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Audit Committee Agenda

Thursday, 12 January 2023 at 6.00 pm

Council Chamber, Muriel Matters House, Breeds Place, Hastings, TN34 3UY.
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AUDIT COMMITTEE

13 OCTOBER 2022

Present: Councillors Rankin (Chair), Collins (Vice-Chair), Barnett, Marlow-Eastwood and Webb.

In attendance (remotely): Tom Davies, Chief Auditor; Andy Conlan, Senior Manager, Grant Thornton; and Rita O'Mahoney, Senior Corporate Accountant.

156. APOLOGIES FOR ABSENCE

Apologies for absence received from Kit Wheeler, Chief Finance Officer and Simon Jones, Deputy Chief Finance Officer.

157. DECLARATIONS OF INTEREST

Councillor	Item	Interest
Webb	All items	Personal – Is an East Sussex County Councillor
Marlow-Eastwood	All items	Personal – Is an East Sussex County Councillor

158. MINUTES OF THE LAST MEETING

RESOLVED – that the minutes of the meeting held on 28th July 2022 be approved as a true record.

159. GRANT THORNTON AUDIT PROGRESS REPORT AND SECTOR UPDATE

Andy Conlan, Senior Manager, Grant Thornton provided an update on Grant Thornton's progress in delivering their responsibilities as the Council's external auditors.

The audit completion certificate has now been issued. The issue relating to infrastructure assets which was raised at the previous meeting has now been closed with help from the finance team and was not considered a material issue.

The fee variance as set out in the report has been communicated to the Chief Finance Officer.

The 2020/21 financial audit will hopefully be completed by the end of November, followed by 2021/22 next March.

RESOLVED:

To note the report.

Reasons:

To provide the Audit Committee with a report on progress in delivering their responsibilities as our external auditors.

160. FINAL ACCOUNTS 2021/22

The Senior Corporate Accountant presented the draft 2021/22 Statement of Accounts in the absence of the Chief Finance Officer.

Councillors asked questions regarding the balance of the General Reserve. The General Reserve is shown as being £7.5 million, with a movement of £2.43 million, taking it up to a level of £9.794 million. The Senior Corporate Accountant replied that this is likely to be due to delays in capital projects during covid, resulting in a lower than expected draw on reserves to date. However, those projects will go ahead but at a later date. The Senior Corporate Accountant agreed to give the Committee a more in-dept update on this in writing.

Councillor Webb asked if the East Sussex County Council pension fund is performing well. The Senior Corporate Accountant agreed to look into this and respond in writing to the Committee.

Councillor Barnett asked if there had any been movement in the Redundancy Reserve and why there was no movement in the Disabled Facilities Grant for 2021/22. The Senior Corporate Accountant said she would look through the original workings and respond in writing to the Committee.

In response to a question about the Section 31 Grant Reserve the Senior Corporate Accountant informed the Committee that is used to resolve a deficit in the Business Rate and Council Tax Collection Fund and further details can be provided to the Committee.

RESOLVED:

To note the report.

Reasons:

Compliance with statutory requirements and good practice. The Council is accountable for the use of public money and continuously seeks to improve Value for Money.

161. CHIEF AUDITOR'S SUMMARY AUDIT AND RISK REPORT

The Chief Auditor presented a report to inform the Audit Committee of the key findings from the recent Housing Benefit audit.

This review was undertaken as part of the 2021/2022 agreed audit plan. During the year 1st April 2021 to 31st March 2022, the Housing Benefit service paid more than £29 million in rent allowances to over 5,000 claimants in the Borough.

The value of outstanding Housing Benefit overpayments has reduced from £2,566,004 (as at 31/03/17) to £1,441,701 (as at 31/03/22). The Chief Auditor attributed the reduction to claimants being transferred from Housing Benefit to Universal Credit. The overall Audit Assessment is B – Satisfactory. Most controls are in place and are working effectively. Some minor improvements are recommended to ensure statutory compliance, best practice and efficiency.

Councillor Webb asked if the Council should consider employing a Fraud Officer. The Chief Auditor said that the Department for Work and Pensions Single Fraud Investigation Service (SFIS) have taken responsibility for investigating Housing Benefit fraud. At this time, it is not felt that the cost benefit analysis supports employing a Fraud Officer.

RESOLVED:

That the Audit Committee accepts the report.

Reasons:

To monitor levels of control within the organisation.

(The Chair declared the meeting closed at 7.01pm)

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Report To:	**Audit Committee**
Date of Meeting:	**12 January 2023**
Report Title:	**Interim Auditor's Report on Hastings Borough Council**
Report By:	**Kit Wheeler, Chief Finance Officer**
Key Decision:	**N**
Classification:	**Open**

Purpose of Report

To consider the matters raised by the Council's external auditors (Grant Thornton) in respect of their Governance Report. Their opinion on their value for money assessment is close to but not yet concluded hence why it is Interim.

Recommendation(s)

1. That the report and action plan be accepted.

Reasons for Recommendations

Compliance with statutory requirements and good practice. The Council is accountable for the use of public money and continuously seeks to improve Value for Money. The Council's external auditors are required to submit a report to the Council's Audit Committee on any matters that are identified during their audit.

Introduction

1. The report summarises the principal matters arising from the audit carried out by Grant Thornton along with other areas that they are required to give an opinion on. Auditing standards require the external auditors to report to those charged with governance, certain matters before giving an opinion on the accounts.

2. The report has raised 2 serious concerns that the Audit Committee must be made aware of. These relate to areas of Financial Sustainability and Governance and can be found in the Executive Summary of their report.

3. Under their opinion on the financial statements in their report, they have stated that "the audit of the 2020-21 financial statements is ongoing. They are targeting completion of the audit prior to Christmas 2022. However, this is dependent on the efficient turn around of the audit queries and the quality of evidence / explanation provided. Findings from the audit of the financial statements can have an impact on the value for money considerations, particularly around governance. Therefore, this report is presented as an Interim Annual Auditor Report and will be finalised and updated where appropriate on completion of the financial statements audit".

4. A Senior Grant Thornton representative is expected to attend the Committee and present the report.

5. The Audit Findings Report is attached at Appendix A.

Wards Affected

None

Policy Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues & Climate Change	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No
Anti-Poverty	No
Legal	No
Climate Change	No

Additional Information

Appendix A – Interim Annual Auditor's Report on Hastings Borough Council

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Officer to Contact

Officer: Kit Wheeler, Chief Finance Officer
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Grant Thornton

Interim Auditor's Annual Report on Hastings Borough Council

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2020-21

30 Dec 2022

Final Report

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We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Executive summary

Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We are required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

2020-21 was an unprecedented year in which the Council operated with many of its staff home working whilst supporting local businesses and residents through the pandemic. This audit has identified some significant weaknesses in the arrangements for achieving Value for Money which are summarised below. Full details are contained in this report.

Criteria	Risk assessment	Finding
Financial sustainability	A risk of significant weakness was identified in relation to revenue and capital funding	A significant weaknesses in arrangements identified, one key recommendation and five improvement recommendations made
Governance	No risks of significant weakness identified	A significant weaknesses in arrangements identified, one key recommendation and three improvement recommendations made
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	No significant weaknesses in arrangements identified, eight improvement recommendations made

(green)	No significant weaknesses in arrangements identified.
(amber)	No significant weaknesses in arrangements identified, but improvement recommendations made.
(red)	Significant weakness in arrangements identified and key recommendation made.

Financial sustainability

Whilst the Council has reserves and a history of delivering financial savings, the financial challenge and uncertainty continues to increase. The Council faces a significant challenge in achieving a balanced budget in the medium term without diminishing reserves below a minimum safe threshold. We consider this is an area of significant weakness in its arrangements and have made a key recommendation in this regard (See Page 5 for details). We have also made five improvement recommendations:

- Creating a full s25 report identifying risks to the budget and financial plans
- Making a clearer distinction between discretionary and core spend in the budget
- Improving internal budget setting guidance for budget holders
- Making a clearer link between the workforce plan and the budget
- Reviewing the frequency of review of Treasury Management outturn

Further details and managements response is provided on pages 13-15.

Governance

We have identified an area of significant weakness in the Council's governance arrangements with regard to assurance over effectiveness of its internal audit arrangements. We have made a key recommendation with regard to this (See page 6 for details). We have made four further improvement recommendations:

- The Council's corporate risk register should be mapped to corporate priorities.
- Core financial systems should be strengthened
- The Risk Management strategy and Risk Appetite should be reviewed
- The Fraud Risk Management Strategy should be reviewed.

Further details and managements response is provided on pages 19-20.

Improving economy, efficiency and effectiveness

We have not identified any significant weakness in arrangements for improving economy, efficiency and effectiveness. We have made eight improvement recommendations:

- Improvements to financial reporting arrangements
- Identifying recurring and non-recurring variances to budget
- benchmarking of service costs against similar organisations
- Reviewing the level of its fees and income charges
- Undertaking an internal audit of data quality of Key Performance Indicators
- Reviewing financial reporting of savings achieved
- Reviewing financial reporting of capital investments
- including contract management performance KPIs as part of overall KPI reporting

Further details and managements response is provided on pages 24-27.

