00%**	**(319,718)**	**100.00%**

15.4 The Council's projections for borrowing are summarised below. Table 2B shows the actual external debt against the underlying capital borrowing need, (the Capital Financing Requirement (CFR)), highlighting any over or under borrowing.

Table 2B – Actual External Debt against Capital Borrowing Need

	2022/23 Outturn £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
External Debt					
Expected change in Debt +/-	(10.248)	(8.406)	(15.557)	33.904	36.571
Actual gross debt at 31 March	**877.532**	**869.126**	**853.569**	**887.473**	**924.044**
The Capital Financing Requirement (CFR)	**871.277**	**918.966**	**1,053.539**	**1,177.691**	**1,199.633**
Under / (Over) borrowing	**(6.255)**	**49.840**	**199.970**	**290.218**	**275.589**
Other long-term liabilities (OLTL)	95.166	94.409	82.168	74.959	67.167
Expected change in OLTL	(0.757)	(12.241)	(7.209)	(7.792)	(8.627)
OLTL Total	**94.409**	**82.168**	**74.959**	**67.167**	**58.540**
***Debt : Excludes other borrowings, Mortlake and WLWA.**					

*Note: *The table shows the impact of not externally borrowing (using the Council's cash balances/ investments to internally fund underlying borrowing). This policy is under constant review.*

15.5 Within the above figures the level of debt relating to non-treasury activities i.e. policy investment is:

Table 3 – External Debt for Policy Investments (including Housing Loans) / non-treasury investments.

	2022/23 Outturn £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Actual debt at 31 March £m	10.02	6.00	24.98	23.99	14.07
Percentage of total external debt %	1%	1%	3%	3%	2%

15.6 Within the range of prudential indicators there are a number of 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.

15.7 The Strategic Director, Resources reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view considers current commitments, existing plans, and the proposals in this budget report.

16. Liability Benchmark

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

16.2 There are four components to the Liability Benchmark: -

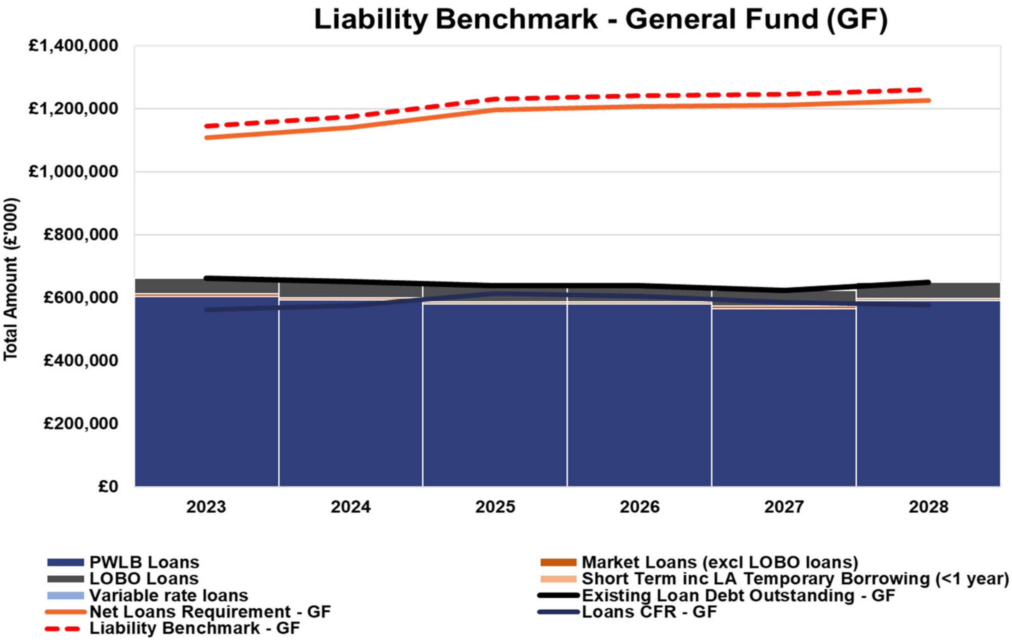
1. **Existing loan debt outstanding**: existing loans that are still outstanding in future years.

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.

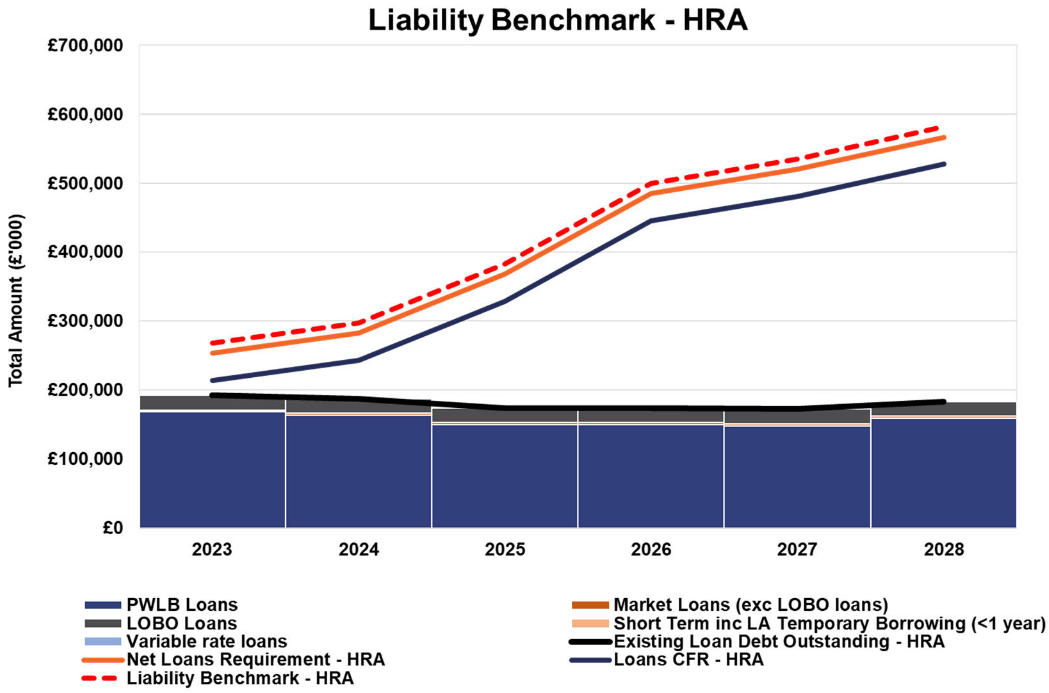
3. **Net loans requirement**: this will show the gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

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

16.3 Liability Benchmark charts for General Fund (GF) and HRA:



16.3.1 For the GF liability benchmarking, the Council is showing an overborrowed position relative to its CFR, the reason for the overborrowing is that the Council took advantage of the low interest rates borrowings in 2021/22 to fund its planned capital programme. However, the overborrowing position will be reduced in the next couple years.



16.3.2 For the HRA liability benchmarking, the comparison between the current borrowing portfolio and the liability benchmark indicates a borrowing need. Currently the interest rates are not favourable for the new borrowings and interest rates are expected to fall in the coming years and at which point the Council will consider undertaking HRA borrowing.

17. Treasury Indicators

17.1 **Treasury Limits for 2024/25 to 2026/27**

17.1.1 It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting regulations for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales, the Authorised Limit represents the legislative limit specified in the Act.

17.1.2 The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and that the impact upon its future council tax and council rent levels is 'acceptable'.

17.1.3 Whilst termed an "Affordable Borrowing Limit", the capital plans considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years, details of the Authorised Limit are set out in Annex 3.

18. Economic Background and Interest Rate Forecasts

18.1 Link Asset Services, as treasury adviser, assists the Council in formulating a view on interest rate forecasts. The following table outlines the Link Asset Services view. It should be noted that the Public Works Loans Board (PWLB) offers a certainty rate discount of 0.20% to local authorities who provide specified information on their plans for capital spending and the associated longer-term borrowing. The Council has applied and qualifies to borrow at the certainty rate.

Table 4 – Link Interest Rate Forecast

Rate	Dec-23 %	Mar-24 %	Jun-24 %	Sep-24 %	Dec-24 %	Mar-25 %	Mar-26 %	Dec-26 %
Bank of England	5.25	5.25	5.25	4.75	4.25	3.75	3.00	3.00
5yr PWLB	5.00	4.50	4.40	4.30	4.20	4.10	3.60	3.50
10yr PWLB	5.10	4.70	4.50	4.40	4.30	4.20	3.80	3.70
25yr PWLB	5.50	5.20	5.10	4.90	4.80	4.60	4.20	4.10
50yr PWLB	5.30	5.00	4.90	4.70	4.60	4.40	4.00	3.90

18.2 The UK Gross Domestic Product (GDP), the revision of GDP data in Q2 to a 0.1% quarter in quarter q fall may mean the mildest of mild recessions has begun. Indeed, real GDP in October fell 0.3% month in month which does suggest that the economy may stagnate again in Q3. 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.

18.3 The Consumer Prices Index (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.

18.4 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.

18.5 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% month in month, which meant the headline 3 month year in year 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% 3 month year in year to 7.3%, which leaves it comfortably on track to fall to 7.2% by December, as predicted by the Bank in November.

18.6 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.

19. Borrowing Strategy 2024/25

19.1 The Council's strategy is to achieve a low but stable cost of finance but retaining flexibility to alter its plans as circumstances change. In this regard, the Council was maintaining an under-borrowed position up until this year when advantageous borrowing rates has led to the Council taking out some borrowing early. This means that the capital borrowing need CFR is now funded in advance. This strategy is prudent as borrowing interest rates were low and the Council has a sizeable borrowing requirement to fund its ambitious capital delivery programme.

19.2 The Council has, to date, raised most of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pension funds and local authorities and will explore the possibility of issuing bonds and similar instruments to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; this Council will continue to avoid this activity and ensure the Council retains its access to PWLB loans.

19.3 Sensitivities of the forecast

19.3.1 If officers' felt there was a significant risk of a sharp fall in long and short term interest rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowing will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered. However, if there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be raised whilst interest rates are still lower than they will be in the foreseeable years ahead. The Council has, during 2021/22,raised borrowing in line with the latter strategy. All decisions and actions taken have or will be reported to Audit Committee or Full Council at the earliest opportunity.

19.3.2 The Council's borrowing strategy will consider new borrowing in the following priority as required:

- Temporary borrowing from the money markets or other local authorities;
- PWLB variable rate loans for up to 10 years;
- Short dated borrowing from non PWLB and other sources;
- PWLB borrowing for periods across all the durations when rates are at particularly good value;
- Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio;
- Capital market bond investors;
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues;
- Individuals lending via peep-to-peer platform where necessary counterparty checks (for example proof of identity or money laundering requirements) are conducted by the platform; and
- Investors in capital market bonds and retail bonds issues by the Council.

19.3.3 **Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Leasing – a contract outlining the terms under which one party agrees to lease/ rent a property owned by another party;
- Hire purchase – financing where monthly payments are made but ownership does not occur until the last payment;
- Private Finance Initiative –a procurement method which uses private sector investment to deliver public infrastructure; and
- Sale and leaseback – selling a property and entering a lease arrangement with the purchaser to occupy.

19.3.4 The Council will continue to borrow in respect of the following:

- Maturing debt (net of MRP);
- Approved unsupported (prudential) capital expenditure; and
- To finance cash flow in the short term.

19.3.5 The type, period, rate and timing of new borrowing will be determined by the Strategic Director, Resources under delegated powers, considering the following factors:

- Expected movements in interest rates as outlined above;
- Current maturity profile;
- The impact on the medium term financial strategy; and
- Prudential indicators and limits.

19.4 **New Financial Institutions as a source of borrowing and Types of Borrowing**

19.4.1 Following the decision by the PWLB on 9 October 2019 to increase their margin over gilt yields by 100 bps to 180 bps on loans lent to local authorities, officers began to explore alternative sources of borrowing. However, in March 2020, the Government started a consultation process for reviewing the margins over gilt rates for PWLB borrowing. The chancellor announced the conclusion which amongst other things reversed certainty rate increase for the GF. Options for the diversification of loan source will still be explored and the Council will look to:

- Local authorities (primarily shorter dated maturities);
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates); and
- Municipal Bonds Agency.

19.4.2 Approved sources of borrowing include:

- PWLB;
- Any institution approved for investments;
- Financial Institutions including Assurance and Insurance Companies and Banks ;
- Local Authorities and Housing Associations;
- UK public sector and private sector pension funds;
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues;
- Any other public sector body;
- Any other institution which is legally able to lend to local authorities;
- Leasing;
- Hire purchase;
- Private Finance Initiative (PFI) and similar financing arrangements; and
- Sale and leaseback.

19.4.3 A range of organisations fall within the scope of the list and a range of financial instruments may be issued to evidence the borrowing including public or privately issued bonds, negotiable bonds, commercial paper, medium term notes etc. The Strategic Director, Resources will explore all options and determine the optimal source of borrowing for the Council.

19.5 **Treasury Management Limits on Borrowing Activity**

19.5.1 There are three debt related treasury activity limits. The purpose of these is to restrain the activity of the treasury function within a flexibly set remit, to manage risk, yet not impose undue restraints that constrain cost reduction or performance improvement. The indicators are:

- Upper limits on variable interest rate exposure net of investments;
- Upper limits on fixed interest rate exposure; and
- Maturity structure of borrowing to manage refinancing risk.

19.5.2 The proposed indicators are set out in Annex 3.

19.6 **Policy on borrowing in advance of need**

19.6.1 The Council needs to ensure that its total debt, does not, except in the short term, exceed the total of the CFR in the preceding year i.e. 2023/24 plus the estimates of any additional CFR for the year 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 generation purposes.

19.6.2 Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

19.6.3 Borrowing in advance of need will ideally be limited to no more than 100% of the expected increase in borrowing need (CFR) over the three-year planning period. In determining whether borrowing will be undertaken in advance of need the Council will:

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need;
- ensure the ongoing revenue liabilities created, and the implications for the future and budgets have been considered;
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- consider the merits and demerits of alternative forms of funding;
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use; and
- consider the pros and cons of the impact of borrowing in advance of need at attractive rates on the available cash balances the Council will hold and the risks associated with increased exposure to credit risk arising from investing this additional cash in advance of need.

19.7 Debt Rescheduling

19.7.1 As short-term borrowing rates can be considerably cheaper than longer term rates, there could have been potential to generate savings by switching from long term debt to short term debt. Any savings will need to be considered in the light of the size of premiums to be incurred, their short-term nature, and the likely cost of refinancing those short-term loans, once they mature, compared to the current rates of longer-term debt in the existing debt portfolio. Any such rescheduling and repayment of debt is likely to cause a flattening of the Council's maturity profile as in recent years there has been a skew towards longer dated PWLB.

19.7.2 The business case for any rescheduling will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the strategy outlined above; and
- enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

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

19.7.4 All rescheduling will be reported to Full Council at the earliest meeting following its implementation.

19.8 Housing Revenue Account (HRA) Self Financing

19.8.1 The housing subsidy system was dismantled and replaced by a system of self-financing of the HRA from 1 April 2012. Since then, two separate pools are operating for the management of HRA and GF debt.

19.8.2 Under the two pool approach legacy loans were notionally apportioned between the HRA and GF using the CFR split and loans since 2012 have been raised separately.

19.8.3 An equitable means of apportioning debt management expenses is in operation.

19.8.4 Until October 2018, HRA borrowing was capped by the government and the HRA needed to borrow within the parameters of its existing debt and the cap known as the headroom. In October 2018, the Government approved plans to remove the HRA borrowing cap, giving local authorities the flexibility to borrow prudently up to levels that can be supported through their revenue streams.

20. Annual Investment Strategy

20.1 The annual Investment Strategy is set out in Annex 5 for approval by Full Council which covers:

- Overview including durations bands for counterparties and minimum credit ratings (table 3 Annex 5);
- Policy lending (non-treasury management investments);
- Investment balances / liquidity of investments; and
- Specified / unspecified investments.

21. Financial Implications

21.1 Investment income is currently forecast to be £28.5m for 2023/24. For 2024/25 budgeted investment income is estimated at approximately £20.9m to reflect lower expected interest rates.

22. Balanced Budget Requirement

22.1 The Council complies with the provisions of the Local Government Finance Act 1992 to set a balanced budget.

22.2 Risk management plays a fundamental role in treasury activities due to the value and nature of transactions involved. In order to mitigate risks on investment income the Council holds an Economic Volatility Reserve, which can be used to manage unforeseen volatility of investment income or borrowing costs.

22.3 Budgeting for MRP requires the Council to make provision for MRP linked to the life of the assets. This makes budgeting for MRP complex and sensitive to changes in assets being financed and the amount of unsupported borrowing used.

22.4 Regulations and statutory guidance on MRP was issued in February 2018.

22.5 **Loans to third parties**

22.5.1 Expenditure on policy loans to third parties which constitute capital expenditure must have MRP set aside. In the past, some local authorities sought to justify not setting aside MRP for some investments as any borrowing would be repaid by selling the assets sometime in the future; this the statutory guidance now requires MRP will need to be set aside for these investment assets.

22.5.2 Repayments included in annual PFI unitary payments or finance leases are applied as MRP. There is no requirement for the HRA to set aside MRP, although there is a requirement for depreciation to be applied.

22.5.3 Acquisition of share capital can be written off over a maximum of 20 years.

Annex 1 – Treasury Management Policy Statement

Treasury Management Policy Statement

The Council defines the policies and objectives of its treasury management activities as follows:

(i) The Council defines its treasury management activities as the management of the Council's 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.

(ii) The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications.

(iii) The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

Annex 2 – Treasury Management Scheme of Delegation

Treasury Management Scheme of Delegation

The Council's Treasury Management Scheme of Delegation is approved by Full Council annually as part of the overall Treasury Management Strategy, it was last approved by Council at its meeting of March 2022 and there are no proposals for any amendments to the current scheme, which is set out below:

1. **Full Council**

 - Receiving and reviewing reports on treasury management policies, practices and activities;
 - Approval of/ amendments to the Council's adopted clauses, treasury management policy statement; and
 - Approval of annual strategy.

2. **Strategic Director, Resources (Section 151 Officer)**

 - Budget consideration and proposals to Full Council;
 - Approval of the division of finance and treasury management responsibilities;
 - Receiving and reviewing regular monitoring reports and acting on recommendations; and
 - Approving the selection of external service providers and advisers and agreeing terms of appointment.

3. **Audit Committee**

 - Scrutiny of the Treasury Management function and arrangements;
 - Receive and review quarterly reports; and
 - Reviewing the treasury management policy and procedures and making recommendations to Full Council.

4. **The treasury management role of the Strategic Director, Resources (Section 151 Officer) is to:**

 - Recommend the Treasury Management Strategy and related policies for approval;
 - Hold regular reviews, and monitor compliance with approved the approved Treasury Management Strategy;
 - Formulate, consult on and approve treasury management practices, outlining the detailed manner in which the treasury management function will operate;
 - Submit regular Treasury Management Strategy monitoring reports to Audit Committee and Full Council;

- Submit budgets and budget variations to the Strategic Leadership Team (SLT) Full Council and Cabinet;
- Receive and review management information reports;
- Review the performance of the treasury management function;
- Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- Ensure the adequacy of internal audit, and liaising with external audit;
- Recommend the appointment of external service providers and advisors;
- Preparation of the capital strategy that is prudent, sustainable and affordable and provides value for money;
- Ensuring that due diligence has been carried out on all treasury and non-treasury financial investments;
- Ensuring proportionality of all investments to ensure risk is well managed;
- Provision of a schedule of all non-treasury investments;
- Ensuring that members are adequately informed and understand the risk exposures taken by the Council.

Annex 3 – Prudential Indicators

Prudential Indicators

1. Capital Prudential Indicators

1.1 The Council's capital expenditure plans are a key driver of treasury management activity.

2. Capital Expenditure

2.1 This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Table 1: Capital Expenditure Forecast

	2022/23 Outturn	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
	£m	£m	£m	£m	£m
Non-HRA	75.951	98.155	182.098	26.554	16.489
Housing Loan to BLRP	10.583	10.000	242.969	20.426	18.636
Policy investments / non-financial investments	0.000	0.000	0.000	0.000	0.000
HRA	78.326	122.924	137.100	139.234	79.891
Total Capital Programme	**164.859**	**231.079**	**562.167**	**186.214**	**115.016**
Add : Capital Additions/ Repurpose/Decommissioning /Re-profiling of Mainstream Funding	0.000	(4.212)	(144.484)	78.708	(4.008)
Total Capital Programme including proposed Growth	**164.859**	**226.867**	**417.683**	**264.922**	**111.008**

** Policy investments / non-financial investments relate to areas such as capital expenditure on investment properties, loans to third parties etc. This figure currently comprises policy loans to Housing Loan/Equity to BL/BLRP.*

2.2 Other long-term liabilities – the above financing need excludes other long-term liabilities, such as PFI and leasing arrangements which are classified as borrowing instruments.

2.3 Table 2 outlines how the capital expenditure plans are proposed to be financed by capital or revenue resources. Any shortfall of resources results in a funding need i.e. borrowing.

Table 2: Capital Programme Funding Summary

Capital Expenditure	2022/23 Outturn £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Non-HRA	75.951	98.155	182.098	26.554	16.489
Housing Loan to BLRP	10.583	10.000	242.969	20.426	18.636
Policy investments / non-financial investments	0.000	0.000	0.000	0.000	0.000
HRA	78.326	122.924	137.100	139.234	79.891
Total	**164.859**	**231.079**	**562.167**	**186.214**	**115.016**
Financed by:					
Capital receipts	5.753	0.746	24.159	0.834	0.726
Capital grants	31.187	51.529	70.673	0.000	1.590
Revenue Contribution	8.827	4.616	1.264	1.040	0.170
Other: Parking Reserve; Invest to Save; Partnership; S106	2.646	9.022	27.382	0.000	0.000
HRA Direct Funding	52.264	93.484	51.234	23.056	44.308
Total Financed	**100.677**	**159.397**	**174.712**	**24.930**	**46.794**
Net Financing Need (General Fund & HRA - Borrowing)	64.182	71.682	387.454	161.284	68.222
TOTAL FUNDING	**164.859**	**231.079**	**562.167**	**186.214**	**115.016**
Add : Capital Additions/ Repurpose of Mainstream Funding	0.000	(4.212)	(144.484)	78.708	(4.008)
Total Capital Programme including Growth	**164.859**	**226.867**	**417.683**	**264.922**	**111.008**

Table 3: New borrowing made up as follows:

	2022/23 Outturn	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
New Year Borrowing GF	27.536	32.030	131.920	99.730	14.003
New Year Borrowing HRA	26.062	29.440	85.865	116.178	35.583
Housing Loan to BLRP	10.583	6.000	24.980	23.994	14.065
Adjustments for Leases	0.000	10.165	0.000	0.000	0.000
Total borrowing	**64.181**	**77.634**	**242.765**	**239.902**	**63.651**

Table 4: Loan to BLRP

	2022/23 Outturn	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Borrowing for non-financial investments	10.583	6.000	24.980	23.994	14.065
Net financing need for the year	**64.181**	**77.634**	**242.765**	**239.902**	**63.651**
Percentage of total net financing need %	**16.49%**	**7.73%**	**10.29%**	**10.00%**	**22.10%**

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

3.1 This prudential indicator is the Council's Capital Financing Requirement (CFR), which is the total historic unfinanced capital expenditure, a measure of the Council's underlying borrowing need. Any capital expenditure not immediately paid for, will increase the CFR. The requirement to set aside the minimum revenue provision (MRP) reduces the Council's underlying need to borrow and the ensuing CFR.

3.2 The CFR does not increase indefinitely, as the 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 (similar to a repayment).

3.3 The CFR includes any other long-term liabilities (OLTL) such as PFI schemes and finance leases brought onto the balance sheet. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing/ financing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £94.409m of such schemes that forms part of the CFR.

3.4 The Council is asked to approve the CFR projections below:

Table 5: CFR - Capital Financing Requirement

	2022/23 Outturn	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
	£m	£m	£m	£m	£m
CFR – Non Housing	535.212	548.218	659.186	735.375	725.461
CFR – Housing	213.906	243.346	329.212	445.390	480.973
CFR – Housing Loan/Equity to BL/BLRP	26.993	32.993	57.973	81.967	96.032
OLTL	95.166	94.409	82.168	74.959	67.167
Total CFR	**871.277**	**918.966**	**1,128.539**	**1,337.691**	**1,369.633**
Movement in CFR	**39.396**	**47.688**	**209.573**	**209.151**	**31.943**

Table 5a: Movement in CFR inc OLTL represented by:

	2022/23 Outturn	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
	£m	£m	£m	£m	£m
Net financing need for the year	64.181	77.634	242.765	239.902	63.651
Less MRP and other financing movements	(24.785)	(29.946)	(33.192)	(30.751)	(31.709)
Less VRP*	0.000	0.000	0.000	0.000	0.000
Movement in CFR	**39.396**	**47.688**	**209.573**	**209.151**	**31.943**

4. International Financial Reporting Standard (IFRS) 16 Leasing

4.1 IFRS16 requires off balance sheet operating leases onto the balance sheet for closing of the accounts for 2024/25 deferred by CIPFA from 2021/22, although early adoption will be allowed.

4.2 The CFR, external debt (OLTL), authorised limit and operational boundary, have been adjusted to allow for those leases which were previously off-balance sheet, being brought onto the balance sheet at 31 March 2025. It is not currently possible to be precise about the adjustment figures until detailed data gathering has been substantially completed in 2024/25 financial year. The authorised limit and operational boundary have been increased to allow for a current initial estimate of the likely effect of this change. Notwithstanding this, the limits will be amended mid-year if the allowance is insufficient. An assessment will also be made of the impact on the HRA share of the CFR.

4.3 A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial or policy investment activity in relation to the Council's overall financial position. The capital expenditure figures shown in 2.1 and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Council's remaining activity.

4.4 Under the capital finance regulations, local authorities are permitted to borrow up to three years in advance of need. The Council will only consider borrowing in advance of need if market conditions indicate that it is the best course of action. There may be a short term carry cost to borrowing in advance of need if investment rates are considerably lower than long term borrowing rates. Borrowing in advance of need also increases the level of temporary investments and thus increases the exposure to loss of investment principal. However, the Council has put in place a prudent methodology to minimise this risk.

5. Affordability Prudential Indicators

5.1 Actual and estimates of the ratio of financing costs to net revenue stream

5.1.1 This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream.

Table 6: Ratio of financing costs to revenue streams

	2022/23 Outturn	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
	%	%	%	%	%
Non-HRA	9.87%	4.30%	6.61%	10.50%	10.71%
HRA (inclusive of settlement)	5.65%	0.65%	2.85%	7.67%	7.16%
Housing Loan to BLRP	0.00%	0.02%	0.12%	0.06%	0.24%

5.1.2 The estimates of financing costs include current commitments and the proposals in this budget report.

Table 7: HRA Ratios

	2022/23 Outturn	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
	£m	£m	£m	£m	£m
HRA debt (£m)	213.906	243.346	329.212	445.390	480.973
HRA revenues (£m)	69.603	78.810	87.153	93.168	97.026
Ratio of debt to revenues	2.92:1	3.04:1	3.94:1	5.27:1	5.49:1

	2022/23 Outturn	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
HRA Debt (£m)	213.906	243.346	329.212	445.390	480.973
Number of HRA Dwellings	11,602	10,671	10,534	10,466	10,361
Debt per dwelling (£m)	0.018	0.023	0.031	0.043	0.046

6. Treasury Indicators: Limits on Borrowing Activity

6.1 The Operational Boundary

6.1.1 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 the ability to fund under-borrowing by other cash resources.

Table 8 – Treasury Indicators: Limits on borrowing activity

Operational Boundary – General Fund & HRA	2022/23 Outturn	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
	£m	£m	£m	£m	£m
Debt	749.118	791.564	988.398	1,180.765	1,206.434
Other long term liabilities	94.409	82.168	74.959	67.167	58.540
Housing Loan to BLRP	26.993	32.993	57.973	81.967	96.032
Total	**870.520**	**906.725**	**1,121.330**	**1,329.899**	**1,361.006**

6.2 The Authorised Limit for external debt

6.2.1 A further 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 the Full Council. It reflects the level of external debt which, while not necessarily desired, could be afforded in the short term, but is not sustainable in the longer term.

6.2.2 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.

6.2.3 The authorised limit has built in a buffer in respect of operational leases to be brought on to the balance sheet in line with IFRS16.

6.2.4 Full Council is asked to approve the following Authorised Limits:

Table 9 – Authorised Limits

Authorised limit - General Fund & HRA	2022/23 Outturn	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
	£m	£m	£m	£m	£m
Debt	789.118	831.564	1,103.398	1,305.765	1,256.434
Other long term liabilities	94.409	82.168	74.959	67.167	58.540
Housing Loan to BLRP	26.993	32.993	57.973	81.967	96.032
Total	**910.520**	**946.725**	**1,236.330**	**1,454.899**	**1,411.006**

6.3 Maturity Structure of Borrowing

6.3.1 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. Full Council is asked to approve the following treasury indicators and limits:

Maturity structure of fixed interest rate borrowing 2024/25		
	Lower	Upper
Under 12 months	0%	10%
12 months to 2 years	0%	10%
2 years to 5 years	0%	20%
5 years to 10 years	0%	20%
10 years to 20 years	10%	30%
20 years to 30 years	10%	30%
30 years to 40 years	10%	30%
40 years to 50 years	10%	40%
Maturity structure of variable interest rate borrowing 2023/24		
	Lower	Upper
Under 12 months	0%	10%
12 months to 2 years	0%	10%
2 years to 5 years	0%	10%
5 years to 10 years	0%	10%
10 years to 20 years	0%	10%
20 years to 30 years	0%	10%
30 years to 40 years	0%	10%
40 years to 50 years	0%	10%

Annex 4 – MRP Policy Statement

MRP POLICY STATEMENT

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 require the Council to determine for the current financial year an amount of minimum revenue provision (MRP) which it considers to be prudent. This involves allowing the debt to be repaid over a period reasonably commensurate with that over which the capital expenditure provides benefit.

MHCLG (now DLUHC) Guidance requires the Council to approve an annual MRP statement and requires the Council to make a prudent provision of MRP. The broad aim of the guidance is to ensure that capital is financed over a period for which it provides benefits.

The first MRP charge will be made in the year following the date that an asset becomes operational.

Minimum Revenue Provision (MRP) Policy Statement

1. It was agreed at the Cabinet meeting of 24 February 2009 and Full Council meeting of 3 March 2009 that, the Council makes MRP charges to revenue in accordance with option 3, the asset life method as opposed to option 4 depreciation, which would have required the additional resource and administrative expense of tracking and revaluing assets at regular intervals. There is no basis for a change in policy and in accordance with approval sought and received in 2009 the Council will continue to apply option 3.

2. Asset Life Method

2.1 MRP will be based on the estimated life of the assets, in accordance with the proposed 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.

2.2 Under this policy the total charge to the General Fund budget in 2023/24, excluding PFI and finance leases is expected to be approximately £12.125 m of which a significant element (£4.407m) is in relation to debt incurred prior to 1 April 2008.

2.3 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).

2.4 DLUHC regulations require Full Council to approve an MRP Statement in advance of each financial year. Full Council is recommended to approve the following MRP Statement:

2.5 For capital expenditure incurred before 1 April 2008 or Supported Capital Expenditure after that date, the MRP policy will be:

"the MRP policy is equal to an annual reduction of 2% of the outstanding debt at 1 April 2017 for the subsequent 50 years"

2.6 From 1 April 2008, for all unsupported borrowing (excluding PFI and finance leases), the MRP policy will be:

- **Asset life method** – 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).

2.7 These options provide for a reduction in the borrowing need over approximately the asset's life. There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

2.8 MRP Overpayments

2.8.1 A change introduced by the revised DLUHC 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.

2.8.2 In 2020/21 a Voluntary Revenue Provision (VRP) of £4.034m was made. In line with the Asset life method adopted by the Council, this VRP has led to a recalculation and reduction of future MRP payments. It is estimated that the cumulative overpayments are as follows:

MRP Overpayments	£m
Balance at 31 March 2023	2.554
Prior Year MRP Adjustment 2022/23	0.514
Impact of recalculation in 2023/24	-0.626
Forecast Balance at 31 March 2024	**2.442**
Impact of recalculation in 2024/25	-0.626
Forecast Balance at 31 March 2025	**1.816**

2.9 MRP for Loans/Service Investments Deemed to be Capital Expenditure

2.9.1 When making service/ policy investments the Council needs to consider the potential MRP implications where the loan is classed as capital spend. The Council currently provides service loans to third parties to facilitate the delivery of housing or services that advance the Council's policy objectives. The cash advances will be used by the third parties to fund capital expenditure and this will be treated as capital expenditure and a loan to a third party. The CFR will increase by the amount of loans advanced (under the terms of contractual loan agreements). Once funds are returned to the Council, the returned funds are classed as a capital receipt, and off-set against the CFR, which will reduce accordingly.

2.9.2 Expenditure on service loans to third parties which constitute capital expenditure must have MRP set aside. In respect of the following types of capital expenditure, the Council has established an alternative methodology for calculating the annual MRP charges:

2.9.3 The housing loans to BLRP constitute capital expenditure and therefore must have MRP set aside, the Council has established an alternative and prudent methodology for setting the annual MRP charge. A loan facility repayment holiday will exist until completion of the development phase. This mirrors the Council policy which charges MRP in the year following the date that an asset becomes operational. MRP will then follow the loan agreement schedule, remaining within the overall 50-year BLRP business plan, thereby reducing the CFR accordingly.

2.9.4 The Council will undertake an annual financial assessment of the third party's ability to repay the debt and where any adverse changes are perceived a voluntary MRP provision will be made to cover any future potential financial losses. This arrangement will also be applied where a third party has committed to underwrite the debt costs of a specific project through amounts reserved for capital purposes.

2.9.5 The Council takes a holistic view on prudence spanning the lifecycle of the service loan.

2.10 Finance and Operational Leases

2.10.1 For assets acquired by finance/ operational leases or Private Finance Initiative schemes, MRP will be equal to the portion of the rent or unitary charge that is applied to write down the balance sheet liability (the capital element), or over the life of the asset.

2.11 Revenue Expenditure Funded from Capital Under Statute (REFCUS)

2.11.1 For capital expenditure under statute or incurred via the use of a Capitalisation Direction provision will be made over a period not exceeding 20 years.

2.12 Equity Investments

2.12.1 The Council will determine MRP on equity investments based on a 20-year life. However, for equity investments in asset backed companies, longer life may be assumed to match the Council's policy for investment assets.

2.12.2 The Strategic Director, Resources will determine alternative MRP approaches, in the interests of making prudent provision, where this is material, taking account of local circumstances, including specific project timetables and revenue-earning projections.

2.12.3 The Council has historic service loans to associated organisations for which MRP treatment is in line with the associated risk and prudence considerations and regulations at the time of issue. These arrangements may continue, however, the Strategic Director, can vary the MRP methodology in line the parameters approved within this policy.

Annex 5 – Investment Strategy

INVESTMENT STRATEGY

1. OVERVIEW

1.1 Investments can be financial or non-financial. This report deals with financial investments (as managed by the treasury management function) although prudential indicators in as much as they pertain to borrowing for non-financial investment are outlined in this report. The purchase of non-financial income yielding assets are covered in the Capital Strategy report.

1.2 Investments are made broadly in three different circumstances:

- When excess cash is generated from the day to day activities(i.e. Treasury Management investments);
- Lending to organisations or investing in the share capital of same to promote a local service or policy objective; and
- To earn investment income, known as commercial investments.

1.3 **Treasury Management Investments**

1.3.1 The Council mostly receives income in cash (such as taxes and grants) and in turn funds its expenditure to pay salaries and invoices. the Council also holds reserves to manage risk. These activities, together with timing decisions surrounding borrowing can lead to surplus cash which is invested in line with statutory guidance. Treasury investment balance is expected to fluctuate between £300m and £500m during the 2024/25 financial year.

1.4 **Service/ Policy Investments**

1.4.1 The Council can lend money to third parties e.g. subsidiaries, special purpose vehicles (SPV), registered providers, its suppliers, local businesses, local charities, housing associations, residents and its employees to support local public services and stimulate local economic growth.