Opinion on the financial statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and the Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements, including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

The Council's finance team published draft 2020/21 financial statements in July 2021, and a revised set of statements for audit was presented to us in June 2022. Our audit work on the 2020-21 statutory audit of the financial statements was started in July 2022. We initially set aside a 6 week time period to complete the audit, however due to some delays in availability of completed high quality working papers and cleansed populations for testing the audit was paused while our team completed other scheduled assignments. We have identified a further period from mid-October through to the end of 2022 for the team to complete the audit and this second phase of fieldwork is currently in progress.

Findings from the audit of the financial statements can have an impact on value for money considerations, particularly around governance. Therefore, this report is presented as an Interim Annual Auditor Report and will be finalized and updated where appropriate on completion of the financial statements audit.

Key recommendations
Financial sustainability

	Recommendation 1	The Council should ensure that savings and income targets are agreed which address the identified funding gaps and incorporate an element of headroom for any slippage to the plan. Timely and accurate financial monitoring information needs to be provided to members.
	Why/impact	Balancing the budget without reducing services is becoming increasingly difficult and the Council needs to ensure it has plans which address the identified funding gaps so that its plans remain realistic and sustainable.
	Auditor judgement	Our review of the Council's MTFS indicates that there are significant unidentified savings/funding gaps in financial planning that would substantially threaten the delivery of the plan and lead to unsustainable use of reserves. On this basis we have concluded that there are significant weaknesses in the Council's financial planning arrangements.
	Summary findings	No structured medium-term savings or income plans sufficient to meet the identified funding gaps have been formulated or considered by members. A mid-year review, for members and officers was planned for 2021-22 but detailed plans have still not been drawn up. The potential impact on the delivery of the Council's strategic priorities has also not been assessed. The Council's own predictions envisage that in the absence of further savings or additional income then the general reserve budget will be extinguished by 2025/26 at the latest. The Overview and Scrutiny Committee received no financial report in the first half of 2020-21. We were advised to exclude Appendices relating to savings in the budget report from our review as the figures could be misleading. We were further advised that the way in which the Council revises its budget in February each year (one month before the year end) and then report any variance against the revised budget could be misleading. See pages 9-10 for further details
	Management Comments	As part of the budget setting process for 2023/24, savings have been identified and detailed, and will be reported against on a regular basis as part of the financial monitoring process. Internal management accounts are now being produced by the finance team and shared internally to aid financial decision making. Senior Officers and Cabinet members have met on a weekly basis to run through the financial position of the council and discussions have been ongoing since the summer and before the MTFS update report was presented to Council in September. There is also a regular task and finish group meeting to focus specifically on the councils housing crisis which is the main area of concern this financial year and a corporate priority to address.

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The range of recommendations that external auditors can make is explained in Appendix C.

Key recommendations

Governance

Recommendation 2	The Council should reconsider the depth of its annual internal audit coverage to provide an appropriate level of assurance to members over the systems of internal control. In accordance with best practice, members of the internal audit team should not have any other service responsibilities. The Council should commission an independent assessment of its Internal Audit arrangements against the Public Sector Internal Audit Standards (PSIAS) requirements and implement any necessary changes arising from that review.
Why/impact	Without an effective independent assurance function the Council cannot determine the effectiveness of its Internal Control Framework.
Auditor judgement	We have concluded that the Internal Audit plan is light and delivery against that plan is lighter still. The Audit Committee has not challenged the implications of the planned Internal Audit coverage.
Summary findings	A light internal audit plan in both 2019/20 and 2020/21 (8 audits planned for each year). Only four Internal Audit reviews were delivered for 2019-20 and three in 2020-21. In the AGS the Chief Internal Auditor (CIA) stated that: "I am unable to provide a supported reasonable assurance opinion on the key areas of risk management, corporate governance and financial control". The Council has not had an independent assessment of its Internal Audit arrangements against Public Sector Internal Audit Standards (PSIAS). See pages 19-20 for further details
Management Comments	Agreed. We match the plan to resource and the depth of the coverage was more shallow during the Covid period because of our involvement in providing pre and post assurance checking to the Department for Business, Energy & Industrial Strategy (BEIS) of all Business Grant claims. Our latest plan for 2022 / 2023 has re-focused on financial controls. The run-off of Procurement to the East Sussex Procurement Hub is now almost complete. A review of the Internal Audit team structure was already scheduled for March 2023. The East Sussex Borough and District Councils have agreed to assess each other on a reciprocal basis and this programme has already started. It has already been agreed that the review for Hastings BC will be carried out during 2023 / 2024. We will then implement any recommendations to come out of it in the Quality Assurance Improvement Programme (QAIP) to ensure conformance with the Public Sector Internal Audit Standards (PSIAS). Note: The Chief Auditor used to work in a Local Authority similar to our neighbouring Councils. To adopt a similar plan would not better serve Hastings Borough Council as it is a complex council. The same plan structure has been in place over 20 years and until prior to Covid, the Chief Auditor used to send it to External Audit for comment prior to presentation to the Audit Committee. It is accepted that the discharge of the assignments on the plans during the Covid period was light. There is a need to ensure that all the sources of assurance and other work that is referred to in the Internal Audit Plan is communicated to the Audit Committee.

Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:

Financial sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages 8 to 35. Further detail on how we approached our work is included in Appendix B at page 39.

Financial sustainability

We considered how the Council:

- responded to the financial challenges posed by the Covid-19 pandemic
- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

We identified in the audit plan a risk of significant weakness in relation to Financial Sustainability.

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Covid-19 arrangements and Outturn 2020-21

The impacts of Covid-19 were monitored through the year, a finance update setting out the impacts was presented to Cabinet in October 2020. This report predicted a worsening position with a forecast deficit of £2.7m against the original budget shortfall of £1.182m. The additional costs arising from Covid-19 that would fall in the 2020-21 year were estimated to be £1.528m, with loss of income estimated at £2.365m over the same period. The additional costs and loss of income was predicted to be offset by central government funding of £2.1m.

As a result of this update the Council approved a Covid-19 Recovery Themes and Action Plan which resolved that the Council would need to closely monitor and update budget impact analysis, regularly update the Cabinet on the position, and conduct a corporate review of all 2020-21 revenue budgets to identify areas for immediately reducing in-year expenditure through additional controls on non-essential spend and recruitment. The Council also updated its Medium-Term Financial Strategy (MTFS) to understand the short to medium term implications for savings requirements and use of reserves.

At the time of setting the 2021-22 budget the Council also set a revised budget position for 2020-21 . The position for 2020-21 was reported to be more favourable than the mid-year forecasts in October 2020 had predicted. The 2020-21 budget envisaged total expenditure of £15.492m and a total funding deficit of £2.430m. This deficit was to be funded through use of reserves including £0.929m from general reserves and £0.253m from the Council's transition reserve in order to achieve a balanced budget. The final outturn was a more favourable position again with a net surplus of £1.071m. This surplus arose as a result of additional government support despite an overall increase in direct service expenditure.

This outturn position reflects financial pressures associated with the pandemic including £0.297m in reduced car parking income, and a £0.227m increased demand on homelessness support. These variances were offset by an increase in cemetery and crematorium income of £0.132m and Development Management Income of £0.155m compared to budget. There were also underspends on DSO Service (£0.128m) and £0.288m on Sports Centres.

Budget 2021-22

For 2021-22 the budget deficit was estimated at £1.483m which was to be funded by utilising £0.2m from the Council's Resilience and Stability reserve and £1.283m from the General Reserve. The budget took account of the central government funding including a new grant, the Lower Tier Services Grant (£0.163m); further Covid-19 grant anticipated to be received in April 2021 (£0.699m); and expected increase in Council Tax Support scheme costs which were provisionally estimated at £0.195m. The government's Lost Income Compensation scheme in respect of reduced sales, fees and charges continued for three months into 2021-22. New Homes Bonus has reduced significantly from £1.01m in 2017/18, to £173,162 in 2021-22 further increasing budgetary pressures.

Financial sustainability (cont'd)

Set against this were additional costs of homelessness through increased costs of temporary accommodation (£0.26m) as well as having to predict ongoing costs/loss of income arising from Covid-19 income for example Business rates (£0.2m). The Council increased its contingency budget from £0.3m to £0.5m as a result of these uncertainties. Funding within the budget also included an assumed 1.99% increase in council tax.

The Council's ongoing savings plan - Priority Income and Expenditure Review (PIER) identified savings of £0.484m for 2021-22. In 2019-20 PIER savings of £1.224m were delivered against an original budget estimate of £1.248m. For 2020-21 potential PIER savings of £1.784m were identified. The Council has not tracked the actual savings achieved for that year. The Council acknowledged at that time that even if the target savings for 2021-22 were achieved then that alone would be insufficient to balance the budget and that further savings or increased income would need to be identified.