1.4.2 In some circumstances the Council may have entered into a partnership arrangement with organisations or institutions for the provision of a service/ facility that will directly promote the Council's policy objectives which either requires the Council to lend or jointly invest in a venture. The Council has provided loans to BL and BLRP, an arms-length company now a registered provider to increase the inadequate supply of high-quality affordable housing within the borough.

1.4.3 These types of service investments do not form part of the treasury management strategy but are discussed in the Capital Strategy.

1.4.4 The lending activities outlined in Table 1 below have been either scheduled or have been undertaken to support the Council's service objectives.

Table 1 – Loans for Policy Investments

Organisation	£m	Description
West London Waste Authority (WLWA)	14.540	An Invest to Save loan granted to West London Waste Authority (WLWA) towards the project for the development of a new Energy from waste facility. Interest payments for this loan commenced January 2017.
Gunnersbury CIC	0.081	This loan of £0.250m was granted to Gunnersbury Community Interest Company to assist with initial set up costs. As at November 2023 total of £0.169m principal has been repaid.
Greener Ealing	0.856	The current initial loan of £1.1m (£0.930m fixed capital loan and £0.170m working capital loan) is a result of start up costs incurred by the parent company and invoiced back to Greener Ealing. As at November 2023 total of £0.244m principal has been repaid.
Broadway Living Limited	8.035	Two loans have been granted to Broadway Living Limited for £1.206m and £6.829m
Broadway Living Registered Provider (BLRP)	22.464	Loans were granted to BLRP totalling £19.209m for Tranche 1 Loan Utilisation and Westagte £3.255m.

1.5 **Security**

1.5.1 A key risk is the inability of the borrower to repay the principal lent and/or the interest due. The Council mitigates this risk by limiting the quantum of exposure to any single borrower and having recourse to underlying real assets should the lender default.

1.5.2 Accounting standards now requires the Council to set aside loss allowance for loans, where it foresees the likelihood of default. Currently the Council does not expect any credit loss to arise from non-payment of the principal sum invested.

1.6 **Risk assessment**

1.6.1 The Council assesses the risk of loss before entering and whilst holding service loans. A business case is developed, and then external advisors are used to scrutinise and challenge the assumptions and projections presented. A risk analysis was carried out as part of the business case for loans to BL and BLRP. The performance of the companies is being kept under ongoing review via regular meetings with BL and BLRP Boards.

1.7 **Service/ Investments Equity**

1.7.1 The Council can and has invested in the shares of its subsidiaries or partner organisations to support local public services and stimulate local economic growth.

1.7.2 **Security**

1.7.3 One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. The shares that Council invest in do not have a ready market and are not acquired with the intention of trading the shares.

1.8 **Risk assessment**

1.8.1 As outlined above, a risk analysis is carried out as part of any business plan. The objective is to invest in an affiliated company that will grow successfully. The performance of all investee companies will be kept under close review via regular meetings with the Boards, so that corrective action can be taken if necessary.

1.9 **Liquidity**:

1.9.1 Although this type of investment is fundamentally illiquid, the limit on the level of investment mitigates the risk to the Council.

1.10 **Commercial Investments Property**

1.10.1 The Council may invest in property with the intention of making a profit that will be spent on local public services which will fall under the category of Commercial Investments. To date the Council has not invested in commercial investments.

1.10.2 Loan Commitments and Financial Guarantees: The Council may also make loan commitments or provide financial guarantees to third parties to further its service objective.

1.10.3 The Council will have regard to the Guidance on Local Government Investments and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes. The Council's Treasury investment priorities remain:

- security of the invested capital;
- liquidity of the invested capital; and
- an optimum yield which is commensurate with security and liquidity.

All investments will be in sterling.

1.10.4 In accordance with the above guidance, and to minimise the risk to investments, the Council applies minimum acceptable credit criteria to generate a list of highly creditworthy counterparties which also enables diversification and avoidance of concentration risk.

1.11 Other information

1.11.1 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, 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.

1.11.2 Other information sources will also be used including the financial press, share price and other financial sector information metrics that aid the scrutiny process to establish the suitability of Counterparties.

1.11.3 The Council has defined the types of investment instruments that the treasury management team are authorised to use. There are two lists in Table 3 and Table 7 under the categories of 'specified' and 'non-specified' investments.

1.11.4 Specified investments are those with a high level of credit quality and subject to a maturity limit of one year.

1.11.5 Non-specified investments are those with less high credit quality, may be for periods more than one year, and/ or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18-month deposit would still be non-specified even if it has only 11 months left until maturity.

1.11.6 Non-specified investments limit. The Council has determined that it will limit the maximum total exposure to non-specified investments as being 30% of the total investment portfolio.

1.11.7 The Council will only use non-UK banks from countries with a minimum sovereign rating of -AA. The sovereign rating of -AA must be assigned by one of the three credit rating agencies. Transaction limits are set for each type of investment in 6.2.4.

1.11.8 The Council has engaged external advisers, to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of the Council in the context of the expected level of cash balances and need for liquidity throughout the year.

1.12 Pooled Investments

1.12.1 As a result of the change in accounting standards for 2019/20 under IFRS 9, this Council 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. A temporary statutory override to allow English local authorities time to adjust their portfolio of all pooled investments was announced to delay implementation of IFRS 9 for five years commencing 1 April 2018. The Council also has other options.

1.12.2 The Council will explore all options to allow any pooled fund investments to be elected from the onset as fair value through other comprehensive income as they are not held primarily for trading. Hence fair value gains and losses can be taken to the Financial Instrument Revaluation Reserve and there will be no dependence on the statutory override which can be withdrawn.

1.12.3 The Council will seek to achieve value for money from its treasury management activity and will monitor yield from investment income against appropriate benchmarks for investment performance. As such investment performance monitoring will be carried out at regular intervals throughout the year.

1.13 Creditworthiness policy

1.13.1 The Council applies 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, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with credit watches and credit outlooks from credit rating agencies, Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings and sovereign ratings to select counterparties from only the most creditworthy countries.

1.13.2 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 that exist on Link's recommended counterparty list. The Council will therefore use counterparties within the following durational (colour) bands.

Term deposits with nationalised banks and banks and building societies

	Minimum Credit Criteria	Use	Max. maturity period
UK part nationalised banks	Link Colour Bands	In-house	**1 year**
Banks part nationalised Non-UK	Link Colour Bands	In-house and Fund Managers	**1 year**

1.13.3 The Link Asset Services 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.

1.13.4 Typically, the minimum credit ratings criteria the Council use based on this service 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.

1.13.5 The Strategic Director, Resources can also provide working capital loans to unrated affiliated bodies, i.e. they would not need to have and external rating.

Table 3: Durational and Monetary limits applying to Specified and Non-Specified Investments

Counterparty	Maximum Lending per institution	Investment Duration	
UK Banks Term Deposits	£60m	Up to 5 years	CDs £5m per institution
The Council's Banker Lloyds Banking Group	£60m		
Non-UK Banks	£30m	2 years	
Building Society	£30m	1 year	
MMF – CNAV	£20m per Fund	Instant Access	
MMF – LVNAV	£20m per Fund	Instant Access	
MMF – VNAV	£5m per Fund	Instant Access	
Debt Management Office Deposit Facility (DMADF)	Unlimited	6 months (max available)	
Sterling Treasury Bills	Unlimited	6 months (max available)	
Local Authorities	Unlimited (Per authority £20m)	3 years	
Ultra short dated bond funds	£5m in total	Tradable	
Corporate Bonds	£5m in total	Tradable	
Corporate Bond Funds	£5m in total	Tradable	
UK Government Gilts/ Gilt Funds	£5m in total	Tradable	

Counterparty	Maximum Lending per institution	Investment Duration	
Multi Asset Funds	£5m in total	Tradable	
Property Funds	£5m in total	Tradable/ Non-Tradable	
Collateralised Deposit	£5m in total	1 year	
Bond Issuance (guaranteed by UK Government)	£5m in total	1 year	
Unrated Affiliated Bodies working capital *	Subject individual circumstance	Case by Case	
Unrated Affiliated Bodies Capital Expenditure Loan	Subject to individual circumstance	Case by Case	

**unrated affiliated bodies such as: Charities, arm's length companies and registered providers and service providers,*

1.13.6 The Strategic Director, Resources, as advised by TRIB, has delegated powers to make changes to local operational limits but remain within the parameters of the Treasury Strategy.

1.13.7 The Council is alerted of changes to ratings of all three agencies through its use of its adviser's creditworthiness service. In addition to the use of credit ratings the Council will be advised of information on movements in CDS spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

1.13.8 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 except in the circumstances out lined above where TRIB determines the counterparty can remain on the Council's list.

1.13.9 Sole reliance will not be placed on the use of this external service. In addition, the Council will also use market data and market information, information on government support for banks and the credit ratings of that supporting government.

1.14 Country limits

1.14.1 As outlined above, the Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating from Fitch of AA- (or equivalent from other agencies if Fitch does not provide a rating). However, the most likely position is that any foreign institution the Council invests in should be as highly rated as the UK or better. Investments in the UK will not be subject to sovereign credit worthiness rating restriction.

1.14.2 The list of countries which currently meet this criterion are outlined in Table 6. The Strategic Director, Resources will monitor and update the position under delegated powers and report back to Full Council at the earliest opportunity.

1.14.3 Where institutions are not on the Council's advisers list and the Council makes its own assessment, the Council will only lend to counterparties using the minimum criteria specified below.

1.14.4 The minimum credit rating required for an institution to be included in the Council's counterparty list (where adviser's credit worthiness service is not being used) is as follows:

Table 4 Minimum credit ratings

	Long-Term	Short-Term
Fitch	A	F1
Moody's	Aa3	P-2
Standard & Poor's	A-	A-2

Sovereign Rating	AA-
Money Market Funds	AAA

The above does not apply to policy/ service investments.

1.14.5 As outlined above officers also take any market intelligence into consideration to further determine whether to suspend institutions from the list even though the institution meets our minimum lending criteria.

1.14.6 Setting and monitoring of the counterparty list and the agreed maximum limit per counterparty (and Council's rating criteria) constitutes part of the execution and administration function and forms part of the authority to "determine the annual treasury strategy and carry out all treasury management activities" as per the Council's scheme of delegation outlined in the financial regulations. The Strategic Director, Resources therefore has discretion to review and amend these minimum ratings in view of market conditions and report to Full Council at the earliest opportunity.

1.14.7 Officers must respond quickly to counterparty rating changes and include or suspend institutions as their ratings fall in/ out of the Council's minimum rating criteria. This ensures that investment risk continues to be spread across a range of creditworthy institutions. The lending list is under ongoing review by the Strategic Director, Resources under delegated authority.

1.14.8 Institutions with which the Council currently can place funds are as follows:

- Debt Management Office (DMO) – interest can be below equivalent money market rates with returns being an acceptable trade-off for security particularly in times of high market volatility although recently DMO rates have surpassed MMFs and officers will continue to monitor the position and invest in accordance with the Council's risk appetite;
- British institutions where the UK has a substantial stake, such as RBS;
- Other UK institutions meeting our minimum credit rating criteria;
- AAA rated money market funds;

- Other local authorities (LAs) who are relatively risk-free counterparties are deemed to offer high security and liquidity – limits are set at £5m for district councils and £10m for other LAs, subject to a group limit of £180m, though the strategy permits higher limits;
- Foreign institutions from countries with sovereign ratings equivalent to the UK's sovereign rating or higher provided they meet our minimum criteria;
- Institutions that fall within Link Asset Services' approved lending list having met the diverse criteria and who the Council assess as having sound credit worthiness;
- Other UK Government (Gilts and Treasury Bills);
- Property Funds where not classed as capital expenditure;
- Ultra-Short Dates Bond Funds;
- Corporate Bond Funds; and
- Multi Asset Funds.

2. INVESTMENT BALANCES / LIQUIDITY OF INVESTMENTS

2.1 Based on cash flow forecasts, the Council anticipates balances in 2023/24 to average around £500m if no long-term borrowing is raised. Balances will be higher if external borrowing is undertaken. For treasury investments, it is considered that the maximum percentage of its overall investments that the Council should hold for more than 365 days (investments with a maturity exceeding a year) is £50m. The prudential indicator figure of £50m for 2024/25 is therefore recommended. It should be noted that this indicator does not apply to investments made for policy/ service reasons.

2.2 In addition, the Council may enter forward deals, but with an exposure that does not exceed 5 years, from the date the forward deal was effected.

2.3 The actual amount available for investment in 2024/25 will fluctuate as a result of the timing of significant items such as:

- expenditure on capital projects;
- council tax, business rates, council house rents income;
- receipt of government grants;
- long-term loans taken out to fund capital expenditure; and
- capital receipts in respect of major asset sales.

2.4 The amounts available for investments consist of both cash flow and core balances made up of reserves not likely to be required for one to two years. It is possible for the Council to invest this core cash for longer term. The strategy is flexible and allows the Strategic Director, Resources to take the decision to extend the duration of lending when market conditions are conducive to such lending.

2.5 **Investment Strategy and Interest Rate Outlook**

2.5.1 Based rates are expected to remain 5.25% for the financial year 23/24 and is forecasted to increase slightly in the short term and expected to reduce in future years. The Monetary Policy Committee (MPC) will adjust Bank Rate as necessary to return inflation to the 2% target sustainably in the medium term, in line with its remit.
Bank Rate forecasts for financial year ends (March) are:

- Q1 2023 4.25%
- Q1 2024 4.00%
- Q1 2025 3.00%

2.6 **In-house funds**

2.6.1 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (investments up to 12 months).

3. SPECIFIED/ UNSPECIFIED INVESTMENTS

3.1 **Specified Investments**

3.1.1 All such investments will be sterling denominated, with **maturities up to maximum of 1 year** meeting the minimum ‘high’ quality criteria where applicable.

3.2 **Non-Specified Investments**

3.2.1 These are investments 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. A maximum of £50m can be held in aggregate in non-specified investment.

3.2.2 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.

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

Table 5 Term deposits with nationalised banks and banks and building societies.

	Minimum Credit Criteria	Use	Max. maturity period
UK part nationalised banks	Link Colour Bands	In-house	**1 year**
Banks part nationalised Non-UK	Link Colour Bands	In-house and Fund Managers	**1 year**

- If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.
- Buy and hold may also include sale at a financial year end and repurchase the following day in order to accommodate the requirements of SORP.
- As collateralised deposits are backed by collateral of AAA rated local authority LOBOs, this investment instrument is regarded as being a AAA rated investment as it is equivalent to lending to a local authority.
- CD = Certificates of Deposit

LOCAL AUTHORITIES

- Although most local authorities do not have credit ratings, investing with local authorities provides good security for the council.

3.3 **Accounting treatment of investments**

3.3.1 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.

3.4 **Blanket guarantees on all deposits**

3.4.1 Some countries may support their banking system by giving a blanket guarantee on all deposits, however; the Council will generally not rely on the guarantees provided by any government unless there are overriding reasons for doing so.

3.5 **Other Countries**

3.5.1 At present the Council will determine whether to include other countries by reference to credit rating of the sovereign together with financial news data on the sovereign. The minimum credit rating required for an institution to be included within the council's list is AA-, although the Council will more likely invest in sovereigns that have a rating equivalent to or better than the UK Government's rating. Currently the countries falling within this are as follows:

Table 6 – Credit Rating of other countries

AAA	AA+	AA	AA-
Australia	Finland	Abu Dhabi (UAE)	Belgium
Denmark	USA		Qatar
Germany	Canada		France
Netherlands			UK
Norway			
Singapore			
Sweden			
Switzerland			

3.6 Non-Specified Investments

Table 7 – Non-Specified Investments

A. Maturities of any period.

Fixed term deposits with variable rate and variable maturities:	Minimum Credit Criteria	Use
Callable deposits	Falling within the Council's criteria	In-house
Range trade	Falling within the Council's minimum criteria	In-house
Other debt issuance by UK banks covered by UK Government guarantee	UK Government explicit guarantee	In-house Fund Managers
Term deposits with unrated counterparties	Decision flowing through TRIB, or a delegated officer	In-house
Commercial Paper	Fitch F1, AA aa1 or equivalent	In-house Fund Managers
Corporate Bonds	Fitch F1, AA aa1 or equivalent	In-house Fund Managers
UK Floating Rate Notes	Fitch F1, AA aa1 or equivalent	In-house Fund Managers
VNAV MMFs (where there is greater than 12-month history of a consistent £1 Net Asset Value)	High Credit Score	In-house Fund Managers
Bond Funds	Long term AAA	In-house Fund Managers
Multi Asset Funds		In house Fund Managers
Gilt Funds	Long Term AAA	In-house Fund Managers
Property Funds		In-house Fund Managers

B. Maturities more than 1 year

Investments as specified above in specified investments, but for periods in excess of 1 year.

3.7 Investment Treasury Indicator and Limit

3.7.1 Total principal funds invested for greater than 364 days limits are set with regard to the Council's liquidity requirements and to reduce the need for the Council becoming a forced seller of an investment, and are based on the availability of funds after each year-end.

3.7.2 Full Council is asked to approve the treasury indicator and limit as follows:

Table 8 – Investment Treasury Indicator and limit to be approved
Maximum **principal sums invested > 364 days.**

	2022/23 £m	2023/24 £m	2024/25 £m
Principal sums invested > 364 days	50	50	50

Note: This durational limit excludes policy/ service investments, where the decision is made on a case by case basis.

3.7.3 For its cash flow generated balances, the Council will seek to utilise money market funds, call accounts and short-dated deposits (overnight to three months), treasury bills and the DMO.

3.8 Investment Risk Benchmarking

3.8.1 These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report to Audit Committee and Full Council.

3.9 Security

3.9.1 The Council's maximum-security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- <1% historic risk of default when compared to the whole portfolio.

3.10 Liquidity

3.10.1 In respect of liquidity the council seeks to maintain:

- Bank overdraft - £0.5m
- Liquid short-term deposits of at least £5m available with a week's notice.

3.11 Yield

3.11.1 The yield benchmark for investments are internal returns above the overnight Sterling Overnight index average (SONIA) rate.

3.11.2 In addition, the security benchmark for each individual year is included in table 9:

Table 9 – Security Benchmark for each individual year

	1 year	2 years	3 years	4 years	5 years
Maximum %	2%	2%	2%	2%	2%

Note: This benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment.

3.12 Provisions for Credit-related losses

3.12.1 If any of the Council's investments appeared at risk of loss due to default (i.e. this is a credit-related loss, and not one resulting from a fall in price due to movements in interest rates) then the Council will make revenue provision of an appropriate amount.

3.13 End of Year Investment Report

3.13.1 At the end of the financial year, the Council will prepare a report on its investment activity as part of its annual treasury management report to Full Council.

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Report for: **INFORMATION**	
Item Number:	

Contains Confidential or Exempt Information	**NO**
Title	Public Sector Audit Arrangements Update
Responsible Officer	Emily Hill – Strategic Director, Resources
Authors	Emma Horner – Assistant Director Technical Finance
Portfolio	Cllr Steve Donnelly – Inclusive Economy
For Consideration By	Audit Committee
Date to be considered	27 February 2024
Implementation Date if Not Called In	N/A
Affected Wards	All
Keywords/Index	External Audit, Public Sector Audit Appointments (PSAA), Department for Levelling Up, Housing and Communities (DLUHC).

Purpose of Report:

This report is to inform the Audit Committee of the joint statements and consultations on the audit backlog published by Department of Levelling Up Housing and Communities (DLUHC) and the National Audit Office (NAO) on Thursday 8 February 2024.

1. Recommendations

1.1 It is recommended that the Committee notes the update on the joint statement and consultation which will impact the audit of the Ealing Pension Fund and London Borough of Ealing accounts.

2. Reason for Decision and Options Considered

2.1 This report is for information only, no decision is required.

3. Background and Summary

3.1 In July 2023, the Minister for Local Government published a Cross-System Statement setting out proposals to set a series of backstop dates to clear the backlog in local audit opinions in England and embed timely audit.

3.2 The national backlog in publication of audited accounts of local bodies has grown since the 2020/21 financial year, the number of outstanding opinions peaked on 30 September 2023 at 918. At 31 December 2023, the backlog of outstanding audit opinions stood at 771.

3.3 On 8 February, DLUHC issued a consultation and cross system statement on proposal to clear the backlog of local audits in England.

3.4 The consultation covers proposed changes to the Accounts and Audit Regulations 2015 aimed at clearing the audit backlog and are to apply to all 'Category 1' authorities, of which Ealing is one.

3.5 The Joint Statement from DLUHC, Financial Reporting Council (FRC), PSAA, CIPFA, National Audit Office (NOA) and Institute of Chartered Accountants in England and Wales (ICAEW) sets out 3 stages of measures to address the issues, summarised below:

Phase 1: ***Reset*** *involving clearing the backlog of historical audit opinions up to and including financial year 2022/23 by 30 September 2024.*
Phase 2: ***Recovery*** *from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles*.
Phase 3: ***Reform*** *involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit*.

3.6 The Joint Statement provides context, explaining the cross-system proposals and how the various elements are intended to interact. CIPFA will consult on temporary changes to the Code of Practice on Local Authority Accounting for 2023/24 and 2024/25, including extending the override on infrastructure assets, simplifying the revaluation of operational properties by allowing the use of indexation until new revaluation requirements are introduced in 2025/26, and reducing net pension assets and liabilities disclosures for at least 2 years, in an attempt to reduce the burden on finance teams and auditors.

3.7 Auditing standards allow auditors to issue modified or disclaimed opinions in the event of a statutory backstop date, even in cases where little to no substantive testing has been carried out. As set out in the Cross-System statement in July, the proposed backstop date is likely to result in modifications or disclaimers of the audit opinion. System partners will provide clear communications to the system explaining what the different types of opinions mean, including explaining that modified or disclaimed opinions caused by the backstop date do not necessarily indicate significant financial reporting or financial management issues in a local body.

3.8 Further discussions will be held with the councils current auditors, Deloitte (for financial statements to 2022/23) and new auditors, Mazars (for financial statements for 2023/24 onwards) on the specific implications of the consultations and resourcing arrangements for the Ealing audits and will be reported to a future meeting.

4. Financial

4.1 PSAA, the body overseeing most local audits, will use its fee variation process to determine the final fees local public bodies will have to pay in relation to delayed audits and 2023/24 audits. PSAA will set the scale fees for 2024/25 in accordance with the Local Audit (Appointing Person) Regulations 2015. The FRC and the NAO will support PSAA as it determines the fee impact of changes in audit requirements. It will also review relevant aspects of the contracts for the audits from 2023/24 to identify changes required to align with the changes proposed in the consultations.

5. Legal

5.1 The FRC and the NAO will support PSAA as it determines the fee impact of changes in audit requirements. It will also review relevant aspects of the contracts for the audits from 2023/24 to identify changes required to align with the changes proposed in the consultations.

5.2 The 2015 regulations would be amended to remove the duty to publish a delay notice for outstanding audits for financial years 2015/16 to 2022/23. The audited accounts must be approved (in accordance with existing regulation 9(2)) by the ‘backstop date’.

6. Value for Money

Not applicable

7. Sustainability Impact Appraisal

Not applicable.

8. Risk Management

8.1 There is no immediate risk to the Council; however, early planning will be required to achieve a successful transition to the new arrangements in a timely and efficient manner.

9. Community Safety

Not Applicable

10. Links to Strategic Objectives

10.1 Effective financial reporting and audit arrangements support delivery of the Council's strategic priorities.

11. Equalities, Human Rights and Community Cohesion

11.1 The need for the completion of an Equality Analysis Assessment (EAA) was considered but is not required.

12. Staffing/Workforce and Accommodation implications

Not applicable

13. Property and Assets

Not applicable

14. Consultation

Not applicable

15. Timetable for implementation

15.1 DLUHC is seeking views on changes to the Accounts and Audit Regulations 2015 to introduce backstop dates for the publication of audited accounts, by 7 March 2024.

15.2 The NAO is seeking views on changes to the Code of Audit Practice to support auditors to meet backstop dates and promote more timely reporting of their work on value for money arrangements, by 7 March 2024.

15.3 CIPFA LASAAC will consult on temporary changes to the Code of Practice on Local Authority Accounting for 2023/24 and 2024/25 to reduce burdens on the finance teams and auditors.

16. Appendices

None

17. Background information

- Link to joint statement from DLUHC and NAO Joint Statement
- Link to live consultations:
  - DLUHC Consultation
  - Code of Audit Practice Consultation - National Audit Office (NAO)
- The Local Government (Accounts and Audit) Regulations 2015
- The Local Audit and Accountability Act 2014

Consultation

Name of consultee	Post held	Date sent to consultee	Date response received	Comments appear in paragraph:
Emily Hill	Strategic Director, Resources			Throughout

Report History

Decision type:	Urgency item?
For information	No
Report no.:	Report author and contact for queries: Emma Horner Assistant Director - Technical Finance hornere@ealing.gov.uk 020 8825 6265

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Report for:
INFORMATION
Item Number:

Contains Confidential or Exempt Information	**NO**
Title	Financial Management Code Assessment
Responsible Officer(s)	Emily Hill, Strategic Director, Resources
Author(s)	Emma Horner, Assistant Director, Technical Finance
Portfolio(s)	Cllr Steve Donnelly – Inclusive Economy
For Consideration By	Audit Committee
Date to be Considered	27 February 2024
Implementation Date if Not Called In	N/A
Affected Wards	N/A
Keywords/Index	CIPFA, Financial Management Code

Purpose of Report:

This report is to inform Audit Committee members of the Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management Code and its requirements and demonstrates the self-assessment undertaken while working towards full compliance with the code in 2023/24.

The council has undertaken a self-assessment against each of the criteria identified. It is the opinion of the Strategic Director, Resources that the council is financially resilient, however a set of improvement actions have been identified to enhance the council's work in this area.

1. Recommendations

Members are recommended to:

1.1 Note the council's self-assessment of compliance with the Financial Management Code.

2. CIPFA Financial Management Code

Background

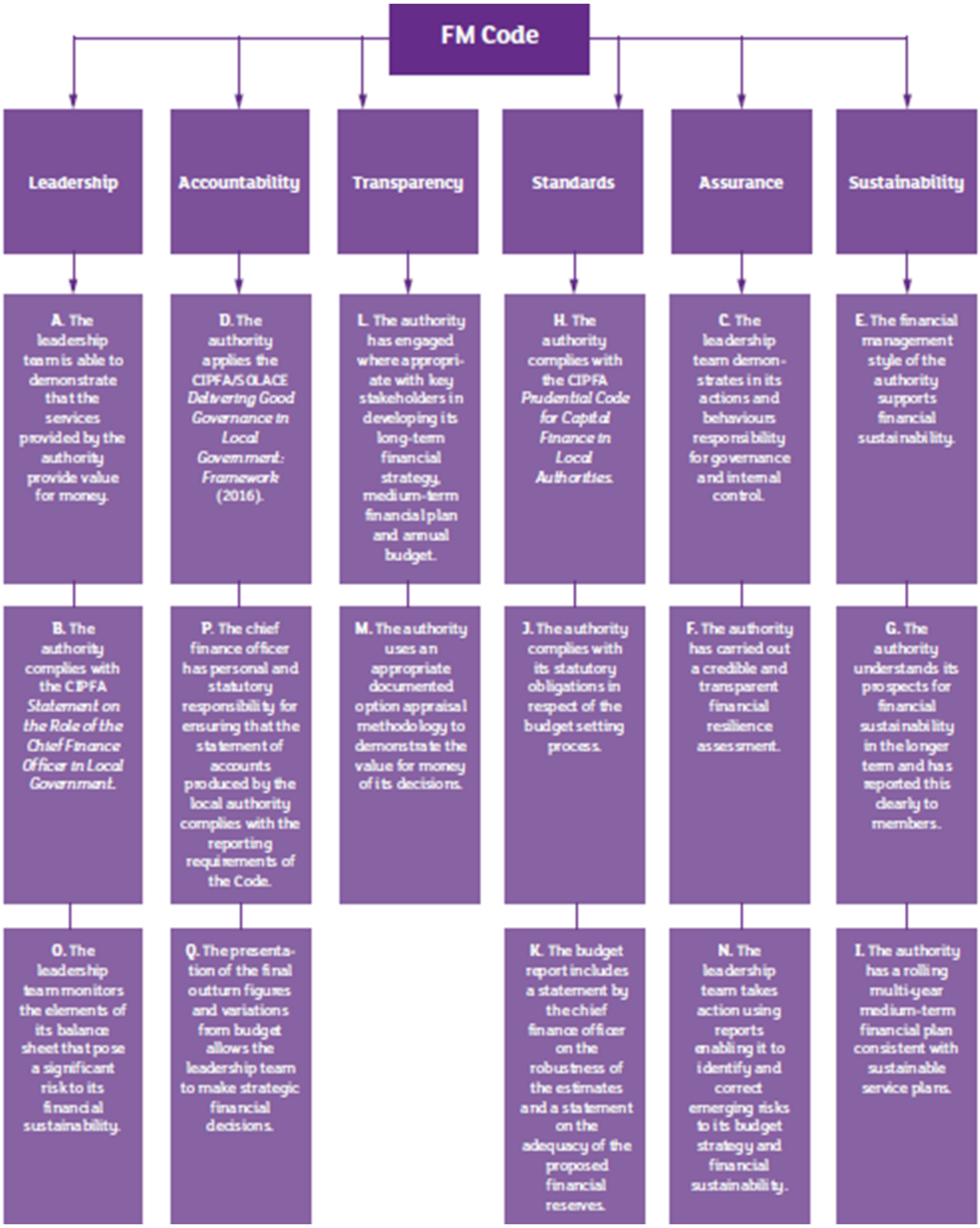
2.1 CIPFA published the Financial Management Code (FM Code) in October 2019, which is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.

2.2 The FM Code outlines six principles of good financial management, these six principles are the benchmarks against which all financial management should be judged. CIPFA's view is that all financial management practices should comply with these six principles:

1) Organisational **leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.

2) **Accountability** – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
3) Financial management is undertaken with **transparency** at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
4) Adherence to professional **standards** is promoted by the leadership team and is evidenced.
5) Sources of **assurance** are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.
6) The long-term **sustainability** of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

2.3 To enable authorities to test their conformity with the six principles of good financial management, the FM Code translates these six principles into 17 financial management standards. Appendix 1 shows the Council’s self-assessment against these 17 standards which are illustrated below:



2.4 Each local authority must demonstrate that the requirements of the FM Code are being satisfied. Demonstrating this compliance with the FM Code is a collective responsibility of elected members, the chief finance officer (CFO) and their professional colleagues in the leadership team. It is for all the senior management team to work with elected members in ensuring compliance with the FM Code and so demonstrate the standard of financial management to be expected of a local authority.

3. Financial

None

4. Legal

4.1 Section 20 and 21 of the Local Audit and Accountability Act 2014 requires auditors to be satisfied that the body "has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

5. Value For Money

The FM Code includes standards relating to value for money and details are included in the appendix to this report.

6. Sustainability Impact Appraisal

None

7. Risk Management

None

8. Community Safety

None

9. Links to the 3 Key Priorities for the Borough

Good financial management underpins the delivery of council priorities.

10. Equalities, Human Rights and Community Cohesion

None

11. Staffing/Workforce and Accommodation implications:

None

12. Property and Assets

None

13. Any other implications:

None

14. Consultation

None

15. Timetable for Implementation

None

16. Appendices

Appendix 1 – Financial Management Code self-assessment

17. Background Information

- Cabinet Report: Budget Strategy and MTFS 2024/25 to 2026/27 (7 February 2024)
- Audit Committee Report: CIPFA Financial Management Code Assessment (28 February 2023)
- CIPFA Financial Management Code 2019
- National Audit Office Code of Audit Practice 2020
- Local Audit and Accountability Act 2014

Consultation

Name of consultee	Post held	Date sent to consultee	Date response received	Comments appear in paragraph:
Internal				
Emily Hill	Strategic Director, Resources	08/02/2024	10/02/2024	Throughout

Report History

Decision type:	Urgency item?
For information	No
Report no.:	Report author and contact for queries:
	Emma Horner Assistant Director Technical Finance 020 8825 6265

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Appendix 1

Financial Management Standards

FM Standard Reference	Financial Management Standard	Guidance	Current position 2023/24	Areas for improvement
Section 1: The responsibilities of the chief finance officer and leadership team				
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money.	FM Code includes guidance: The delivery of value for money will ultimately be dependent on decisions made by elected members. It is for the leadership team to ensure that the authority's governance arrangements and style of financial management promote financial sustainability. It is the elected members who are held to account by local people when a local authority fails, but an important element of collective decision making is to understand the risks and appreciate the different statutory responsibilities of those involved. Good financial management is the responsibility of the whole leadership including the relevant elected members. It is the responsibility of the senior officers within the management team to enact this.	VfM is a core consideration through the annual budget setting process, and services are consulted to ensure budgets are in line with achieving this. Savings proposals are reviewed with a focus on achievingVfM and similarly, growth considerations must provide VfM. VfM is a consideration in all Cabinet/Council reports, particularly where business decisions are to made. SLT take regular finance reports and updates to ensure corporate understanding of financial position and financial resilience risks to the organisation. The Council Plan includes targets to continue delivering VfM. The Joint Contracts Board and Commercial Hub supports VfM in the decision making process, as every procurement over £500k requires a commercial strategy before agreement can be reached. The Constitution and Financial Regulations were updated in October 2021 and sets out clear governance structures where roles of Members and Chief and Statutory Officers are well-defined. The Council agreed a Social Value Policy and Ethical Standards in Feb 2022, which was implemented in April 2022, the aim of which is to maximise the social, economic, and environmental benefits for local residents from public sector contracts that are being procured, by incorporating social value into the outcomes. A new Commercial Strategy was approved in November 2023 to strengthen further arrangements to obtain the maximum value from council purchasing power. External audit provides a VfM report each year (although audit opinions have been delayed - significant issues in relation to VfM have not been raised by the auditor.	The unaudited financial accounts from the 2020/21 financial year has increased risks due to the outstanding value for money opinion.
B	The authority complies with the CIPFA *Statement on the Role of the Chief Finance Officer in Local Government*	The CIPFA Statement is as follows: The Chief Financial Officer in a public service organisation: 1 is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest; 2 must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy; and 3 must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively. To deliver these responsibilities the Chief Financial Officer: 4 must lead and direct a finance function that is resourced to be fit for purpose; and 5 must be professionally qualified and suitably experienced The CFO is CIPFA qualified and has experience in local government as well as maintaining CPD compliance.	The Chief Financial Officer (CFO) role is undertaken by the Strategic Director, Resources. At Ealing, this role is a member of the Council's Strategic Leadership Team (SLT) and is involved in all key business decisions, which are reviewed by SLT before decisions are taken by elected members. All key decisions require review and comment of finance and legal, and as such the CFO is able to ensure that the financial implications and any opportunities or risks have been identified. The CFO is a professionally qualified accountant with local government experience. Within the finance function, all senior staff are professional accountants and training programmes are in place continue building the knowledge and experience within the team.	Continue to develop financial skills and knowledge across the finance function through ongoing training programmes. Review of finance structure to be undertaken during 2024 to ensure career development opportunities and succession planning and to consider wider financial management responsibilities to minimise transactional work, ensure budget holder ownership of budgets ensure that qualified staff are used to best advantage to support and challenge budget holders.