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A s25 statement is included within the budget papers and highlighted that the level of general reserves for long term provision could fall below the minimum level of £6m which the Council has set. A full separate s25 statement has not been created. An improvement recommendation has been made in this respect (recommendation 3).

Despite these pressures the Council still had plans to stimulate economic growth and provide new housing. These included a new hotel, the Harold Place redevelopment, new units at Churchfields Industrial Estate, and the town's Lower Tier and West Marina development.

A decision was taken in September 2017 to invest £50m over 3 years in Commercial Property (£29m), Housing (£15m) and Energy (36m) initiatives. This was projected to provide income of around £1.3m per annum. That figure was revised down to £0.85m in the 2021-22 budget.

The Finance Department discuss budget requirements with relevant budget holders and also help to identify potential savings as part of the PIER savings plan. All Cost Centres were reviewed line by line by the Finance Director. The Finance Director then consolidates the individual budget and savings plans into an organisational plan which is discussed with the Finance lead, Managing Director and Full Council. Although the budget report for 2021-22 provides a clear and detailed narrative on the key budget assumptions, risks and uncertainties, and the minimum level of unallocated reserves it is not always clear how these assumptions and risks have been determined. There is no budget setting guidance for budget holders to ensure consistency of approach, and an improvement recommendation has been made in this respect (recommendation 4).

Draft budget proposals were considered by the Cabinet in January 2021 prior to the final budget being approved by Full Council in February 2021. Comments on the annual corporate plan update and draft budget were sought from residents, council staff and a range of community and business organisations. A summary of the responses received was presented with the budget report. There is therefore appropriate and timely consultation with key stakeholders in the preparation of the annual budget.

Overall we found no evidence of significant weaknesses in the Council's budget setting arrangements.

Medium Term Financial Strategy (MTFS)

The MTFS includes assumptions around New Homes Bonus, business rate income, council tax increases, fees and charges, pay increases and borrowing costs. Pay pressures were initially forecast at realistic levels but there is still a great deal of uncertainty in these figures.

The MTFS for 2021-22 to 2024-25 was updated at the time of setting the 2021-22 budget in February 2021. That MTFS identified a funding shortfall of £1.483m in 2021-22, rising to £2.3m in 2022-23 and to £2.64m thereafter.

The Council acknowledge that in order to achieve a balanced budget for the period 2022/23 – 2024/25, further savings, or additional income will need to be generated to avoid further unsustainable use of the General Reserve to balance the budget. The Council's own predictions envisage that in the absence of further savings or additional income then the general reserve budget will be extinguished by 2025/26 at the latest.

The Council has projected total PIER savings of £1.884m to the end of 2023/24. The Council

Financial sustainability (cont'd)

has stated that: '…after ten years of funding reductions, there are few illusions left about the difficulty in identifying the further budget reductions required to even achieve the levels of reduction required'.

The Council also acknowledged that these estimates carried some uncertainty and did not take account of the potential 5% annual decrease in future central government funding. The £6m minimum reserve level set by the Council includes a sum of £2m to allow for unexpected decrease in income of up to 15%. The MTFS in November 2021 stated that the General Reserves could fall below that £6m threshold by 2023/24.

No structured medium-term savings or income sufficient to meet the identified funding gaps have been formulated or considered by members. Priority Income and Efficiency Reviews (PIER) are monitored through the Strategic Oversight and Planning Board. In February 2021 this was charged with identification of a sustainable budget for a period in excess of one year. A mid-year review, for members and officers was planned for 2021-22 but detailed plans have still not been drawn up. It is concerning that there is a lack of specific plans to address the gaps. The impact on the delivery of the Council's strategic priorities is also not clear. The strategic priorities are reviewed each year with the budget however there is no clear line of sight between elements of the MTFS and the Strategic Priorities. At present long term financial plans are not dependent upon reduction or removal of services but are likely to be necessary in the future.

When setting savings targets it should be ensured that they are sufficient to bridge the funding gaps identified in the MTFS, even if there is slippage to the plan. The current savings schemes identified are insufficient to balance the budget over the short to medium term. The Council's current financial plans rely on unsustainable use of general reserves in order to bridge the funding gaps faced by the Council. There is also no headroom in the plan. A key recommendation in this respect is included in this report so that clear savings targets are identified sufficient to meet identified funding gaps. (Key recommendation 1).

When setting and monitoring the budget the distinction between discretionary and core spend is not clear. Highlighting core and discretionary spend would enable the Council to better consider the discretionary nature of some costs when deciding whether to continue with the delivery of such services. Although discretionary spend does come under scrutiny when plans are being considered, it would not be clear to a resident that there is a distinction between statutory and discretionary spend. An improvement recommendation in this is included in this report (recommendation 5).

Insufficient organisational capacity to deliver existing commitments set out in the corporate plan alongside implementing the required changes to meet the challenge of the council's budget deficits are recorded as a strategic risk rated as red in the strategic risk register. Key controls in place to manage this are the budgeting process, where strategic priorities are reassessed based on available resources. The link between available resources set out in a workforce plan and the budget could be made clearer and an improvement recommendation has been made in this respect (recommendation 6).

Our review of the Council's MTFS indicates that there are significant unidentified savings/funding gaps in financial planning that would substantially threaten the delivery of the plan and lead to unsustainable use of reserves. On this basis we have concluded that there are significant weaknesses in the Council's financial planning arrangements. Key recommendations have been identified to further strengthen arrangements in relation to ensuring appropriate savings targets are set and monitored and opportunities for commercial income streams are identified.

Reserves and risk mitigation

The 2021-22 budget report recognised that the Council's general reserves will fall below the Council's own defined minimum recommended level of £6m by the end of 2023-24 and could be extinguished entirely by 2025-26 at the latest. The below table sets out the latest MTFS balance of the General Fund at the end of each financial year based on the current plan. It should be noted that the assumptions built into this strategy still do not fully reflect the pressures that the current cost of living crisis may bring.

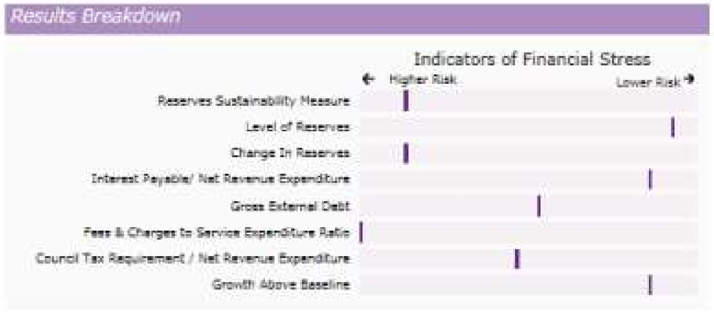
General reserve fund balance over life of latest MTFS (£000s)

2021/22	2022/23	2023/24	2024/25	2025/26
9146	6169	3631	853	0

Financial sustainability (cont'd)

As the graphic below demonstrates the CIPFA Financial Resilience Indicators show that the Council is in the higher risk category regarding reserves sustainability measures than its statistical nearest neighbours.

Table: Showing CIPFA Indicators of Financial Stress for Hastings BC



Each year the Council reviews its "base budgets" to identify efficiency savings and to ensure existing spend is still a Council priority (Priority Income and Efficiency Reviews (PIER)). The Council has also established an Invest to Save Reserve to assist with the achievement of identified savings. This reserve will however be exhausted by the end of 2021-22.

The Council has a comprehensive repair and renewal programme. The Council contributes an annual sum of £0.508m to a reserve which funds the programme. Currently annual expenditure on repairs and maintenance is almost double this amount. If the contributions to this reserve and annual expenditure on repairs and maintenance remain at current levels then this specific reserve balance will be extinguished by 2022/23. This reserve could be eroded quicker than this because as the Capital Programme expands then maintenance and repair costs will further increase beyond inflation.

The Council utilised £0.937m of earmarked reserves in 2019/20 but was able to replenish that in 2020-21 as a result of the surplus achieved through the receipt of additional government grants.

The Council is aiming for a position where recurring expenditure is met from recurring resources. Conversely the Council aims to utilise non-recurring resources such as reserves and balances to meet non-recurring expenditure. Given the above potential use of reserves this aim appears aspirational rather then achievable in the medium term. It should also be recognised also that the COVID-19 support provided by government will cease and this, combined with the need to manage more significant funding gaps in 2022/23 and 2023/24, will present an even bigger challenge for the Council. This includes increased levels of savings required in these years, as well as the inevitable increased strain on services due to the cost-of-living crisis.

As stated previously the Council's current financial plans rely on unsustainable use of general reserves in order to bridge the funding gaps faced by the Council. As such we have concluded that there is a significant weakness with regard to those financial plans.

Capital strategy and treasury management

The Council approved the Capital Programme, Capital Strategy and Treasury Management Strategy for 2020-21 during February 2020 and it was reviewed again in February 2021 for 2021-22. These documents set out the Council's capital expenditure, capital financing, minimum revenue provision and borrowing projections. The February 2021 review updated the Treasury Management and Investment Strategy. The Council approved Capital schemes aligned to the Council's corporate priorities. Schemes also had to meet one or more of the following criteria:

- be of a major social, physical or economic regeneration nature,
- meet the objective of sustainable development,
- lever in other sources of finance or provide a financial return for the Council, or
- is an "invest to save" scheme and reduces ongoing revenue costs.

The Capital projects form a key part of the Council's plans and are expected to provide a significant return on investment. However even a small downturn in the economy could result in a reduction in income which would require the Council to make greater service reductions to balance the budget.

The Treasury Management strategy states that the Council seeks to minimise the costs of borrowing and maximise investment income whilst ensuring the security of its investments. The Council has made substantial investments in commercial property, housing and energy generation initiatives, and this has been funded through external borrowing. External borrowing was £65m as at 31 March 2021 and is within CIPFA

Financial sustainability (cont'd)

Prudential limits. The financing costs of this debt are reflected in the Council's revenue budget. The Treasury Management strategy was presented to Audit Committee in January 2021 with a recommendation to Full Council as part of the budget setting process.

The Council has stated that Treasury Management performance should be reviewed quarterly by the Audit Committee, this did not happen in 2020-21. The Audit Committee only received one report and this looked at future strategy rather than in-year performance. We have raised an improvement recommendation in this respect (recommendation 7). The Council undertook cash flow monitoring during 2020-21 and there were no reported liquidity issues.

We have found no evidence of significant weakness in the Council's capital and treasury arrangements.

Conclusion

We identified financial sustainability as a significant risk in planning this work. Following our review we have identified significant weaknesses arising from unidentified savings/funding gaps in financial planning that would substantially threaten the delivery of the plan or lead to unsustainable use of reserves to bridge those funding gaps. We have made a key recommendation (see page 5) and five Improvement recommendations setting out the steps the Council should take in order to address these weaknesses. These improvement recommendations are set out on the following pages.

Improvement recommendations

Financial sustainability

	Recommendation 3	Recommendation 4
recommendation	The Section 151 Officer should prepare a full s25 report annually setting out the risks and assumptions built into the budget and medium term financial plans.	The Finance Director should produce budget setting guidance for budget holders.
Why/impact	It is essential that the Council is able to fully scrutinise and understand the risks associated with its financial plans and ability to achieve a balanced budget.	It is essential that the Council has a consistent approach to building its annual budget.
Summary findings	The Council has not prepared a full s25 statement as required.	The Council does not have any budget setting guidance.
Management comment	Agreed – This has historically been included as part of the budget report but this will be separated out in future as a separate report.	Noted. Written finance guidance notes are currently provided for the closure of accounts and verbal discussions are undertaken between finance staff and officers for the budget setting process but this will be updated for the new financial year.

The range of recommendations that external auditors can make is explained in Appendix B

Improvement recommendations

Financial sustainability

	Recommendation 5	Recommendation 6
Recommendation	Discretionary and Core expenditure should also be clearly identified in financial plans and budget monitoring to aid decision making.	The link between available resources under a workforce plan and the budget could be made clearer.
Why/impact	Highlighting core and discretionary spend would enable the Council to better consider the discretionary nature of some costs when deciding whether to continue with the delivery of such services.	Insufficient organisational capacity to deliver existing commitments set out in the corporate plan alongside implementing required changes to meet the challenge of the council's budget deficits are recorded as a strategic risk rated as red in the strategic risk register
Summary findings	Budget reports presented to Cabinet as part of the 2021-22 budget setting process recognise that a strategic approach to identifying savings is required to balance the financial position. The Council has not developed any firm savings plans, is reluctant to further raise prices on areas of discretionary income e.g. car parking and commercial lets, and has not therefore taken adequate commercial steps to address the gaps. The impact of the financial gaps on the delivery of the Council's strategic aims is not clearly set out. The Director of Finance acknowledges this and intends to align future MTFS with the potential impact on strategic priorities. When setting and monitoring the budget the distinction between discretionary and core spend is not clear.	There is no clear line of site between available resources through the workforce plan and the MTFS and budget decisions.
Management comment	As part of the Budget setting process, the 2023/24 Fees and Charges was agreed to be increased at an average of 11%. This was after detailed discussions with each area of the organisation and cabinet officers. This process was analysed thoroughly and discussed in more detailed as part of the budget setting process compared to previous years and as a direct result of weekly meetings between officers and Cabinet members. This is linked to the MTFS and discussions around core and discretionary expenditure and services are all discussed as part of the budget setting process.	Capacity of officers is raised regularly at Overview and Scrutiny meetings around organisational performance, and officers will include any requirements as part of any cabinet reports highlighting both the resourcing impact as well as the financial impact.

The range of recommendations that external auditors can make is explained in Appendix B

Improvement recommendations

Financial sustainability

7	**Recommendation**	The frequency of review of the Treasury Management Performance should be reconsidered by the Audit Committee
	Why/impact	It is essential that Treasury Management Performance is monitored on a regular basis.
	Summary findings	The Council's Treasury Management Strategy states that Treasury Management performance should be reviewed on a quarterly basis by the Audit Committee. This did not happen in 2020-21 (reviewed once) or 2019-20 (reviewed twice).
	Management comment	The Treasury Management performance should be reviewed half yearly, and the Treasury Management Strategy will be updated to reflect this. Currently we report quarterly as part of the financial update reports relating to interest performance and also MRP levels compared to budget. This is an ongoing development in terms of information contained in the report but this has already improved since 2020/21 financial year. Long term staff absence was the reason for the missed report in 2020/21 which has now been resolved.

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The range of recommendations that external auditors can make is explained in Appendix C.

Governance

We considered how the Council:

- considered the impact of Covid-19 on the governance arrangements
- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

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COVID-19 arrangements

During the 2020-21 financial year the Council supported the community, local businesses and the delivery of critical services through the pandemic, and adapted governance arrangements as required. Council and Committee meetings were held remotely throughout the year, allowing for public participation and for the democratic decision making process to continue. The majority of Council staff were required to work from home during the pandemic.

In October 2020 the Cabinet received a special report setting out a Covid-19 Initial Impact Analysis for the period March-June 2020. These updates included the progress on delivering grants to support local businesses, reopening public conveniences and communal enclosed spaces safely.

Managing risk

The Council's Risk Management Strategy was last updated in 2009. We have reviewed the document and are of the opinion that the lack of update does not represent a risk and that there are no fundamental issues, however it would be prudent for the Council to undertake a review and update as necessary particularly to ensure it is aligned to the Council's current risk appetite (recommendation 8).

The Council maintains a corporate and operational risk register. The corporate risk register is reviewed by Risk Management Group and reported to the Audit Committee. Workforce information and performance against strategic priorities are reported to Overview and Scrutiny Committee as part of the Quarterly Performance Financial risks are reported to Council however the impact of other risks are not linked through to financial plans or strategic priorities. We have raised an improvement recommendation in this respect (recommendation 9).

From our work we have not identified any significant areas of weakness in the Council's arrangements to manage and report risk. We have made an improvement recommendation that risks within the risk register should be mapped to financial plans and corporate priorities to ensure that their potential impact on the corporate plan is understood so that risk reporting becomes more dynamic and integral to the financial planning process.

Internal control – Internal Audit

Internal audit is provided by an in-house team. The team was depleted in 2020-21 and were able to complete only a small portion of the 2020-21 audit plan before 31st March 2021. This was due to one team member on long term absence and another being seconded into Covid-19 business grant payments. Only four audits were completed in 2019-20 against a plan of 8. A revised audit plan was put forward in November 2020 with 8 audits listed in the plan: three core audits (Housing

Governance

Benefit, Debtors and Payroll) and five 'risk review, follow up and other audits' (IT resilience, Syrian Refugee Resettlement Programme, CT Reduction scheme, Single Person Discount review and National Fraud Initiative (NFI) data matching, NNDR). Only the three core audits were completed in 2020-21. Even if the Council had completed all 8 planned audits then this volume would still be below the level achieved by near neighbours, for example Wealden District Council completed 14 reviews and Rother district Council completed 20 reviews according to published data.

In addition to the three audits conducted by the Council's Internal Audit Team, an external assurance review of Housing was undertaken by TIAA an external provider of assurance work who reported in November 2020. This provided a reasonable assurance level (second highest level available).

In the Annual Governance Statement the Chief Internal Auditor (CIA) stated that: "I am unable to provide a supported reasonable assurance opinion on the key areas of risk management, corporate governance and financial control". However, based on the fact that 100% of staff were able to work from home in a secure way, enquiries made by the CIA with service managers, CIA knowledge of the controls over Covid 19 grant payments, budgetary position and review of the risk registers, the CIA concluded that: 'there is no reason to believe that internal controls are unsatisfactory or worse.'