Section 2: Governance and financial management style				
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.	The FM Code emphasises the importance of the 'Nolan principles', which form the basis of the ethical standards expected of public office holders. The council has arrangements in place to - establish a clear framework for governance and internal control across the authority, - establishing clear arrangements for assurance and accountability - espousing high standards of governance and internal control in its own activities - creating, maintaining and nurturing a culture in which governance and internal control are embedded into the way in which the authority works.	The constitution was updated in October 2021 and this sets out the roles and behaviours expected by members and officers of the Council. The Code of Conduct for Members includes a requirement to follow the principles of public life. The Audit Committee reviews arrangements for assurance and receives regular reports from officers. The Assistant Director of Audit and Investigations provides an annual independent opinion on the effectiveness of internal control and reports regularly to SLT with significant matters escalated to Cabinet members and Audit Committee as necessary. A follow-up programme is in place and outstanding actions are reported to Audit Committee	Actively engaging managers for response to audit committee if recommendations are not implemented in a timely manner.
D	The authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016).	The FM Code requires that the Council undertakes a review of the effectiveness of the system of internal control and this is reported in an annual governance statement.	The Annual Governance Statement (AGS) is published annually alongside the Statement of Accounts. The AGS includes details of the system of internal control and review of the effectiveness of internal controls. This is based on Annual Assurance Statements from each directorate. An AGS working group including the AD Audit and Investigations, the CFO, the Monitoring Officer, Director HR and OD and the Strategic Director of Strategy and Change meets to review the evidence and draft AGS before consideration by SLT. The council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA / SOLACE Framework Delivering Good Governance in Local Government 2016.	As per A, the unaudited accounts means that there is a delay to the external audit sign off of the Council's AGS. The council will monitor the limited assurance opinion to reduce any delays in implementing recommendations.
E	The financial management style of the authority supports financial sustainability.	Developing a robust approach to ensuring the financial sustainability of the authority's activities is central to compliance with the FM Code. Achieving financial sustainability requires the authority to have the capacity, the capability and the confidence to plan for the long term and to focus on the achievement of longer-term objectives, rather than to exist simply from year to year.	Financial sustainability is a key focus for the Council. The Council has consciously moved to a position of reducing the use of reserves and built in to the MTFS direct contributions to build up reserves and strengthen financial sustainability and resilience. It has delivered planned contributions to reserves over the past three years to strengthen financial resilience. The council has also introduced an increased Risk Contingency in to the budget to reflect the increased budget risks from demand-led services and inflation. The Council has continuously set a balanced budget each year, taking into account the adequacy of reserves when doing so, and has successfully maintained the targeted General Fund balance for a number of years. Due to increase costs of repairs and maintenance and new regulatory requirements the HRA is overspent and will require a significant draw on reserves in 2023/24 and a smaller budgeted contribution from reserves is required to balance the budget in 2024/25. Further work is required in 2024/25 to ensure that the HRA business plan is financially sustainable and to build back reserves. The Council is holding a deficit within the Dedicated Schools Grant in relation to the High Needs Block which is an area of national concern, a recovery plan is in place to proactively work towards reducing this balance. The Medium Term Financial Strategy is reviewed regularly and updates provided to members annually. Responsibility for budgets sits within service areas and Strategic Directors are accountable for their areas. Budget holders have access to financial information and can access this as needed, and also with support from the Accountancy function. Finance provide quarterly reporting to Cabinet, and high-risk areas are reported monthly to Portfolio Holders. Savings are monitored alongside forecasts to enable services to identify pressures and identify mitigating actions as required. The Financial Regulations were updated in October 2021 and provide full details of scheme of delegation for financial decisions.	Review of HRA business plan in 2024/25 to consider all options to improve financial sustainability. Additional monthly monitoring and reporting to SLT of high risk, demand led budgets (to now include homelessness) identified as a result of an increased risk and scale of increases in market costs.

Section 3: Long to medium-term financial management				
F	The authority has carried out a credible and transparent financial resilience assessment.	FM Code states :'Having carried out the finance resilience assessment, the authority will need to demonstrate how the risks identified have informed a long-term financial strategy. A local authority needs an over-arching strategic vision of how it intends to deliver outputs and achieve outcomes for which it is responsible. This should include a statement that sets out both the vision and the underlying strategy, together with the mix of interventions that the organisation will adopt in delivering services to achieve the intended outcomes. In many cases a basis for this will already exist in a corporate plan'.	As part of budget setting a review of the reserves has been carried out for long term and general adequacy of reserves. Part of monitoring and as part of budget setting a review of the council general demand pressures and inflation pressures has been carried out which helped outline the financial position for 2024 and beyond. This was review was worked through with services and presented and discussed with Strategic Leadership Teams (SLT). The council makes use of the CIPFA Resilience Index, review of OfLoG indicators and London Council's benchmarking data to highlight areas of risk to SLT and members as part of budget setting and risks in relation to the increasing proportion of expenditure of demand led service and fixed capital financing costs. Whilst the Council has comparatively low levels of reserves, the strategy has delivered increased levels rather than needing to utilise reserves to balance the in-year budget.	Confirmation of external audit position on audited areas. Further analysis and monitoring of high risk/ demand led service including benchmarking.
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.	FM Code states - 'Authorities will face different levels of political and financial stability which may have become embedded in different management cultures. However, CIPFA would promote ambition and stress the need for a financial strategy that matches the requirement for a strategic approach to service planning. The underlying key demand cost drivers, especially those linked to the age profile of the community, can be foreseen at least in broad terms for a decade and more ahead'.	With a new SLT, a review of each areas cost drivers and understanding of budgetary requirements and demand needs has been a key focus this year. SLT have had regular monitoring review of each area, a demand and risk evaluation for future requirement. This has then been used to set the budgets for future years, risks have been highlighted and risk ratings provided for savings. In year we have assigned to Grant Thornton's CFO insights tool, to support improved benchmarking.	Continue review of council service, include benchmarking and clear alignment of risks identified. Improved understanding of medium term demographic trends though financial foresight exercise. Integration of transformation and change work into the financial strategy for long term sustainability.
H	The authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities.*	FM code states - 'Capital strategy is a fundamental component of good financial management. It should set out how the organisation is currently managing its assets and more importantly its future plans linked to available resources. Balance sheet management in local authorities is about the better management of assets and liabilities to support service delivery and capital strategy. A long-term vision is needed for the configuration of service delivery and investment properties because timely asset disposals and/or investments will be dependent on complex interdependencies. A long-term vision should also be reflected in any commercial investment activity undertaken by the organisation. Guided by the Prudential Code and relevant guidance on borrowing for acquisitions of commercial properties, a local authority should not put public money and services at risk.	Council Plan and other priorities are reflected in budget setting for capital and revenue. Annual budgets are reviewed and realigned within directorates and services to reflect priorities of spend. The Council reflects the requirements of the Prudential Code in its Capital Strategy and Treasury Management Strategy are reported to Cabinet & Council as part of the annual budget report. The Prudential Indicators are agreed by Cabinet & Council each year as part of the budget process and then performance against these indicators is reported on to the Audit Committee & Full Council via the Treasury Management Outturn report, and monitoring reports are presented to the Audit Committee throughout the year. The council has relatively high levels of capital financing costs and these continue to be monitored and reviewed and capital financing of schemes challenged to minimise borrowing and maximise other funding unless the expenditure generates income or savings. The Council does not have any commercial investments funded from borrowing. The Land and Property Strategy was approved in March 2023 and is in implementation with an exercise started to implement a Corporate Landlord to improve oversight and management of the estate to meet council objectives.	Creating of a working group to monitor and assess the capital programme. Implementing a Corporate Landlord approach.
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.	The FM Code 'does not anticipate that a longer-term financial strategy will or, indeed, should provide sufficient detail to allow for it to be translated directly into an annual income and expenditure budget. To bridge this gap, therefore, and to allow the authority to ensure that its annual budget is in alignment with its longer-term financial aims, the FM Code requires the authority to prepare a multi-year medium-term financial plan. Furthermore, this plan should also be consistent with associated service plans for the authority's principal services'.	The Council has a rolling medium-term financial plan (MTFP) that is reviewed and updated during the year, and refreshed annually and presented to and approved by Members as part of the budget process. As stated above with a new SLT the approach was to review all service areas and highlight the demand and inflation pressures within service and risk assess these. This formed the basis for budget setting for 2024 25.The Council's capital strategy and treasury management and investment strategy are also reviewed, and the Council's capital programme is developed as part of this process and incorporated within the medium-term financial plan and budget report each year. The Council sets the HRA with a 30-year business plan which is agreed at Cabinet and Council each year.	If the government issues longer term settlement plan for future years this would assist in formulating future impacts on the MTFP. To encourage service accountability for managing their budgets a budget reporting tool is planned to be implemented and rolled out to budget managers.

Section 4: The annual budget				
J	The authority complies with its statutory obligations in respect of the budget setting process.	FM code states - 'The annual report setting out the proposed budget for the coming year is a key document for the authority. It will also demonstrate compliance with CIPFA's Prudential Code (Financial Management Standard H). The best budget plans are those owned and articulated by the whole leadership team and senior managers, not simply the CFO. Reserves are acknowledged in statute. Local authorities are directed to have regard to the level of reserves when considering their budget requirement. Consequently, reserves are a recognised and intrinsic part of financial planning and budget setting'.	The S151 has advised SLT and members through robust quarterly monitoring and budget setting of the Council financial position. The financial management of the council and financial resilience is owned corporately by SLT and the Cabinet. The 2023/24 outturn forecast is to breakeven and the 2024/25 budget is balanced, with continued contribution to reserves to improve financial resilience with increasing financial risk. The budget report includes all necessary statutory requirements. Review of capital projects to advise if these are financially viable and if still meets council priorities to be completed.	Further develop SLT and member understanding of the revenue implications of capital and debt and review of the capital programme.
K	The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.	FM Code states - 'The budget report should include details of the earmarked reserves held, and explain the purpose of each reserve, together with the estimated opening balances for the year, details of planned additions/withdrawals and the estimated closing balances. A well-managed authority, with a prudent approach to budgeting, should be able to operate with a level of general reserves appropriate for the risks (both internal and external) to which it is exposed'.	The budget report includes details of reserves held and this has been discussed by SLT and members as part of the budget setting process. Whilst reserves remain comparatively low, the budget strategy has a continued base budget contribution to strengthen the position and they are currently considered sufficient to meet short term risks. There is no planned use of reserves required to meet ongoing revenue budget requirements.	
Section 5: Stakeholder engagement and business plans				
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.	Financial sustainability will be dependent upon difficult and often complex decisions being made. The authority's decisions must be informed by clear business cases based on the application of appropriation option appraisal techniques. Professional accountants can be expected to comply with the IFAC/PAIB Project and Investment Appraisal for Sustainable Value Creation'.	The Council continues to engage/consult with groups which include: • Strategic Leadership Team and wider Ealing leadership Team • Leader of the Council • Cabinet • Labour Group • Opposition Groups • Overview & Scrutiny Committee • Local businesses via the Ealing Business Partnership. Engagement with communities is undertaken on any significant new project or change in service and consultation and co-production with communities is expected to increase and will need to include mature discussions on financial resilience.	To set up a capital programme working group which will review appraisals of business cases and their financial requirements.
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.	FM Code states - 'It is the responsibility of the CFO to ensure that all material decisions are supported by an option appraisal which in its rigour and sophistication is appropriate for the decision being made. It is likely that the authority's documented option appraisal methodology will include a relatively simplistic approach for decisions of low value and/or low risk'.	Projects continue to progress when they have been through a review and approval process and are in line with the organisation's priorities and outcomes as outlined in the Council Plan. Various boards are set up for review of proposals such as digital board, Major Projects Board and Housing. All key decisions and Cabinet reports include a section on 'Reasons for Decision and Options Considered' and include Financial Impact. Relevant portfolio holders alongside SLT are consulted on projects to ensure the vision of the corporate plan, values for money and to develop long term financial strategy. Revised process for housing delivery project management and gateway reviews being developed.	To set up a capital programme to provide an overview of the various capital programme projects/ schemes. Implementation and embedding of housing scheme project management documentation and gateway reviews.

Section 6: Monitoring financial performance				
N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.	FM Code states - 'Significant unplanned overspends and/or carrying forward undelivered savings into the following year might be a sign that an authority is not translating its policy decisions into actions. It also creates the conditions for further financial pressures and possible service reductions in subsequent years. However, the warning signs could also be in other nonfinancial performance measures. These trends should inform the decisions taken on the medium and long-term financial planning It is a requirement of this code that authorities should more closely monitor the material elements of their balance sheet that may give indications of a departure from financial plans. This is especially important for local authorities with significant commercial asset portfolios'.	Members of the Strategic Leadership Team receive regular financial performance reports on a quarterly basis throughout the year, and these are discussed in various forums. Each quarter results are signed of the the Strategic Director and discussed in meetings with wider DMT members. Included in these reports is information on the forecast end of year position, alongside details of financial pressures that are emerging, as well as actions that are being taken to address these. The reports are used as the basis for discussion with Lead Members for each portfolio. The Lead Member for Inclusive Economy will discuss all financial projections and performance with the Strategic Director, Resources and relevant Directors. There is also information on the progress to date in relation to the delivery of agreed savings, and these are RAG rated and services are asked to identify mitigating actions where these are at risk. Financial Monitoring reports are subsequently considered by Cabinet on a quarterly basis. The Council has limited commercial exposure in its current and long terms strategy. High risk budgets are reported monthly to senior officers and the Leader/Portfolio holders - during the year this has now included Homelessness. SLT and Members take quarterly wider performance reports which are subsequently reported to Cabinet. The strategic risk register is presented to SLT regularly.	Additional monthly monitoring and reporting to SLT of high risk, demand led budgets (to now include homelessness) identified as a result of an increased risk and scale of increases in market costs. Refreshed risk register to be approved.
Page 95	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.	FM Code states - 'Contingencies and commitments are monitored to identify any items where a balance sheet provision may have crystallised. Key drivers of provisions (e.g. asset decommissioning decisions, legal claims, reorganisation activities) should be monitored to identify whether an actual or constructive obligation has arisen. Finally, cash flow is managed through application of Treasury Management in the Public Services: Code of Practice and Cross- Sectoral Guidance Notes (CIPFA, 2017)'.	A quarterly balance sheet review is in place, carried out by finance staff, and this is reported on and monitored through the Financial Strategy Group (FSG). Key areas of financial risk relate to the debt and debt collection. The Strategic Director has monthly meetings on council tax and business rates collection and reviews and discusses bad debt and related provisions. In addition monthly meetings are held to monitor social care debt, including provisions. Earmarked, General Fund and HRA reserve balances and use of provisions are reviewed through the quarterly budget monitoring process and reported to SLT, Members via Cabinet reports to ensure reserve levels are sufficient to support financial sustainability. Other financial provisions are reviewed at least annually as part of closing for completeness, accuracy and need. Cashflows and cash balances are managed in line with the Treasuring Management Strategy and are monitored on a monthly basis through the Treasury Risk and Investment Board, chaired by the Strategic Director, Resources.	As a result of high interest rates, a review of the sustainability of borrowing is undertaken to ensure adequate and responsible financing of capital projects. Improvements on modelling scenarios out treasury outcomes and implementation of the capital working group.
Section 7: External financial reporting				
P	The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the *Code of Practice on Local Authority Accounting in the United Kingdom.*	The FM Code states that the external financial reporting process for authorities is prescribed by statute. Local authorities are required to produce their statutory accounts on an annual basis in accordance with the relevant legislation.	The Constitution and Financial Regulations set out the role of the CFO, which includes ensuring the Statement of Accounts is prepared in accordance with the Code of Practice. The CFO reviews and signs off the Accounts prior to approval by Audit Committee. External audit have provided consistent unqualified opinions on the Statement of Accounts and acknowledged in their latest reports that the Statements comply with the Code of Practice. The Council produced the draft unaudited accounts on time in 2020/21, 2021/22 and 2022/23, however due to various reasons, the publication of audited accounts has been delayed. New external audit providers are in place for 2023/24.	Timeliness of the annual external audit of the financial accounts and value for money position. Council officers to engage and plan an effective external audit of the 2023/24 accounts.
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.	The FM Code states that effective financial reporting is key to ensuring that the authority and its leadership team understand how effectively its resources have been utilised during the year, including how material variances from initial and revised budgets to outturn have arisen and been managed.	Final outturn figures are presented to SLT and then Cabinet in line with the closing timetable and production of the Statement of Accounts. SLT and Cabinet also receive the forecasts regularly throughout the year and any significant variances from budget or from the latest forecasts will be investigated. Information from the Q2 and Q3 budget monitoring forecast outturn is used to inform budget setting decisions for the following year. The final outturn figures are used to update the in year budget position and update the MTFS for future years as required. Schools outturn position is additionally reporting to schools forum to allow schools to inform their own strategic direction.	Continue to improve quality of reporting based on feedback from officers and members and improve accuracy of profiling and forecasting budgets. The Council is preparing the introduction of an ICT system for budget monitoring and budget setting for budget managers.

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Report for: DECISION

Contains Confidential or Exempt Information	No
Title	Draft Internal Audit Plan 2024/25
Responsible Officer	Mike Pinder, Assistant Director of Audit & Investigations
Author	Mike Pinder, Assistant Director of Audit & Investigations, ext 5792, pinderm@ealing.gov.uk
Portfolio	Cllr Steve Donnelly – Inclusive Economy
For Consideration By	Audit Committee
Date to be Considered	27 February 2024
Implementation Date if Not Called In	1 April 2024
Affected Wards	All
Keywords/Index	Audit Strategy and Plan

Purpose of Report:
This report details the draft internal audit plan for 2024/25.

In accordance with the Public Sector Internal Audit Standards (PSIAS), the Audit Committee is being asked to review and approve the proposed strategy and plan.

1. Recommendation

1.1 The Audit Committee is asked to review and approve the draft internal audit plan for the period 1 April 2024 to 31 March 2025.

2. Reason for Decision and Options Considered

2.1 Internal Audit is an assurance function that provides an independent and objective opinion to the council on the adequacy and effectiveness of the systems of internal control comprising of risk management, internal control and governance, by evaluating its effectiveness in achieving corporate objectives. It 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.

2.1 The assurance gained from the programme of work set out in the 2024/25 Plan (Appendix A), will form the main input for the development of the 2024/25 opinion of the Chief Audit Executive (at Ealing, this is the Assistant Director of Audit and Investigation) regarding the control environment within the council.

3 Key Implications

3.1 The 2024/25 Internal Audit Plan is an indicative plan which is kept under constant review to ensure that it is agile and able to respond to emerging risks. It is subject to revisions during the year with the approval of the Audit Committee.

4 Background

4.1 The fundamental role of Internal Audit is to provide senior management and Members with an independent assurance on the adequacy, effectiveness and efficiency of the system of internal control and report major weaknesses together with recommendations for improvement. The role is fulfilled by carrying out appropriate audit work in accordance with the Annual Plan as approved by the Audit Committee. As Internal Audit is a major source of assurance that the council is effectively managing its risks, a key rationale for the development of the Internal Audit Plan was the council's own Strategic and Service Risk registers.

4.2 The Council's Internal Audit Service is delivered in accordance with a regulatory framework comprising:

- The Local Government Finance Act 1972 which requires councils to 'make arrangements for the proper administration of their financial affairs'.
- The Accounts and Audit Regulations 2015 which require that all local authorities must 'undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.
- The Public Sector Internal Auditing Standards 2017 (PSIAS) set out what is meant by appropriate internal audit practices.