The Council's Audit Committee did not meet during the first half of the 2020-21 financial year, its first meeting of that year being in November 2020. The November meeting considered : The Treasury Management Outturn 2019-20, the Audit Committee Annual report to Council for 2019-20 and the revised Internal Audit plan for 2020-21 as detailed above. At its January 2021 meeting the Committee considered the Treasury Management mid year report and a review of the Treasury Management Strategy. A final meeting for the year took place in February 2021 to consider the Final Accounts 2019-20 and the external audit completion report.

As stated above only limited Internal Audit work was undertaken in both 2019-20 and 2020-21. This lack of assurance work does not appear to have led to much challenge or discussion by the Audit Committee.

There is no evidence that the Internal Audit team provide the Audit Committee with follow up progress on key findings or recommendations. A key finding from the TIAA Housing review was that the system introduced to manage the properties acquired by the Council to offer emergency housing is not currently reconciled to the Council's financial information system. At the time management stated that a review of Social Lettings Agency working practices was underway, to incorporate the recommendations of the report.

This was due to be completed by December 2020 but the outcome of this work has not been reported to or followed up by the Audit Committee.

The Council has not had an independent assessment of its Internal Audit arrangements against Public Sector Internal Audit Standards (PSIAS). The PSIAS require an independent assessment every five years.

As a result of the limited number of audits planned and completed, and the lack of independent assessment of Internal Audit arrangements against PSAIS we have concluded that officers have not been sufficiently held to account and that this is a significant weakness in arrangements. We have raised a key recommendation in this respect (Recommendation 2).

Internal control – Financial Statements

In our statutory audit of the financial statement for both the 2018-19 and 2019-20 years we encountered the following issues which we have concluded are indicative of weaknesses in the control environment around core financial systems and the production of financial statements which have an adequate and traceable audit trail:

- Delays in production of working papers to support the financial statements. And the working papers and populations provided were not sufficiently clear and often were difficult to reconcile easily to the General Ledger and financial statements;
- Reports and listings from sub-ledgers and other accounting sub-systems often had not been regularly/clearly reconciled to the General Ledger;
- Debtor and creditor ledgers appeared to contain older balances which had not been fully reviewed;
- The Council made significant/material changes to the financial statements from the initial draft provided, and during our audit our team also identified a high level of misstatement, classification and disclosure issues in the statements

In our Audit Findings Report 2018-19 we highlighted 5 control recommendations. When we revisited these during the 2019-20 we were not satisfied these had been adequately followed up and implemented. We made 3 further control recommendations in the Audit Findings Report 2019-20. It isn't clear that these recommendations had been followed up by the Audit Committee.

Governance

These issues have been a significant contributory factor in the audits for 2018/19 and 2019/20 both taking longer than would otherwise be expected.

In mitigation of the points made above, we note that:

- Financial statements for the year 2019/20, and 2020/21 were published in line with the statutory timetable, and changes to the Comprehensive Income and Expenditure statement ,in which users would primarily be interested, was not significantly changed between draft and audited versions. Therefore reasonably accurate income and expenditure information was available to users in the form of draft statements ahead of the audit being completed.
- Audit misstatements identified in the audit were not individually or cumulatively material.
- The financial statements audit for 2020/21 is still ongoing so we are as yet unable to fully conclude on whether the issues on page 19 are still persisting to a level which would continue to delay audit processes.

Therefore, we do not currently view this has being a significant weakness in arrangements as the core income and expenditure information reported was reasonably accurate. We have raised an improvement recommendation in respect of this issue (Recommendation 10). However, our view is that should the issues above continue to similarly persist in the 2020/21 and 2021/22 audit to a similar or greater extent (particularly if material misstatements were to be detected during those audits) this could be concluded to be a significant weakness in arrangements in future periods if it is clear that control recommendations have not been followed up appropriately.

Monitoring Standards

The Council has constituted a Standards Committee to promote and monitor compliance with the Members' Code of Conduct. The Committee has the power to deal with complaints regarding conduct and to impose sanctions. The Composition of the Committee includes two independent persons, which is good practice. There is evidence of an appropriate culture within the Council to prevent and detect fraud and corruption, with the relevant policies in place. In 2020-21 the Committee considered complaints against two members, one complaint was upheld and the member required to undergo further training.

An Anti-Fraud and Corruption Policy and Strategy is in place which also references the whistleblowing policy and anti-money laundering procedures. It is not clear when this strategy was last updated. Although we have not identified any significant weaknesses with this strategy we have raised an improvement recommendation in this respect (recommendation 11).

Codes of conduct are in place for both Members and officers and these include the policies relating to declarations of interest and gifts and hospitality. The Financial Procedures Rules also contain provisions for declaration of Conflicts of Interests specific to contracts for purchase of goods and services.

Member declarations of interest are available on the Council's website. There were no declarations of gifts and hospitality made by Members during the year. The Code of Conduct contains details of the gifts and hospitality policy. An email address is provided for sending through reports of gifts via a pro-forma. There is evidence of a number of low level gifts being reported by officers during the year.

The Council has a range of officers who are responsible for ensuring and monitoring compliance with statutory standards, such as the Monitoring Officer and the Section 151 Officer who both sit on the Council's leadership team.

We have not identified any significant weaknesses with regard to the Council's arrangements for ensuring adherence to laws and regulations or ethical standards.

Budgetary control 2020-21

We have considered the Council's processes for monitoring the 2020-21 budget during what was a difficult year to accurately forecast costs and income due to the effects of the pandemic, periods of lockdown, and incremental announcements of government funding.

Under the Council's Financial Rules Chief Officers are required to ensure that budgetary control is maintained within their Directorates and there is a named Budget Manager for each cost-centre. Budget responsibility is aligned with the decision-making that commits the expenditure on that budget, so that Budget Managers are accountable only for income and expenditure that they can control. Performance levels/levels of service are monitored in conjunction with the budget and necessary action is taken to align service outputs and budget revenue position.

We have not identified any significant weaknesses with regard to the Council's arrangements for budgetary control.

Conclusion

Overall, we consider that there is a significant weakness in the Council's governance arrangements in respect to the depth and coverage of Internal Audit. We have made a key recommendation in this respect. We have also made three improvement recommendations in other areas of governance to strengthen existing arrangements.

Improvement recommendations

Governance

	Recommendation 8	Recommendation 9
recommendation	The Council's overall Risk Management Strategy and Risk Appetite should be reviewed.	Risks within the Council's Corporate risk register should be mapped to corporate priorities and the methodology for assessing and scoring risks included in the Risk Management Strategy.
Why/impact	It is important that the Council considers its overall strategy and risk appetite on a regular basis.	Mapping risks to corporate priorities would ensure that their potential impact on the corporate plan is understood and only key risks are reported to Members.
Summary findings	The Council's Risk Management strategy and risk appetite has not been reviewed since 2009.	The risk registers reported to Members include a description of the risk, mitigating actions, and a RAG rated risk score derived from the severity and likelihood of the risk occurring. Risks are assigned to named officers and contain a narrative on the current position. Risks are not mapped to corporate priorities. Risk updates to members are generally provided verbally.
Management comment	Accepted. The Audit Committee identified a need for more recent Risk Management Training and this was successfully delivered in 2021 to coincide with the roll-out of the new Risk management system. This system is online, facilitates 'drill down' and is equipped with 'dashboard' reporting' so whilst our Risk Management processes are robust, the Council's overall Risk Management Strategy and Risk Appetite should be reviewed.	Accepted – virtually already completely discharged. The Audit Committee has received risk management reports in accordance with the Council's Risk Management Policy and the highest risks always brought to their attention in the covering report both for the Strategic Risk Register and Operational Risk Register. Dashboard reporting was demonstrated to Councillors at a training session on 2 June 2021 and the whole purpose of this was show the high level risks, open risks, risks by service area etc. The new Risk Management system covers all of the above criteria and more except mapping risks to Corporate priorities. This will be immediately addressed.

The range of recommendations that external auditors can make is explained in Appendix B

Improvement recommendations

Governance

	Recommendation 10	Recommendation 11
Recommendation	The Council should ensure that weaknesses and control recommendations issued as a result of the financial statements audit are implemented in order to strengthen core financial systems, and particularly the processes for the production of robust and accurate financial statements underpinned by good quality and timely audit working papers. The Audit Committee should follow-up/monitor recommendations made as a result of the financial statements audit.	The Council's Fraud Risk Management Strategy should be reviewed.
Why/impact	The Council has a responsibility to establish a robust control environment around core financial systems and the production of accurate financial statement which present a true and fair financial position to users of the statements. Good quality, timely audit working papers will contribute to a timely and efficient audit.	It is important that the Council considers its overall fraud strategy and regular updates this to reflect new or emerging risks.
Summary findings	We encountered a number of issues during the financial statements audits for 2018-19 and 2019-20 which were indicative of weaknesses in the control environment around core financial systems and the production of financial statements/working papers. Recommendations made as a result of the audits were not fully implemented and were not monitored/followed up by the Audit Committee.	There is no evidence that the Council's Fraud Risk Management Strategy has been regularly reviewed.
Management comment	Financial Statements were adjusted as part of the Audit process for 2019/20, and accepted the recommendations as part of that process. This was improved for the following financial years, which should be noted as part of the current 2020/21 and 2021/22 audits. The External Audit team was also not consistent throughout the process of the 2019/20 audit and this contributed to issues with understanding of working papers and query resolution.	Accepted. The Council's Fraud Risk Management Strategy will be formally reviewed and updated and communicated to all councillors and staff. However, whilst the main document has not been reviewed for several years, we do review our arrangements each year and report those in the Annual Governance Statement. The Internal Audit team comprises of 2 professionally qualified Investigators and 1 experienced Investigator.

The range of recommendations that external auditors can make is explained in Appendix B

Improving economy, efficiency and effectiveness

We considered how the Council:

- responded to the changes required as a result of Covid-19
- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

COVID-19 arrangements

During 2020-21 the Section 151 Officer continually assessed the impact of COVID-19 on the Council's long-term financial viability and provided regular updates to Members as part of the standard financial reporting to members. The Council also provided the necessary monthly returns to central government and used this information to inform its budget monitoring. The Council is able to identify directly attributable Covid-19 impacts for some income streams such as business rates, parking and leisure, it is not able to identify the Covid-19 related impact indirectly attributable for other income such as planning. It is important for the Council to get an understanding of the exceptional non-recurring nature of these variances to budget so that it can more accurately assess the financial impact of Covid-19 for the future. We have made an improvement recommendation with regard to this (recommendation 12).

Performance management

The Council's Corporate Plan was approved in February 2020 and sets out the five key priority themes:

- Tackling poverty, homelessness and ensuring quality housing;
- Keeping Hastings clean and safe;
- Make best use of our land, buildings, public realm and cultural assets;
- Minimising environment and climate harm in all that we do;
- Delivery of our major regeneration schemes; and ensuring the council can survive and thrive into the future.

Key Performance Indicators (KPIs) relating to the delivery of services and the Council's Corporate Strategy are reported quarterly to the Council's Senior Management Team (SMT) and then to members through the Quarterly Performance Reports. The Council moved to an online reporting portal from December 2020 which has significantly improved the level of reporting in this respect.

Managers are responsible for their own KPI data and there are few Data Quality checks. There has been no Internal Audit of Key Performance Indicators or Data Quality. A Data Quality Policy is not in place. We have made improvement recommendations in these respects (recommendation 13).

Performance reports also include financial reports however these are reported independently making it difficult to align financial decisions with operational delivery and performance overall against the Corporate Priorities. We have also noted that many of the financial updates are presented verbally rather than in writing. Written reports have also been presented late due to long term sickness and difficulties with recruitment in the Finance Team. These reports have not been as regular as they should have been, the Overview and Scrutiny Committee received no financial report in the first half of 2020-21. This does not allow for members to identify areas for debate or provide effective scrutiny.

Improving economy, efficiency and effectiveness

The financial information provided to members is sometimes confusing and potentially misleading. The Annual Budget report includes an Appendix K which sets out the PIER savings identified for the next year as well as a column with PIER savings for the current year. We were initially advised that this latter column represented the actual PIER savings achieved in that year. We were then advised that this represented additional savings identified during the year. We were then advised to exclude that column from our review as the figures could be misleading.

As a further example the Council has always revised its budget in February each year (one month before the year end) and then report any variance against the revised budget. This had the effect of minimising reported variances. Officers have advised that the Council will no longer report in this way as this approach was unhelpful and could be misleading.

An improvement recommendation has been made with regard to financial performance reporting (recommendation 14).

Savings are monitored in-year through the budget monitoring process with variances identified through projected under or over-spend against budget. Performance in this respect is not explicitly reported until the annual budget setting process. An improvement recommendation has been made in this respect (recommendation 15).

For Capital projects the initial proposals are scrutinised for potential Return on Investment (ROI) however these are not followed through with monitoring of actual ROI post implementation. An improvement recommendation has been made in this respect (recommendation 16).

Our review of the Council's arrangements for managing performance has not identified any significant weakness.

Benchmarking

Benchmarking is an effective tool that enables an organisation to compare and analyse its performance with others. It can provide a basis for collaboration and identify areas for improvement.

We have identified that the Council does not widely undertake performance benchmarking. It is seen as having limited value due to definitions and not comparing like with like. There is evidence of limited benchmarking by the Transformation Team as well as for areas such as planning. Informal discussions do take place with ross-Sussex groups including Finance Officers Group and Revenues Groups. We have raised an improvement recommendation in this respect (recommendation 17).

Our benchmarking review of the CIPFA Financial Resilience Index highlighted Fees and Charges to Service Expenditure Ratio as a high-risk area. This indicator shows the proportion of fees and charges against the Council's total expenditure and for the Council this is 3.5% which is extremely low compared to its statistical nearest neighbour group. It is the lowest ratio by some margin within that group with Great Yarmouth and Preston being the next lowest at 14.55% and 14.69% respectively.

This is something the Council should consider reviewing given its current financial situation. We have raised an improvement recommendation in this respect (recommendation 18).

Significant partnerships

The Council works with a variety of partners to deliver corporate objectives and priorities for the local area. There are many examples of strategies developed at partnership level being translated into actions for the Council to deliver, and evidence that partnership work is overseen by the Council. Separate entries on the Corporate Risk Register confirm risks are being assessed for such partnerships.

The Financial Rules set out responsibilities for the Chief Finance Officer, Directors and Chief Legal Officers in the management of Partnerships.

The Council has a number of strategic Partnerships which have individual account managers, performance is ultimately scrutinised by the Council's Scrutiny Committee.

The most significant joint delivery/partnerships the Council has are:

- Procurement Hub (hosted by Wealden District Council);
- Financial system (with Rother District Council);
- Grounds Maintenance (with Rother District Council);
- Waste Management (Biffa) jointly managed although separate contracts. Managed by Wealden and management fee paid)

The Council has a number of key performance indicators underwritten by Service Level

Improving economy, efficiency and effectiveness

Agreements (SLAs)however online performance management portal doesn't, as yet, include contract management. We have raised an improvement recommendation in this respect (recommendation 19).

An External Overview & Scrutiny Committee monitors the performance of key partners. The Committee received a number of such reports which were reviewed and challenged by the Committee.

The Council belongs to Procurement Hub a key Partnership hosted by Wealden Borough Council. The constitution Financial Rules set out a Contract Policy to ensure works, goods and services are obtained honestly and openly; are appropriate for the purpose for which they are obtained; offer the most advantageous balance of quality and price and that are consistent with the policies of the Council. These rules also apply to use of consultants.

Our work has not identified any areas of significant weakness regarding how the Council works with its strategic partners.

Conclusion

Overall, we have concluded that there is no significant weakness in the arrangements for improving the way the Council delivers its services. We have made key recommendations which are set out on the following pages.

Improvement recommendations

Improving economy, efficiency and effectiveness

	Recommendation 12	Recommendation 13
recommendation	The Council should identify recurring and non-recurring variances to budget arising specifically as a result of Covid-19.	The Council should undertake an Internal Audit of its Key Performance Indicators and Data Quality and consider the need to create a Data Quality Policy.
Why/impact	It is important for the Council to get an understanding of the exceptional non-recurring nature of these variances to budget so that it can more accurately assess the financial impact of Covid-19 for the future.	Good data is integral to performance management and so needs to be accurate, timely and complete
Summary findings	The Council is able to identify directly attributable Covid-19 impacts for some income streams such as business rates, parking and leisure, it is not able to identify the Covid-19 related impact indirectly attributable for other income such as planning.	Data is obtained from service heads and collated by performance officer. A Sense check is applied by Performance Officer and SMT but underlying data not validated.
Management comment	As part of the variance analysis of financial performance, reasons are identified through that process. At time of writing Covid-19 impact is decreasing and is not considered a high ongoing risk at this stage, although services are considering how they provide services in the wake of changes as a result of Covid-19.	Agreed. An Internal Audit of Key Performance Indicators will be carried out during quarter 1, 2023/2024 before publication of the full year's performance data

The range of recommendations that external auditors can make is explained in Appendix B

Improvement recommendations

Improving economy, efficiency and effectiveness

	Recommendation 14	Recommendation 15
recommendation	Financial reporting arrangements should be reviewed to ensure that: financial reporting is integrated with performance against the Corporate Priorities. Financial reporting should be timely, accurate and clear.	The Council should review its reporting of savings to include regular monitoring of actual v budgeted savings
Why/impact	There should be a clear line of site between the financial reporting and performance against the Council's Corporate Priorities. Inaccurate or confusing information could impact on the ability for the Council to identify areas for improvement.	It is important that the Council carefully monitors its outturn against budget for anticipated savings.
Summary findings	Financial reporting is provided separately from performance monitoring making it difficult to align financial decisions with operational delivery and performance overall against the Corporate Priorities.	Savings are monitored in-year through the budget monitoring process with variances identified through projected under or over-spend against budget. Performance in this respect is not explicitly reported until the annual budget setting process.
Management comment	Financial reporting is discussed at Overview and Scrutiny meetings but currently two separate reports. Process to combine the reports is underway with the aim of combining in the future.	Already noted in a previous recommendation and this will be included in the regular financial reporting moving forwards.