4.3 The PSIAS require the council to have an Internal Audit Charter, similar to a terms of reference, which sets out the purpose, authority and responsibility of the Internal Audit Service. The Internal Audit Charter was agreed by Audit Committee in June 2023.

4.4 The planning process is a high level statement which outlines how the Internal Audit planning is undertaken. The PSIAS no longer make specific reference to a strategy document, but requires that the information that it contains be communicated to the Audit Committee, to support discussion about audit planning and resources.

4.5 Regular progress meetings will be undertaken between the Section 151 Officer (Strategic Director, Resources) and the Assistant Director of Audit & Investigations and the PwC Contract Manager (as required).

5. Financial

5.1 The Audit Plan will be funded from the Audit and Investigations budget.

6. Legal

6.1 All Local Authorities are required to make proper provision for Internal Audit in accordance with the 1972 Local Government Act and the Accounts and Audit Regulations 2015 (as amended). The Public Sector Internal Audit Standards 2017 (PSIAS) requires proper planning of audit work.

7. Value for Money

7.1 Ealing's Internal Audit Services are currently provided by a Strategic Audit Partner (PriceWaterhouseCooper (PWC)), during 2024 we will be looking to increase the in-house provision. PWC will provide resilience whilst this change in implemented. No savings are planned from this change initially although it is aimed to achieve greater value for money once it starts to embed.

8. Sustainability Impact Appraisal

8.1 Not applicable.

9. Risk Management

9.1 The Council is responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

9.2 The proposed internal audit plan is based on risk and takes into consideration the current levels of strategic and operational risks managed by the Council. Risk management arrangements are, however, kept under continual review.

10. Community Safety

10.1 Not applicable.

11. Links to Strategic Objectives

11.1 Internal Audit makes a significant contribution to delivering the Council Plan and Council objectives, providing regular assurance to senior management and Members on the effectiveness of the corporate governance and internal control framework. Internal Audit impacts on all services and functions throughout the council, including internal and external partnerships, and stakeholders.

12. Equalities and Community Cohesion

12.1 No equality impact assessment has been undertaken as the report does not affect the general duties of the Equalities Act 2010.

13. Staffing/Workforce and Accommodation implications

13.1 Not applicable.

14. Property and Assets

14.1 Not applicable.

15. Any other implications

15.1 None.

16. Consultation

16.1 As per attached table.

17. Appendices

Appendix A: 2024/25 Draft Internal Audit Plan

Name of consultee	Department	Date sent to consultee	Date response received from consultee	Comments appear in report para:
Emily Hill	Strategic Director, Resources	13/2/2024	19/02/2024	Throughout
Strategic Leadership Team	All Departments	14/2/2024		Throughout
Cllr Steve Donnelly	Portfolio Holder – Inclusive Economy	For info		

Report History

Decision type:	Urgency item?
For Information	No
Report no.:	Report author and contact for queries: Mike Pinder, Assistant Director Audit & Investigations, pinderm@ealing.gov.uk

Final Internal Audit Plan 2024/25
Ealing

Internal Audit Plan for 2024/25.
Draft to Audit Committee – February 2024

Ealing and Hounslow Audit and Investigation Shared Service

London Borough of Hounslow

Ealing

Introduction

The role of internal auditors is to provide independent, objective assurance designed to add value and improve the council's performance. The remit and approach of internal audit, as set out in the internal audit charter, is to help management and the Audit Committee to evaluate and improve the effectiveness of risk management, control and governance processes.

The council's approach complies with best professional practice, in particularly the Public Sector Internal Audit Standards.

Internal audit's objectives are to:

- Remain independent and objective in the delivery of internal audit
- Provide assurance to management and the Audit Committee
- Formulate an effective annual operational plan, based upon regular review and risk assessments
- Respond to new and emerging risks through ongoing liaison with management and provision of adequate contingency
- Use benchmarking and comparison to identify wider changes to the sector
- Work closely with management and other assurance providers to optimise assurance, develop effective conclusions and recommendations
- Work with the anti-fraud service to optimise investigation coverage, promote good controls and fraud preventions and aid management.

This document sets out the planning process along with a one year operational plan for the coming year (2024/25). A strategic plan is also set out including coverage since 2021 to and also potential areas to consider for 2025/26.

Planning Process

The strategy for planning is set out in line with the internal audit charter and considers the Public Sector Internal Audit Standards. It sets out our delivery of the internal audit service and is based upon the following:

1) Developing a framework for the service, which ensures independence and objectivity for internal audit staff.
2) Providing assurance through a systematic approach covering key areas including:
   - Controls assurance monitoring on key financial systems
   - Risk based audits to confirm actions are in place to help mitigate risks
   - Prevention of fraud, linking to the anti-fraud service to help protect services for those with a genuine need
   - Special projects linking with services to help provide them with assurance following a period of change
   - Contract audit to provide assurance on the increasing number of key projects, as well as monitoring of contracts in operation
   - Schools audit ensuring all schools are audited over a period of time
   - Information Communication Technology (ICT) audit to provide assurance on the ICT estate operated by the Council
   - Appropriate use of computer aided audit techniques including data matching and analytics to provide whole population testing.
3) Promoting good practice in:
   - Risk management
   - Control and fraud prevention
   - System designed
   - Governance.
4) Adding value by:
   - Working with management to develop the most effective recommendations
   - Providing challenge where appropriate
   - A full review against our shared service partner (Hounslow's) 5 year plan to identify gaps in coverage and explore key risks for the sector
   - Benchmarking with PWC network, London Audit Group and other sources.
5) Optimising assurance by:
   - Working closely with other assurance providers, such as external audit to optimise coverage
   - Utilising the three lines of defence model to draw assurance from available sources.

A list of project areas which require internal audit review or independent sign off is also included, for example grants received, which require sign off by the provider.

The strategic internal audit plan remains responsive to key risks, but acts as a planning aid. Setting out a list of areas to help with future year discussions. It is intended that the strategic plan will continue to build, but also that it will continue to be agile to reflect a changing risk environment.

2024/25 – Operational Internal Audit Plan

The operational one-year plan will remain reasonably fluid to allow areas of emerging risk to be adopted during the year where necessary. Updates will be reported to management and the Audit Committee during the year.

	Topic	**Description /Indicative Scope**	**Assurance Map Risk Rating**	**Period (Forecast)#**
Council Wide				
1	Follow-ups	Monitoring of the implementation of recommendations from previous audit reports (ongoing).	Critical	Ongoing
2	Risk Management	A deep dive review of a sample of risks each quarter to validate information on the risk register and mitigations.	High	Ongoing
Resources				
3	Contract Register	A review of the contract register to actual spend to identify non-compliant spend activity.	High	Q1
4	Non accounts payable Mosaic – Financials	A review of the financial aspect of the Mosaic system.	High	Q3
5	Council Tax	Key financial system review	Fundamental	Q3
6	NNDR	Key financial system review	Fundamental	Q3
7	Treasury and Pension Investment	Key financial system review	Fundamental	Q3

	Topic	Description /Indicative Scope	Assurance Map Risk Rating	Period (Forecast)#
8	Asset Register – Properties	Completeness of the asset register for property information. Link to other available sources of info (insurance, housing and property system, utilities).	High	Q1
9	Business Continuity Planning	A review of the business continuity planning and testing process.	High	Q3
10	ICT – Intune	How ICT manage user desktop and control usage of equipment.	High	Q2
11	ICT – Business World (BW) Cloud Implementation (Advisory)	To provide advice and support to the BW implementation	High	Ongoing
Economy				
12	Regeneration Project Management	A review of the project management processes around two key projects. To include arrangements for monitoring site H&S. Likely to be Gurnell and the Lido to confirm status.	High	Q2
13	Housing Development Programme	A review of the programme management arrangements (pre evaluation and decision).	High	Q1
14	Building Safety	Arrangements in place by building control to meet the new building safety act.	High	Q4

	Topic	Description /Indicative Scope	Assurance Map Risk Rating	Period (Forecast)#
Strategy and Change				
15	Strategy Vision	A review of processes to map strategic priorities to allocation of resources.	High	Q2
16	Perceval House Project (Advisory)	Carried forward from 2022/23. To review project monitoring arrangements.	High	Ongoing
17	HR – Secondments and Variations to Pay	A review of: i) Secondments ii) Variations to pay (e.g. overtime, honorariums, expenses) To confirm that these are operated in line with policy.	High	Q1
Housing and Environment (H&E)				
18	Temporary Accommodation (TA)	A review of the H&S compliance checks for the TA service.	High	Q1
19	Governance and Assurance Framework	A review of the assurance and performance arrangements within H&E.	High	Q2
20	Housing – Inspection Readiness (Complaints)	The review will focus on processes around handling of complaints by the housing teams. Including root cause and analysis.	High	Q2
21	Housing – Building Safety	A review of the implementation of building safety requirements against the Act	High	Q3
22	Highways	A review of the contract and monitoring arrangements for the highways service.	High	Q1

	Topic	Description /Indicative Scope	Assurance Map Risk Rating	Period (Forecast)#
Children				
23	Prepaid Cards	Carried forward from 2022/23. To look at the new arrangements for pre-paid cards.	High	Q2
24	Schools H&S	H&S monitoring arrangements. This will include a thematic review to confirm works undertaken at some schools. To include passenger transport arrangements.	High	Q1
25	Placement Panels	Arrangements for care packages and monitoring.	High	Q3
26	Performance and Assurance Framework	A review of the performance and assurance framework for Children's Services.	High	Q2
Adult's Services and Public Health				
27	Adult Social Care – Financial Control	To review the savings setting process and monitoring arrangements.	High	Q2
28	Direct Payments	A revised strategy is being introduced with a view to increase the number of people on direct payments. This will consider monitoring controls in light of the increased volume.	High	Q3/Q4

The service is proposing in-sourcing work during the year and will be recruiting 4 new team members. Due to this the targets are a lower percentages at the early stages of the year.

Targets for completion of audits:

Period	Projects	%
Q1	2	8
Q2	5	19
Q3	10	38
Q4	24	85
Ongoing	4	15
Total	28	100

Cyclical Verification Work

Mortlake Cemetery (May)

Strategic plan

This includes coverage from 2021/22 and the operational plan for 2024/25 and provisional plan for 2025/26 (denoted with a P). The 2025/26 will be reconsidered and assessed against Council's risk profiles in the next planning cycle.

This document helps to reflect on the time elapsed between audits as this may impact on the risk assessment process.

Topic	21/22	22/23	23/24	24/25	25/26 (P)
Council Wide					
Follow-up	✓	✓	✓	✓	✓
Contract management	✓	Housing	✓ (Voids)	✓ (Highways)	✓
Performance and Assurance Framework			✓	(Service Level)	
Risk				✓	
Chief Executive					
West London Alliance					✓
Strategy and Change					
Health & Safety (H&S)					
- Schools				✓	
- Commercial Estate					
- Corporate Property (site manager's H&S)			✓		✓
- Housing	✓		✓		
- Fire Safety	✓				
- Temporary Accommodation	✓			✓	
Future Ealing (Programme Management)			✓ (Perceval House cross over)	✓ (Perceval House carried forward)	
Human Resources (Policy)			✓		
HR (Transactional Recruitment)			✓		
HR (Non Standard Recruitment)	✓				✓
Future World of Work	✓				
Temporary Workers/ Contractors			✓		✓

Topic	21/22	22/23	23/24	24/25	25/26 (P)
Grant Administration					✓
Workforce planning/recruitment and retention strategy					✓
Equalities					✓
Resources					
Fleet Management					✓
Facilities Management (Site Managers' H&S Compliance)			✓		
Emergency Response/Business Continuity				✓ (BC)	
Commercial Property Income		✓			
Commercial Property Asset Management					✓
Facilities Management (Repair Supplies)					✓
Corporate Property Works			✓		
Key Financial Systems (KFS)					
KFS Payroll & Transactional HR		✓			✓
KFS General Ledger		✓			✓
KFS Accounts Payable			✓		
KFS Accounts Receivable			✓		
KFS Council Tax	✓			✓	
KFS NNDR	✓			✓	
Cash			✓		
KFS Housing Benefits		✓			✓
KFS Housing Rents		✓			✓
KFS Financial System (Business World)		✓			✓
KFS Pensions Administration		✓			✓
KFS Treasury and Pension Investment	✓			✓	

Topic	21/22	22/23	23/24	24/25	25/26 (P)
Payment Cards		Adv	✓		
Credit Cards	✓		✓		✓
Financial Resilience	✓				
Capital/Capital Programme		✓			✓
Procurement			✓		
Compliance with new regs					✓
Non accounts payable				Mosaic	
Complaints Policy and FOIs		✓		Housing	
Asset Register				✓	
ICT					
Data Protection		✓			✓
Data Protection - Data Breaches					
IT – Cyber	✓		✓		
ICT applications	✓				
ICT Licencing	✓				
ICT Projects	✓	✓			
Mosaic	✓			Finance	
Digital Programme Management					✓
ICT Contract Management		✓			
ICT Asset Management			✓		✓
ICT Network Replacement		✓			
ICT Incident Management		✓			✓
Housing and Environment					
Viridor Recycling Contract	✓				
Licensing (Alcohol and Gambling)					✓
Licensing (Homes of Multiple Occupation)					✓
Trading Standards					✓
Repairs and Maintenance		✓			✓
Voids (will incorporate R&M in part)			✓		

Topic	**21/22**	**22/23**	**23/24**	**24/25**	**25/26 (P)**
Temporary Accommodation	✓			✓	
Housing Allocations					✓
Leaseholder and Section 20		✓			
Right to buy		✓			
Contract management		✓ (Housing)			✓
Waste Contract (Now GEL)			✓		
Highways				✓	
Parking	✓				
Coroners Service (Assurance from London Borough of Hammersmith & Fulham)	✓				
HRA Regeneration Projects			✓	✓	
Inspection readiness					
Economy and Sustainability					
Broadway Living		✓			✓
Libraries			✓		
Leisure			✓		
Project Management (Perceval House)			✓		
Project Management (Regeneration)		✓	(HRA)	✓	
Planning					✓
Section 106/ Community Infrastructure Levy		✓			✓
Utilities		✓	Follow-up		✓
Children					
No Recourse to Public Funds			✓		

Topic	21/22	22/23	23/24	24/25	25/26 (P)
Children's Services Business Systems					✓
Demand Management			✓		✓
Commissioning		✓			
Fostering					✓
Children with Disabilities	✓		✓		✓
SEND - Direct Payments					✓
SEND - Transport		✓		H&S	
Out of Hours service				✓	
Section 75 Agreement					✓
Brokerage Team					✓
Safeguarding (Children)	Ofsted Considerations				
Ealing Learning Partnership					✓
Payment Cards				✓	
Regional Adoption Agency					✓
Care Packages				✓	
Adults and Public Health					
Safeguarding (Adults)		✓ (QA)			
Adult Social Care Debt	✓				
Deputyships			✓		
Continuing Healthcare (One off)	✓				
Preparedness for External Assessments (Adults)		✓			
Demand Management			✓		
Commissioning		✓			✓
Direct Payments	✓		Adv	✓	
Home Care/Support					✓
Adults and Public Health Assurance Framework			✓		

Topic	21/22	22/23	23/24	24/25	25/26 (P)
Adults Front Door			✓		
ASC Financial Control				✓	

Report for: INFORMATION
Item Number:

Contains Confidential or Exempt Information	No
Title	Quarter 3 Internal Audit & Investigation Update Report
Responsible Officer	Emily Hill, Strategic Director, Resources Mike Pinder, Assistant Director of Audit & Investigations
Author	Mike Pinder, Assistant Director of Audit & Investigations PinderM@ealing.gov.uk
Portfolio	Cllr Steve Donnelly, Inclusive Economy
For Consideration By	Audit Committee
Date to be Considered	27 February 2024
Implementation Date if Not Called In	N/A
Affected Wards	All
Keywords/Index	Internal audit and investigations

Purpose of Report:
The attached report provides Audit Committee with an update on the work of Internal Audit & Investigations for Quarter 3, 1 October 2023 – 31 December 2023.

1. Recommendation

1.1 It is recommended that the Audit Committee:

- Notes the performance of the Internal Audit & Investigation team and key issues arising during the period 1 October 2023 – 31 December 2023.

2. Reason for Decision and Options Considered

2.1 This is a programmed, periodic report outlining the progress of internal audit and investigations functions, therefore, no decision is required on those sections.

3. Key Implications

3.1 Internal audit is an assurance function that provides an independent and objective opinion to Council on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving corporate objectives. It 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. While assurance will also be sought from third parties, the assurance gained from the programme of work set out in the 2023/24 audit plan will form the main input for the development of the 2023/24 opinion.

4. Internal Audit Performance as at 31 December 2023

4.1 This report provides a progress update on the 2023/24 internal audit plan and status of projects as at 31 December 2023.

4.2 Table 1 provides a guide to how the assurance levels are defined:

Assurance Level	**Definition**
Substantial	There is a sound system of internal control designed to achieve the Council's objectives. The control processes tested are being consistently applied.
Reasonable	While there is a basically sound system of internal control, there are weaknesses, which put some of the Council's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the Council's objectives at risk.
Limited	Weaknesses in the system of internal controls are such as to put the Council's objectives at risk. The level of non-compliance puts the Council's objectives at risk.
None	Control processes are generally weak leaving the processes / systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes / systems open to error or abuse.

Table 1 – Assurance levels – definition

4.3 The 2023/24 plan was approved by the Audit Committee in February 2023. The plan presented was indicative and as such can be subject to revision during the year to take account of changing priorities and emerging risks, which is aligned with good internal audit practice. The officer Audit Board monitors progress against the plan and the Strategic Director, Resources meets with the Assistant Director of Audit & Investigations to discuss progress and emerging findings.

4.4 The position against the 2023/24 internal plan is set out in table 2 below.

	Audit Title & Department	**Scope**	**Audit Status**	**Final Report Issued**	**Final report to Audit Committee**
Council Wide					
1	Performance and Assurance Framework	A review of the Council's second line of assurance including performance information.	Final report (Reasonable Assurance)	Q2	December 2023
Corporate Resources					
2	ICT - Asset Management	A review of processes around stock including how we identify and retire old equipment.	Work in progress		
3	ICT Back up	To review the new back-up regime including cold back up.	Final report (Reasonable Assurance)	Q2	December 2023
4	Corporate Property - Works	To review asset identification, forward maintenance register and capital works.	Terms of Reference		
5	Corporate Property - Site Managers Health & Safety (H&S) Compliance	To review site managers arrangements for addressing H&S remedial works.	Final report (Reasonable Assurance)	Q2	December 2023
6	Accounts Payable	Key financial system audit.	Draft report		

	Audit Title & Department	Scope	Audit Status	Final Report Issued	Final report to Audit Committee
7	Accounts Receivable	Key financial system audit.	Work in progress		
8	Cash	To identify any significant cash handing and processes for managing cash.	Final report (Reasonable Assurance)	Q3	February 2024
9	Credit cards	To review controls for monitoring of usage and compliance by cardholders.	Final report (Limited Assurance)	Q2	December 2023
10	Commercial Hub – Procurement	A review of procurement processes.	Final report (Reasonable Assurance)	Q2	December 2023
Economy					
11	Perceval House (PH)	A review of the project management processes over the PH development.	Deferred, the project is in early stages therefore it was agreed to be more beneficial in 2024/25.	N/A	N/A
12	Planning - Housing supply position/ trajectory	A review of processes and validations to confirm housing supply figures.	Not started		

	Audit Title & Department	Scope	Audit Status	Final Report Issued	Final report to Audit Committee
Strategy and Change					
13	HR recruitment	A review of compliance with recruitment processes.	Not started		
14	HR Policies	A review of key HR policies and application.	Cancelled		
Housing and Environment					
15	Housing Health & Safety	A full follow-up of compliance with Fire, Legionella Asbestos Gas Electricity (FLAGE) requirements.	Final report (Reasonable Assurance)	Q1	July 2023
16	Building safety and social housing regulations (this may be Council wide)	An audit against the new requirements for building safety and Council preparations to ensure compliance.	Final report (Reasonable Assurance)	Q3	February 2024
17	Voids	Standard audit, looking at advisory work undertaken 2022/23.	Terms of Reference		
18	Greener Ealing Limited	GEL side audit - monitoring, inspection and controls. Council side - resourcing.	Final report (Reasonable Assurance)	Q3	February 2024
19	HRA Projects	To review processes over HRA development projects (to consider 1 or 2 of): • Lexden • Sussex Gardens • Northolt • Mandeville	Final report (Reasonable Assurance)	Q3	February 2024
20	Library/Leisure	A series of spot-checks on libraries/leisure.	Completed – no issues found	Q3	February 2024

	Audit Title & Department	Scope	Audit Status	Final Report Issued	Final report to Audit Committee
			(Substantial Assurance)		
Children					
21	Payment Cards	Carried forward from 2022/23. Review of the payment card system in operation. Now changed to cash procedures until the system is up and running.	Draft report		
22	Special Educational Needs and Disabilities (SEND) - Children with disabilities	A review of process around SEND – Children with Disabilities.	Draft report		
23	Demand Management	To review the processes in place to help manage demand for services. This will include the proactive work like edge of care, early help intervention.	Terms of reference		
24	No Recourse to Public Funds (NRPF)	A review of processes in place to manage NRPF.	Not started		
Adult's Services and Public Health					
25	Demand Management	To review the processes in place to help manage demand for services.	Draft report		
26	Adults and Public Health Assurance framework	A review of the performance information used by the Adult Service and Public Health and assurance arrangements.	Draft report		
27	Adults Front Door	A review of the processes around the adults' front door for access to services. This will include managing the backlog and how risk/ priorities are managed.	Final report (Reasonable Assurance)	Q2	December 2023

	Audit Title & Department	Scope	Audit Status	Final Report Issued	Final report to Audit Committee
28	Deputyships	A review of the deputyships processes.	Terms of Reference		
29	Adult Social Care Inspection Regime	Progress of project readiness for the CQC inspection.	Complete Advice and support was provided as and when required.	N/A	N/A
30	Direct Payments	Advisory Work	Complete Advice will be provided as and when required.	N/A	N/A

Table 2 - Audit progress against plan

4.5 During the period, 5 reports were issued in final, none of which received Limited Assurance.

4.6 Table 3 below provides a summary of progress in terms of the number of reports at draft or final stage and those in progress:

Audit Status	Number of reviews	Percentage Completion
Finalised	14	50%
Draft report issued	5	18%
Sub Total	**19**	**68%**
Work in progress	2	7%
Terms of reference	4	14%
Not started	3	11%
Total	**28**	**100%**
Original total	30	

Cancelled	(1)	
Deferred	(1)	
Additions		
Total	**28**	

Table 3 – Summary of Audit Progress

4.7 Key performance indicators (KPIs) have been established to measure the delivery of the audit service across the shared service. These are how performance is measured to ensure that all audits on the plan are delivered by the end of the financial year. The shared service KPIs for delivery against the audit plan for each quarter are (based on draft reports issued):

Quarter 1 – 13% (4) of 2023/24 audits delivered (draft report issued)
Quarter 2 – 30% (9) of 2023/24 audits delivered (draft report issued)
Quarter 3 – 67% (20) of 2023/24 audits delivered (draft report issued)
Quarter 4 – 100% (30) of 2023/24 audits delivered (draft report issued)

4.8 A total of 68% of reports have been issued to draft and final. The service is on target to meet the 2023/24 plan.

5. Follow Up of Actions

5.1 Follow-up of actions to address high risk findings has been completed.

5.2 Table 4 shows the status in respect of the 17 high risks / recommendations that have not yet been fully confirmed as implemented by the agreed deadline.

5.3 In December 2023, there were 17 high risk recommendations outstanding. An update of progress of outstanding recommendations is detailed in table 4:

	Report	Risk Area	Agreed Implementation Date	Status
1	Business World	Debtor reconciliation	Sept 2023 – now April 2024	**Partially Implemented** A new debtor system is being implemented. This has now been rolled out to a number of services. The remainder will be implemented by April 2024.
2	Temporary Staff	Recruitment Checks	December 2022 – now	**Partially Implemented**

	Report	Risk Area	Agreed Implementation Date	Status
			December 2023	The Director of HR and OD has undertaken substantial work to review the overall position for temporary staff. A review with services is underway to allow full tracking and compliance with the new procedures.
3	Temporary Staff	Monitoring of tenure and suitability	December 2022 – now April 2024	
4	HR Policies	Delivery plan for review of policies and procedures.	June 2023 now April 2024	**In Progress** Four policies have been drafted and guidance has been updated and are under consultation. These will be launched in April 2024. Another four key policies will follow. The remainder will then form part of a rolling review.
5	Utilities	Validation of usage and rates	a) January 2023 b) March 2023 c) June 2023 d) March 2023	**In Progress** Work is in progress in all areas and management have advised nearing completion. A report is due to go to directorate management team to confirm actions and next steps. A revised target date of February 2024 has been provided for full implementation.
6	Utilities	Monitoring Expenditure	March 2023	
7	Utilities	Location of Supply	June 2023	
8	Ealing Music Services	Instruments Inventory and Storage	June 2023	**Not Implemented** 4 out of the 5 points have been completed but assessment of instrument needs to reduce storage costs

	Report	Risk Area	Agreed Implementation Date	Status
				has not been undertaken. A revised implementation date of 31 March has now been provided.
9	Ealing Music Services	Payroll	September 2023	**Not Implemented** The service has advised that they have updated processes for payroll. An external review of the payroll function has been commissioned by the service, which is due to be completed at the end of February to see if this is sufficiently robust.
10	Capital Programme	Governance Framework	December 2023	**Not Implemented** The original intention was for this to form part of a major projects board, the specifics of the recommendations did not progress within the required timeframe. Finance are now setting up a group to address these issues. A revised implementation of April 2024.
11	Capital Programme	Standardised Reporting	December 2023	
12	Section 106	Expenditure Reporting	December 2023 now May 24	**In Progress** A bespoke report was required to be written to meet the services full requirements, which has taken longer that initially anticipated.
13	Broadway Living Monitoring	Future Direction and Purpose	December 2023. New target date of August 2024.	**In Progress** The review is ongoing in conjunction with a review of the council’s

	Report	Risk Area	Agreed Implementation Date	Status
				housing development programme.
14	Broadway Living Monitoring	Shareholder Function and Responsibilities	December 2023. New target date of April 2024.	**In Progress** Establishment of a shareholder board (which is expected to have a different title) has been agreed and is currently being set up with the first meeting planned for March 2024
15	Broadway Living Monitoring	Separation of Roles	December 2023. New target date of August 2024.	**In Progress** A restructure is underway which split the dual role of Housing Development & Regeneration Director in to separate posts.
16	Broadway Living Monitoring	Approving New Developments	December 2023. New target date of April 2024.	**In Progress** A review by consultants Inner Circle on a gateway (approval) process for new projects is in progress.
17	Credit Cards	Spend Approval and VAT	Dec 2023 and now April 2024	**In Progress** Training for cardholders is planned. A reminder of procedures and requirements in relation to VAT will be completed by the year end.

Table 4 – Follow-up Summary

6. Counter Fraud and Investigations Performance & Developments

6.1 The Shared Service is responsible for the investigation of suspected fraud committed against the Council including, but not limited to:

- Corporate fraud matters in relation to offences committed by employees
- Procurement fraud by employees, contractors or other third parties
- Fraud within schools
- Housing related fraud
- Social care (direct payments)
- Council Tax Reduction fraud.

6.2 Reactive investigations during the year have resulted in actual and notional savings of £1,760,664. This is comprised of £1,623,956 notional savings and actual savings of £136,708. A Confiscation Order for £87,917 has also been obtained.

7. Pro-active Anti-Fraud Work

National Fraud Initiative

7.1 The National Fraud Initiative (NFI) is an exercise run by the Cabinet Office. The data match is undertaken every 2 years. The team have been reviewing the outcomes of the 2022/23 data match which were released in February 2023. The following outcomes have been identified to date:

- 337 blue badges have been cancelled, with an estimated saving of £219,000
- 40 housing waiting list applications cancelled, with an estimated saving of £171,320
- 12 council tax reduction claims cancelled, resulting in overpayments of £34,389
- 2 housing benefit claims cancelled, resulting in overpayments of £20,948
- 1 council property recovered (notional saving of £18,000)
- 2 staff members have resigned following dual working investigations
- 6 pension payments have been cancelled

Housing Waiting List (£1.3m)

7.2 Working with the Housing Allocations team, we are currently data matching single applicant cases, claiming to reside in overcrowded accommodation. So far:

- 17 cases have resulted in removal from the waiting list
- 2 cases have been put on hold, meaning they are unable to bid for properties at this time

Also working with the team on potential fraudulent “no fixed abode” applicants, 55 applicants have been removed from the waiting list. Ongoing work continues in this area, which helps protect our council houses for those with a genuine need.

Based on the £18,000 used for property recoveries this represents prevention of fraud valued at £1.296m.

Council tax – Student exemption project (£5,900)

7.3 This project involved working with the revenues department to identify student households that are no longer eligible for the full council tax student exemption. As a result of the project so far, 4 exemptions have been removed from council tax accounts. This has resulted in revised council tax balances totalling £5,900 so far. Work is continuing in this area.

Ukrainian refugees (£12,600)

7.4 The service is working with the Homes for Ukraine team, focusing on the Ukrainian refugees, housed by Ealing hosts, who are in receipt of a “thank you payment” of £350 per month. This is a sponsorship arrangement that currently exists. Visits are being carried out to ensure that the Ukrainian families are still residing at the host’s address. This project has resulted in the cancellation of 3 sponsorship arrangements so far. Unannounced visits and subsequent enquiries found the Ukrainian families were no longer residing in the country, this represents annualised savings of £12,600 to date. Work continues in this area.

8. Enhanced Vetting (EV)

8.1 Ealing Council has a risk assessed process of Enhanced Vetting for new recruits. This work is undertaken by the Investigations team into both permanent and temporary posts and involves stringent checks to verify the validity of a candidate and their employment application.

8.2 Reasons for failure to progress into a post have included Benefit and Council Tax fraud, housing fraud, false employment history, false references and false qualifications.

8.3 The outcomes of the vetting work for between 1 April 2023 and 31 December 2023 is that 28 cases either failed or were prevented, representing 6% of all cases reviewed. The full details of the work of the vetting service between 1 April and 31 December are set out in Table 5.

Case status	Cross Council		
	Temp	**Perm**	**Total**
Pass	74	333	**407**
Fail	4	5	**9**
Withdrawn	0	19	**19**
Assignment Ended*	148	0	**148**
Total	**226**	**357**	**583**
Additional Outcomes			
3rd Party Referral#	2	4	**6**

Table 5 – Enhanced Vetting Summary

*Whilst enhanced vetting had commenced, the assignment ended before the enhanced vetting completed. This will happen in services where there is a high level of short-term placements e.g. Care Workers.

#A suspected fraud that has been identified as result of enquiries, for example, a benefit fraud by another member of a candidate's household. These referrals are not necessarily attributable directly to the candidate, but have instigated a separate fraud investigation, for example, the actions of a partner or member of immediate family of the person being vetted.

9. Investigation team performance to 31 December 2023

9.1 Table 6 below details the performance of the team to 31 December 2023.

Item	Target	Profile to Q3	**2023/24 to Q3**
Number of new cases started	417	312	**414**
Number of completed investigations	431	323	**373**
Number of completed investigations not referred on to another organisation or NFA	99	74	**165**
Number of cases of proven (balance of probabilities) economic crime	47	35	**116**
Number of sanctions applied (includes: Prosecution; POCA Order; Disciplinary penalty; Tenancy application refused; Right-To-Buy application rejected; Council property recovered; Direct payment cancelled; Council Tax Reduction Scheme penalty; Blue Badge warning)	29	21	**102**
Number of council properties recovered (included in 'Sanctions' above)	10	7	**10**

Table 6 – Investigation Performance

9.2 The number of cases closed up to 31 December 2023 following an investigation was 165. Of these the number of cases where fraud was proved, at least on balance of probabilities, was 116. The loss incurred by the Council arising from these cases totals £1,848,581, as detailed below.

Council tenancies (£1,548,000)*

9.3 In their Protecting the Public Purse 2012 publication the Audit Commission identified an average annual notional cost of £18,000 to house a family or individual in temporary accommodation. This average notional cost has been used to estimate the nominal cost to the public purse of housing a tenancy fraudster.

9.4 Ten council properties have been recovered from the unlawful tenant following investigation, giving a notional saving of £180,000.

9.5 76 applications for council tenancies have been refused following investigation, giving a notional saving of £1,368,000. *Note these overlap with the proactive project para 7.2.

Direct Payments (£76,659)

9.6 Three Direct Payment care packages have been withdrawn following investigation due to a failure to declare the correct circumstances.

9.7 These cases have resulted in an invoice being issued for £703 and assumed annualised savings totalling £75,956.

Council Tax Discount (£10,884)

9.8 Nine Council Tax Discounts have been stopped following investigation, with £10,884 added to accounts.

Proceeds of Crime (£87,917)

9.9 One Confiscation Order has previously been obtained using powers under the Proceeds of Crime Act for £87,917. A proportion of this Order will be due to Ealing Council, with the remainder going to the wider public purse. Part payment only of the order has been made and efforts are ongoing to secure full payment.

Other (£125,122)

9.10 Proven cases have resulted in the identification of losses in relation to benefits and council tax reduction, for which the service is now able to seek recovery, totalling £125,122.

10. Financial

10.1 All investigations activity covered in this report is being delivered within the Audit & Investigations budget.

11. Legal

11.1 Counter Fraud work is carried out in compliance with criminal and civil law and criminal investigation procedures relevant to investigation work including: Police and Criminal Evidence Act (PACE) 1984; Criminal Procedure and Investigations Act (CPIA) 1996; Fraud Act 2006; Proceeds of Crime Act (PoCA) 2002; Regulation of Investigatory Powers Act (RIPA) 2000; and Human Rights Act 1998.

12. Value for Money

12.1 Value for money reviews have been identified within the audit plan.

13. Sustainability Impact Appraisal

13.1 Not applicable.

14. Risk Management

14.1 The Council is responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

15. Community Safety

15.1 Not applicable.

16. Links to the 3 Priorities for the Borough

16.1 The work of Audit and Investigation cuts across and helps provide assurance on the achievement of strategic objectives.

17. Equalities and Community Cohesion

17.1 Not Applicable.

18. Staffing/Workforce and Accommodation implications

18.1 None.

19. Property and Assets

19.1 Not applicable.

20. Any other implications

20.1 None.

21. Timetable for Implementation

21.1 Not applicable.

22. Appendices

22.1 None.

23. Background Information

23.1 Draft report Audit Committee Report and Standards Review.pdf (moderngov.co.uk)

23.2 Details of internal audit reports are available to Members upon request from Mike Pinder, Assistant Director of Internal Audit & Investigations, **pinderm@ealing.gov.uk**.

Consultation

Name of Consultee	Department	Date sent to consultee	Date response received from consultee	Comments appear in report para:
Emily Hill	Strategic Director, Resources	8/2/2024		Throughout
Cllr Steve Donnelly	Portfolio Holder – Inclusive Economy		For reference only	

Report History

Decision type:	Urgency item?		
For information	No		
Authorised by Cabinet member:	Date report drafted:	Report deadline:	Date report sent:

Report no:	Report author and contact for queries:
	Mike Pinder, Assistant Director Audit & Investigations, ext 5792

Report for: INFORMATION
Item number:

Contains confidential or exempt information	No
Subject of report	Risk Register Q3
Responsible officer	Emily Hill, Strategic Director, Resources
Author	Mike Pinder, Assistant Director of Audit & Investigation
Portfolio	Cllr Steve Donnelly - Inclusive Economy
For consideration by	Audit Committee
Date to be considered	27 February 2024
Implementation Date if Not Called In	N/A
Affected Wards	All
Keywords/Index	Strategic Risk Management

Reason for report
This report provides Audit Committee with an update in respect of the review by Strategic Leadership Team of strategic risks facing the council as of quarter 3.

1. Recommendations

1.1 It is recommended that Audit Committee note the progress on the Strategic Risk Register (Appendix A) and key risks identified and provides comments to officers for their consideration.

2. Reason for recommendation and options considered

2.1 This is a periodic report to update Audit Committee on the strategic risks facing the council; no decision is required.

3. Key implications

3.1 The Accounts and Audit Regulations 2015 and Public Sector Internal Audit Standards 2017 require the council to maintain a robust, adequate and effective system of risk management in its delivery of core services. Operation of an effective and embedded risk management framework is an important element of such a system so that the council effectively discharges its corporate governance responsibilities.