The range of recommendations that external auditors can make is explained in Appendix B

Improvement recommendations

Improving economy, efficiency and effectiveness

	Recommendation 16	Recommendation 17
recommendation	The Council should review its monitoring arrangements including ongoing Return on Investment of capital projects.	The Council should review its Income and Fees strategy to identify areas where fees and income can be increased.
Why/impact	It is important that the Council carefully monitors its outturn against budget including income and expenditure for capital investments.	This is something the Council should consider reviewing given its current financial situation.
Summary findings	For Capital projects the initial proposals are scrutinised for potential Return on Investment (ROI) however these are not followed through with monitoring of actual ROI post implementation.	Our benchmarking review of the CIPFA Financial Resilience Index highlighted Fees and Charges to Service Expenditure Ratio as a high risk area. This indicator shows the proportion of fees and charges against the Council's total expenditure and for the Council this is 3.5% which is extremely low compared to its statistical nearest neighbour group. Indeed it is the lowest ratio by some margin within that group with Great Yarmouth and Preston being the next lowest at 14.55% and 14.69% respectively.
Management comment	Full project reviews currently underway for existing projects to analyse financial viability and all future proposals are fully challenged and scrutinised before a decision is made. Finance colleagues are embedded in discussions with operational colleagues to ensure that all projects have been fully financially reviewed prior to any decision making, with all costs (including MRP impact) have been included over the life of the project proposal.	Already noted in a previous response, Fees and Charges increased as part of Budget setting discussions 2023/24.

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The range of recommendations that external auditors can make is explained in Appendix B

Improvement recommendations

Improving economy, efficiency and effectiveness

	Recommendation 18	Recommendation 19
recommendation	The Council should routinely benchmark service costs against statistically similar councils in order to identify areas where efficiencies or savings could be achieved.	The Council should include contract management performance KPIs as part of its overall online KPI reporting through the online portal.
Why/impact	Formal corporate benchmarking of service costs can be used to inform future budget rounds and service redesign. This will be particularly relevant as the Council seeks to implement a more strategic approach to generating savings to balance the budget.	It is important that there is visibility of the performance of key contractors and partners
Summary findings	The Council does undertake performance benchmarking for some key service areas. There is however no formal corporate benchmarking of costs. Our benchmarking identified Fees and Income as an area of focus for the Council.	The Council has a number of key performance indicators underwritten by Service Level Agreements (SLAs)however the Council's online performance management portal doesn't, as yet, include contract management.
Management comment	Noted.	Noted.

The range of recommendations that external auditors can make is explained in Appendix B

Opinion on the financial statements

Audit opinion on the financial statements

The audit of the 2020-21 financial statements audit is ongoing. We are targeting completion of the audit prior to Christmas 2022. However this is dependent on the efficient turnaround of audit queries, and the quality of evidence/explanation provided.

Findings from the audit of the financial statements can have an impact on value for money considerations, particularly around governance. Therefore, this report is presented as an Interim Annual Auditor Report and will be finalized and updated where appropriate on completion of the financial statements audit.

Audit Findings Report

Our Audit Findings Report, will be reported to the Council's Audit Committee on completion of the audit.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

These instructions have yet to be issued and as such we cannot complete this work or formally certify the closure of our audit.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair,
- Prepared in accordance with relevant accounting standards,
- Prepared in accordance with relevant UK legislation.

Appendices

Appendix A - Responsibilities of the Council

Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Appendix B - Risks of significant weaknesses - our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

Risk of significant weakness	Procedures undertaken	Findings	Outcome
Financial sustainability was identified as a potential significant weakness at the planning stage, see pages 8 to 17 for more details.	No additional procedures undertaken. Financial sustainability was assessed through the standard procedures including reviewing the budget setting process and medium-term financial plan.	Significant weaknesses identified	One Key and Five improvement recommendations raised.
Governance was not identified as a potential significant weakness at the planning stage , see pages 18 to 24 for more details.	No additional procedures undertaken	Significant weaknesses identified	One key and four improvement recommendations raised.
Improving economy, efficiency and effectiveness was not identified as a potential significant weakness, see pages 25 to 35 for more details	No additional procedures undertaken	No Significant weaknesses identified	Eight improvement recommendations raised.

Appendix C - An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	Yes	Pages 5 and 6
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	Pages 13-17 Pages 21 - 24 Pages 28- 35

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Appendix D – Use of formal auditor’s powers

We bring the following matters to your attention:

Statutory recommendations Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly	We have not issued any statutory recommendations.
Public interest report Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.	We have not issued a public interest report.
Application to the Court Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.	We have not made an application to the Courts.
Advisory notice Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority: • is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, • is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or • is about to enter an item of account, the entry of which is unlawful.	We have not issued any advisory notices.
Judicial review Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.	We have not applied for a judicial review.

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Agenda Item 5

Report To:	**Audit Committee**
Date of Meeting:	**12 January 2023**
Report Title:	**Grant Thornton Audit Progress Report and Sector Update**
Report By:	**Kit Wheeler, Chief Finance Officer**
Key Decision:	**N**
Classification:	**Open**

Purpose of Report

This report provides the Audit Committee with an update on Grant Thornton's progress in delivering their responsibilities as our external auditors. The report also provides an update on emerging national issues and developments and Audit fees.

Recommendation(s)

1. To note the report

Reasons for Recommendations

To provide the Audit Committee with a report on progress in delivering their responsibilities as our external auditors.

Background

1. The report that can be found at Appendix A contains information on emerging national issues and developments as well as work progress and the status of key external audit deliverables.

2. This includes the status of the audit of the Financial Statements for 2020/21 and 2021/22.

3. It is expected that a senior manager from Grant Thornton will attend the meeting and present the report in more detail.

Audit Fee Variance

4. The audit fee variance proposed by Grant Thornton is yet to be agreed by officers. We acknowledge that there will need to be some increase in the fee due to external factors that were not envisaged when the initial scale fees were set by Public Sector Audit Appointments (PSAA) Ltd. However, we believe further discussions are required in relation to the variation fee as there is some disparity between the proposed variation and what we would have expected.

5. For information, published fees going forward from 2022/23 can be found at: https://www.psaa.co.uk/2022/11/news-release-publication-of-the-2022-23-fee-scale/

Wards Affected

None

Policy Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues & Climate Change	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No
Anti-Poverty	No
Legal	No
Climate Change	No

Additional Information

Appendix A - Hastings Borough Council Audit Progress Report and Sector Update

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Officer to Contact

Officer: Kit Wheeler, Chief Finance Officer
Kit.Wheeler@hastings.gov.uk

Hastings Borough Council Audit Progress Report and Sector Update

Year ending 31 March 2022

12 January 2023

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Introduction

Your key Grant Thornton team members are:

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Engagement Lead

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Engagement Manager

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This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications https://www.grantthornton.co.uk/en/services/public-sector-services/

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at January 2023

Financial Statements Audit

2020/21 year

At the last Audit Committee meeting in October we set out that we had identified a further period from October onwards to restart audit work following initial delays largely due to quality of working papers, some delays in provision of information and also issues with the clarity/quality of supporting documentation for samples/queries.

We have continued to work closely with your finance team in completing the audit work. The majority of work is now completed and we expect full completion of fieldwork by the end of January, subject to senior management review of the audit file which could potentially raise further queries.

Subsequent to this we will plan to present an Audit Findings Report at the March Audit Committee meeting, and after this final reporting of findings we would expect to be able to sign our auditor's report.

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2021/22 year

We plan to start our planning work for the 2021/22 audit at the end of January with a view to presenting an Audit Plan at the March Audit Committee meeting. This would allow us to commence fieldwork at a date subsequent to this in agreement between your finance team and the audit team (subject to team availability).

Accounting for infrastructure

The Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 requires infrastructure to be reported in the Balance Sheet at historic cost less accumulated depreciation and impairment and that where there is 'enhancement' to the assets, that the replaced components are derecognised. Where authorities are not fully compliant with these requirements, there may be a risk of material misstatement.

Many authorities do not possess the records to be able to fully comply with the requirements. Following extensive consultation and discussions with interested parties DLUHC has laid before Parliament a Statutory Instrument by 30 November 2022 introducing a statutory override from 25 December 2022 which simplifies accounting for infrastructure assets until the 2024/25 financial year, following which the CIPFA Code of Practice on Local Authority Accounting is expected to introduce longer term financial reporting requirements in this area.