3.2 The Strategic Leadership Team (SLT) is responsible for reviewing the Strategic Risk Register, ensuring that the management of risk continues to be within the council's risk appetite. Audit Committee is responsible for considering the effectiveness of the council's strategic risk management arrangements.

4. Strategic Risk Register (SRR)

4.1 With all the members of a new SLT now in place a review was undertaken of the risk register to ensure that it reflects their thoughts and that they own the risks.

4.2 The risk register provided at appendix A, reflects a workshop undertaken with the SLT. The output from the workshop was then tested and challenged at SLT and a further review undertaken. This included a benchmark of other authorities and consideration of views from Heads of Audit across London on key risks facing their authorities.

4.3 Draft mitigations have been included on the register. Further meetings are planned with each member of the SLT to update their risks and ensure all mitigations are covered. The intention also is that a sample of risks will be reviewed periodically as part of the internal audit plan. Key updates and changes to the risk register will be provided to Audit Committee at each meeting.

5 Financial

5.1 A number of risks on the SRR have the potential for significant financial impact and this is articulated within each individual risk description and managed through the control measures which are in place and monitored by the control owners. All financial risks of a material or significant nature such as those set out in this report and appendices are either monitored through the regular Finance monitoring reports to SLT and Cabinet or considered as part of the Budget Strategy.

6 Legal

6.1 The Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards 2017 require the council to maintain a robust, adequate and effective system of risk management in the delivery of its core services. An embedded risk management culture and effective risk management processes support good governance, the council's delivery on its duty of care and successful delivery of the council's objectives.

7. Value for money

7.1 Good risk management is a key contributor to successful delivery of the council's objectives protecting its assets and resources to deliver value for money.

8. Risk management

8.1 Good risk management enables the council to optimise its opportunities and minimise the potential for adverse service, financial, legal or reputational outcomes in delivery of its strategic priorities and objectives.

9. Community safety

9.1 Effective management of risk seeks to protect the council's assets and resources and the local community from harm.

10. Links to the 3 Priorities for the Borough

10.1 The effective identification, assessment and management of risk is an important foundation to the successful achievement of strategic objectives in terms of managing resources effectively. Strategic risks affect all three, meaning that embedded risk management is important to the council.

11. Equalities and community cohesion

11.1 No equality impact assessment has been undertaken as the report is for information and does not affect the general duties of the Equality Act 2010.

12. Staffing/workforce and accommodation implications

12.1 None

13. Property and assets

13.1 None

14. Any other implications

14.1 None

15. Consultation

15.1 Not applicable

16. Timetable for implementation

16.1 Not applicable

17. Appendices

- Appendix A: February 2023 Strategic Risk Register
- Appendix B: Heat Map
- Appendix C: Risk Matrix Score Definitions

18. Background Information

18.1 None

Consultation

Name of consultee	Post held	Date sent to consultee	Date response received from consultee	Comments appear in paragraph:
Internal				
Emily Hill	Strategic Director,Resources	3/2/2024	10/2/2024	Throughout
Strategic Leadership Team		10/2/2024	14/2/2024	
Cllr Steve Donnelly	Portfolio holder – Inclusive Economy	19/2/2024	For reference only	

Report History

Decision type:	***Urgency item?***
For Information	No
Report no.:	Report author and contact for queries: Ewan Taylor – Risk, Insurance and Projects Manager ext. 9991

		Unmitigated Risk							Implementation		Mitigated Risk		
Ref	Risk Description	Impact	Likelihood	Risk Score	Quartile	Risk Owner/ Lead	Mitigations	Mitigation Owner	Status	Date	Impact	Likelihood	Risk Score
1	**Financial Resilience** Whilst the 2024/25 Local Government Settlement along with agreed actions will allow us to set a balanced budget for the year, there remains risks to delivery of this position and uncertainty over 2025/26 and beyond in light of: - continued and increased demand and complexity of demand, particularly in social care and homelessness - market failure leading to higher than inflation price increases, specifically in social care and homelessness - financial pressures arising from high levels of inflation - increasing difficulty in identifying and delivery of savings - significant uncertainty around, but expected real terms reductions in, local government funding over the next spending review period (whilst the current Government remains committed to reforming the local government funding landscape in the next Parliament the previously expected Fair Funding Review has not been completed and the business rates reset deferred - there are risks that any reform may materially disadvantage the council's funding position and financial sustainability).	4	5	24	1	SLT Owner Strategic Director, Resources	Budget Setting, Monitoring, Reporting and Challenge	SD, Res	In Progress	31/03/2024	4	4	20
							Monitoring and responding to government proposals	SD, Res	Implemented	N/A			
							Benchmarking with other London Boroughs	SD, Res	Implemented	N/A			
							Contingency and Scenario Planning	SD, Res	Implemented	N/A			
							Lobbying (including via London Councils)	SD, Res	Implemented	N/A			
							Improving Financial Resilience though strengthening and maintaining a sufficient reserves position.	SD, Res	In Progress	31/03/2024			
2	**Cyber/Data Protection** The risk of a major successful cyber attack and /or data loss resulting in the inability for the council to continue operations and deliver statutory services leading to significant disruption for residents, possible fines, claims, fraud and major erosion in Ealing's reputation.	5	4	25	1	SLT Owner Strategic Director, Resources	Secure Authentication	Director of ICT	Implemented	Ongoing	4	3	16
							Threat Monitoring	Director of ICT	Implemented				
							IT Security Measures	Director of ICT	Implemented				
							Patching/Updates	Director of ICT	In Progress				
							Counter Fraud Measures	AD AI	Implemented				
							Business continuity planning updates	Director of ICT	In Progress				

		Unmitigated Risk							Implementation		Mitigated Risk		
Ref	**Risk Description**	**Impact**	**Likelihood**	**Risk Score**	**Quartile**	**Risk Owner/ Lead**	**Mitigations**	**Mitigation Owner**	**Status**	**Date**	**Impact**	**Likelihood**	**Risk Score**
3	**Service Demand** Increasing service demand and inflationary pressures	5	5	30	1	SLT	Budget review	SD, Res	In Progress	01/04/2024	4	4	20
	a) Homelessness					Strategic Director of Housing and Enviro.	Increasing supply (intervening in the market) through acquisition of temporary accommodation in the short term and increased supply of affordable and other housing in the medium to long term	SD H&E / SD E&S	Ongoing				
	b) Adult social care					Strategic Director Adult Services and Public Health	Demand management and analysis; improvements in social care practice; supporting and building community capacity	SD Adults					
	c) Children's social care					Strategic Director of Children's Services	Review Sufficiency and Commissioning arrangements; improvements in social care practice; supporting and building community capacity	SD Children					
4	**Agility/Resilience in an emergency** The risk we lack the organisational resilience, capacity and capability to deal with a major black swan type event resulting in the risk event having a larger impact than it should which could lead to the council being unable to continue its functions or adequately respond to an emergency.	5	3	20	1	SLT Owner Strategic Director, Resources	Review of Emergency Management arrangements	SD, Res	In Progress	31/03/2024	3	3	12
							Review and Test business continuity arrangements	SD, Res		30/06/2024			
							Consider National Risk Register and responses	SD, Res		30/06/2024			
5	**Strategic Tensions:** The risk that key elements of our strategy are not fully aligned, which could result in tensions, a lack of clarity and failing to develop synergies meaning statutory duties are not met and Council Plan commitments are not realised in a time of constrained resource.	3	4	15	2	SLT Owner Strategy and Change	Review strategy with new SLT	SD S&C	In Progress	31/03/2024	2	2	6
							Agree priorities aligned with the strategy for sustainable levels of revenue and capital expenditure as part of budget and medium term financial planning	SLT with SD, Res	In Progress	30/06/2024			

		Unmitigated Risk							Implementation		Mitigated Risk		
Ref	Risk Description	Impact	Likelihood	Risk Score	Quartile	Risk Owner/ Lead	Mitigations	Mitigation Owner	Status	Date	Impact	Likelihood	Risk Score
6	**Financial Control/Control Environment:** The risk of not achieving value for money, transparency or good governance and not meeting fiduciary duties in relation to public funds due to weaknesses in understanding of financial management and budgetary control, non-compliance with financial, procurement and decision-making processes.	4	3	16	2	SLT Owner Strategic Director, Resources	Internal Audit review of key financial controls	SD Res	Ongoing	31/03/2025	3	2	9
							Joint Contracts Board review of significant procurement strategies and awards in line with Contract Procedure Rules	SD Res					
							Review of and subsequent training and awareness sessions for financial management, Contract Procedure Rules, Financial Regulations, Decision-Making arrangements	SD Res	Developing	30/09/2024			
							Sanctioning significant non-compliance	SD, Res / SD S&C	To introduce	Immediate			
7	**Management Information:** The risk that we do not harness the vast amount of information available to make smarter, evidence based decisions to maximise the effectiveness of service outcomes and develop earlier interventions. That KPIs do not provide assurances on service provisions and flag areas of concern.	5	4	25	1	SLT Owner Strategy and Change	Review of data infrastruture, considering use of automation to prepare reports and building data analytics function and links between service	SD, Res / SD S&C			3	3	12
							Develop single customer analysis and picture	SD, Res					
							Developing KPIs for services/SLT	SD S&C					
							Develop clean, consistent data on all key system	All					
8	**Workforce:** The risk that Ealing cannot attract, develop and retain talent required to deliver our agenda of transformation and change at the same time as delivering statutory services, with some particularly hard to recruit areas and specialisms across such a wide ranging business. Impact of turnover of senior staff and interim and agency staff on corporate memory and service quality and continuity.	4	4	20	1	SLT Owner Strategy and Change	Workforce Strategy being developed	SD S&C	Planned	31/03/2025	3	3	12
							Reviewing recruitment process and structure	SD S&C	Planned	31/03/2024			
							Review of interim and temporary staff	SD S&C/All	Ongoing	31/03/2024			
							Developing OD to ensure helps develop staff in key skills areas	SD S&C					

		Unmitigated Risk							Implementation		Mitigated Risk		
Ref	Risk Description	Impact	Likelihood	Risk Score	Quartile	Risk Owner/ Lead	Mitigations	Mitigation Owner	Status	Date	Impact	Likelihood	Risk Score
9	**Regulatory Compliance:** The risk that we fail to comply with new or existing regulatory requirements leading to potential safety issues for or harm of our residents, reputational and financial risk.	5	5	30	1	SLT	Review of new standards	All	Implemented		3	3	12
	Housing Regulations					Strategic Director of Housing and Enviro.	Setting up processes to monitor	SD H&E	Implemented				
	Building Safety					SD Economy and Sust. (New build); SD Resources (Corp); SD H&E (Housing)	Quality assurance processes, training of staff	SD E&S / SD, Res/ SD H&E					
	Children (Ofsted/Safeguarding)					Strategic Director of Children's Services	Ongoing quality assurance arrangements, Self-Assessment	All					
	Adults (CQC/Safeguarding)					Strategic Director Adult Services and Public Health	Ongoing quality assurance arrangements, Mock Independent Assessments	All					
	New Procurement Regs					Strategic Director, Resources	Update of Council Contract Procedures Rules, training of Joint Contracts Board and other council officers.	SD, Res	In Progress	30/09/2024			

		Unmitigated Risk							Implementation		Mitigated Risk		
Ref	**Risk Description**	**Impact**	**Likelihood**	**Risk Score**	**Quartile**	**Risk Owner/ Lead**	**Mitigations**	**Mitigation Owner**	**Status**	**Date**	**Impact**	**Likelihood**	**Risk Score**
10	**Transformation/Major Projects** The risk of delivery of key projects (PH, TH, Gurnell, Housing deliver) within time and budget, including risks of abortive costs, escalating costs and impact of affordability, in ability to achieve council objectives	4	5	24	1	SLT	Governance arrangements and gateway process for key projects	SD E&S	To do	31/03/2024	3	2	16
						SLT/ SD S&C/SD Res/ SD E&S	Corporate prioritisation of delivery	SD Res	In Progress	31/03/2024			
							Revised Capital programme governance	SD Res	In Progress	31/03/2024			
						SD R&S	Major Projects Board	SD E&S	In Progress	31/03/2024			
11	**Supplier / Market Failure** The risk of a major supplier and/ or council owned companies failing resulting in service disruption, disputes, reputational damage and additional costs. Recent examples of failure of construction firms, pressures and rising costs in social care market (adults and children's), private landlords leaving the market for temporary accommodation, limited market for repairs and maintenance contractors.	4	3	16	2	Strategic Director, Resources	Contract Management Review	SD Res	In Progress	31/03/2025	3	2	9
						SLT Strategic Director	Review of BL/ BRP including shareholder agreement	SD E&S					
						Strategic Director, Resources	Review of companies governance	Director of Legal					
						Strategic Director, Resources	Business continuity arrangements for key supplier	SD Res	In Progress	31/03/2024			
						SLT	Strengthening commissioning functions to better manage market and manage market risks	All					
						Strategic Director, Resources	Spreading risk (e.g. not using the same developer)	SD Res / SD E&S	In Progress	31/03/2024			

Key

New

No Change ↔

Reduced ↓

Increased ↑

SD Res	Strategic Director, Resources
SD E&S	Strategic Director of Economy and Sustainability
SD S&C	Strategic Director of Strategy and Change
SD H&E	Strategic Director of Housing and Environment
SD Adults	Strategic Director of Adults and Public Health
SD Children	Strategic Director of Children's

Appendix B - Strategic Risk Register Quarter 3 Heat Map

Likelihood is based on a subjective assessment of the frequency that a risk might occur as follows:

Likelihood	Score	Measure
Very Likely	5	Will almost certainly happen/recur, possibly frequently
Likely	4	Will probably happen/recur but it is not a persisting issue
Possible	3	Might happen or recur occasionally
Unlikely	2	Not expected to happen/recur but it is possible it may do so
Rare	1	Will probably never happen / recur

The severity of **Impact** is scored according to the following range of potential types of impact:

Impact	Negligible	Minor	Moderate	Major	Extreme
Type / Score:	**1**	**2**	**3**	**4**	**5**
Service provision	Disruption to a Routine Service lasting less than 2 weeks	Disruption to a Core Service lasting less than 24 hours Disruption to a Routine Service lasting more than 2 weeks	Disruption to a Core Service lasting than 24 hours but less than 5 days	Disruption to a Critical Service lasting less than 24 hours Disruption to a Core Service lasting more than 5 days	Disruption to a Critical Service lasting more than 24 hours
Financial	Per annum cost of up to 0.1% of council net revenue budget (<£250k approx.) One-off cost of up to £25k	Per annum cost more than 0.1%, but not more than 1.0% of council net revenue budget (£250k to £2.5m approx.) One-off cost of more than £25k, but not more than £250k)	Per annum cost more than 1.0%, but not more than 5.0% of council net revenue budget (£2.5m to £12.5m approx.) One-off cost more than £250k, but not more than £1.25m)	Per annum cost more than 5.0%, but not more than 10.0% of council net revenue budget (£12.5m to £25m approx.) One-off cost more than £1.25m, but not more than £2.5m)	Per annum cost more than 10.0% of council net revenue budget (>£25m approx.) One-off cost of more than £2.5m)
Social & environmental	No lasting detrimental effect on the community or environment	Some short-term detrimental effects on the community or environment	Extensive short-term detrimental effects on the community or environment	Some long-term detrimental effects on the community or environment	Extensive long-term detrimental effects on the community or environment

Appendix C – Risk Scoring Matrix

Impact	Negligible	Minor	Moderate	Major	Extreme
Type / Score:	**1**	**2**	**3**	**4**	**5**
Legal & compliance	Non-compliance with local procedures or guidance; having no legal or regulatory consequences, and possibly only negligible reputational or financial impacts	Non-compliance with contracts, standards or legislation with minor financial or reputational consequences but not likely to give rise to legal or regulatory proceedings	Non-compliance with contracts, standards or legislation with possible legal or regulatory proceedings or moderate reputational or financial consequences Breaches of law punishable by fines only	Major/widespread non-compliance with contracts, standards or legislation with possible legal proceedings leading to major reputational or financial consequences Breaches of law punishable by fines or possible imprisonment	Major/widespread non-compliance with legislation with legal or criminal proceedings leading to long term reputational consequences (including loss of public confidence) Breaches of law punishable by imprisonment
Safeguarding & wellbeing	No obvious harm or injuries	Minor reversible injury to an employee or user of council services	Major reversible injury to an employee or user of council services, or instances of some mistreatment or abuse to individuals for whom the council has responsibility	Major irreversible injury to an employee or user of council services, or serious mistreatment or abuse to an individual for whom the council has responsibility	Death of, and/or multiple irreversible injuries to employees or users of council services, or serious mistreatment or abuse to an individual for whom the council has responsibility resulting in criminal charges
Data security	Small number of security incidents not involving access to council held personal or confidential data	Significant number of security incidents not involving access to council held personal or confidential data	Security incidents involving unauthorised access to some council held personal or confidential data, but data not compromised DPA incidents not reportable to ICO	Security incidents involving unauthorised access to significant amount of council held personal or confidential data, but data not compromised DPA incidents may be reportable to ICO	Security incidents involving compromise of council held personal or confidential data DPA incidents reportable to ICO

Impact Type / Score:	Negligible 1	Minor 2	Moderate 3	Major 4	Extreme 5
Reputation	No reputational impact	Potential for local adverse publicity that is not sustained – avoidable with careful handling	Potential for sustained unavoidable local, or unsustained national, adverse publicity	Potential for unavoidable and sustained adverse national publicity	Potential to require resignation of Executive management and/or Cabinet members
Project	Some delay to a minor Department project. Cost overrun of not more than 10% of project budget	Significant delay to, cause of abandonment of, or cost overrun of more than 10% of budget for, a minor Department project. Some delay to, or cost overrun of not more than 10% of budget for, a significant Department project	Significant delay to, cause of abandonment of, or cost overrun of more than 10% of budget for, a significant Department project. Some delay to, or cost overrun of not more than 10% of budget for, a significant Directorate project	Significant delay to, cause of abandonment of, or cost overrun of not more than 10% of budget for, a significant Directorate project. Some delay to, or cost overrun of more than 10% of budget for, a strategically significant project	Significant delay to, cause of abandonment of, or cost overrun of more than 10% of budget for, a strategically significant project

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