In the 2019/20 year we were able to obtain sufficient and appropriate audit evidence for the authority's infrastructure assets to gain assurance that the assets were not materially misstated, and we expect to be able to do the same for the 2020/21 and 2021/22 financial year audits. For those year's financial statements the Authority will need to revise the presentation of infrastructure assets and disclosures around these assets to ensure they are in line with the statutory override.

Value for Money

The new Code of Audit Practice (the "Code") came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code was the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact. Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline for the issue of the Auditor's Annual Report is now no more than three months after the date of the opinion on the financial statements. Although the financial statements audit is ongoing, we have completed our value for money work alongside the audit utilising our Specialist Value for Money team, and we have presented our final Auditor's Annual Report at the January 2023 meeting.

Progress at January 2023(cont.)

Other areas

Certification of claims and returns

We certify the Authority's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DwP). The certification work for the 2021/22 began in November 2022. The deadline is the 31 January 2023 (noting this was extended to the 28 February for the 2020/21 claim). Work is ongoing, and we expect to be able to certify the claim for the deadline date.

Meetings

We continue to meet with Finance Officers regularly as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments to promote the efficient delivery of the audit.

Sector Updates and workshops

We provide a range of workshops, along with network events for members and publications to support the Authority. We are planning Accounts Workshop in January and February 2023 which your officers will be invited to, where we highlighted financial reporting requirements for local authority accounts and gave insight into elements of the audit approach.

We also provide

- the opportunity to access support from experienced technical colleagues who attend the ICAEW Public Sector Financial Reporting Panel, and ICAEW Public Sector Audit Panel. This means you will be at the forefront of accounting developments. Through this relationship we also ensure that communication works both ways and feed issues up from our LG clients
- insight from our regular meetings with CIPFA and NAO where we discuss emerging developments. We will also raise any areas of concern that you have over policy, procedure, or regulation with your regulators.
- technical and sector updates for the Audit Committee.

Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

Audit Fees

We have submitted a proposed fee variance for the 2019/20 audit to your Chief Finance Officer in October 2022. This is still under discussion.

We will submit a fee variance for the 2020/21 audit when we have completed our fieldwork.

Audit Deliverables

2020/21 Deliverables	Planned Date	Status
Audit Plan We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Authority's 2020/21 financial statements and to report on the Authority's value for money arrangements in the Auditor's Annual Report	Nov 2021	Completed
Audit Findings Report The Audit Findings Report will be reported to the Audit Committee. Date to be confirmed, but having proposed a date to restart the audit in October 2022, we would anticipate having an Audit Findings Report for the end of November 2022.	March 2023	Not yet due
Auditors Report This includes the opinion on your financial statements. Date to be confirmed- this is subject to the speed of turnaround of audit queries/samples, the clarity of explanations and quality of documentation/evidence provided.	TBC	Not yet due
Auditor's Annual Report This report communicates the key outputs of the audit, including our commentary on the Authority's value for money arrangements.	January 2023	Not yet due

2021/22 Audit-related Deliverables and Audit Deliverables	Planned Date	Status
Housing Benefit Subsidy – certification This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform.	Jan-Feb 2023	Not yet due
Audit Plan We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Authority's 2021/22 financial statements and to report on the Authority's value for money arrangements in the Auditor's Annual Report	March 2023	Not yet due

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- Grant Thornton Publications
- Insights from local government sector specialists
- Reports of interest
- Accounting and regulatory updates

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local government

Audit Market Developments

Financial Reporting Council Report On The Quality Of Local Audit

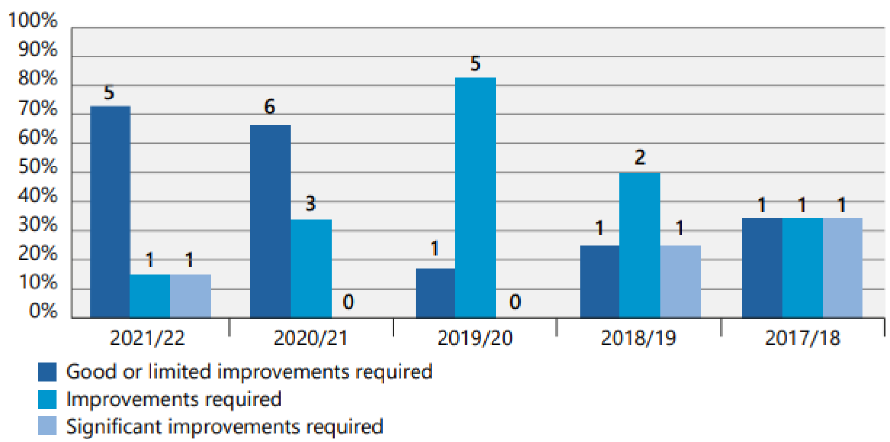
In late October 2022 the Financial Reporting Council (FRC) published its inspection findings into the quality of major local body audits in England, which includes large health and local government bodies.

The Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW) inspects a sample of local audits that do not meet the definition of a 'major' local audit and the FRC's report also includes a summary of their findings.

The FRC reported that 71% of Grant Thornton audits inspected (7 in total) were assessed as either good or limited improvements required.

This is a pleasing result and reflects on our significant investment in audit quality over recent years. The positive direction of travel over the past five years is illustrated below:

Our assessment of the quality of financial statement audits reviewed



The FRC also inspected our work on VfM arrangements at four bodies.

It is pleasing to note that all of these inspections were assessed as requiring no more than limited improvements (which is the same as the previous year).

As far as the ICAEW are concerned, overall, the audit work reviewed was found to be of a good standard.

Seven of the eight files reviewed (88%) were either 'good' or 'generally acceptable', but one file 'required improvement'.

The ICAEW identified one of our files as requiring 'Improvement' – but it should be noted that this was a 2019-20 file and therefore the learnings from prior years' review could not have been taken into account, an issue recognised by the ICAEW in their report to us.

The ICAEW found that our VfM work was good on each of the files reviewed, and they did not identify any issues with this aspect of the audit teams' work.

Whilst are pleased with our continuing improvement journey, we continue to invest in audit quality to ensure that the required standards are met.

The full report can be found here.

Financial Reporting Council

Audit Market Developments (continued)

Local Government External Audit Procurement

Public Sector Audit Appointments Ltd (PSAA) has recently announced the outcome of its national procurement of audit services across the Local Government sector.

This exercise covers the audits from 2023/24 to 2027/28 and covers the 470 local government, police and fire bodies (99% of eligible local bodies) that opted into the national scheme.

We are delighted to have been reappointed as the largest supplier of local government audit. The public sector has played a significant role within the firm for over 30 years and we remain committed to the success of the sector.

Our UK Public Sector Assurance (PSA) team employs 440 people, including 29 Key Audit Partners and specialists in financial reporting, audit quality, and value for money.

The team is dedicated to public audit work in local government and the NHS, with contracts with PSAA, Audit Scotland and over 100 health bodies. The Public Sector Assurance team is a regular commentator on issues facing the sector and oversees the firm's thought leadership, such as its series of publications on grants and public interest reports.

Mark Stocks, lead Partner for PSA at Grant Thornton, said 'This is a very welcome outcome and reflects our previous delivery as well as our ongoing commitment to invest in the public sector.'

Further information can be found here

Grant Thornton – Nearly 60 councils at risk of 'running out of money' next year

Grant Thornton has warned that the soaring cost of living combined with a decade of austerity could see up to a sixth of English councils fully deplete their reserves in 2023-24 without substantial spending cuts .

Research found that, as a result of higher inflation, councils are expected to have a cumulative budget deficit of £7.3bn by 2025-26 – an increase of £4.6bn since forecasts made at the beginning of this year.

Grant Thornton said that although reserves were bolstered by more than £5bn in 2020-21 due to higher government funding, these balances will "continue to unwind through the long tail of Covid-19" with close to 60 councils forecast to use all earmarked and unallocated reserves next year.

Without additional income, authorities would need to make savings of over £125 per person by 2025-26, equal to the average yearly spend on homelessness, sports and leisure, parks and open spaces, libraries and waste services.

Phillip Woolley, Head of Public Services Consulting at Grant Thornton, said: "Local government has faced unprecedented demands and pressures over the last decade and without action from both central government and councils, in the face of these inflationary pressures, the list of authorities in need of exceptional support looks set to grow quickly.

"Our research shows the additional Covid-19 funding, while critical to support immediate challenges, has not addressed underlying systemic issues or the precariousness of councils' financial sustainability in the face of economic instability.

"Local authorities are also now facing the risk of interest rate rises, increasing debt financing costs and the real risk of reduced funding from central government, in response to the current economic turmoil facing the country. Without committed intervention from all sides, there is a risk that the sector levels down instead of up."

Grant Thornton estimated unitary authorities would have the largest budget gap (£1.8bn) by 2025-26, but district councils would have the largest gap compared to net spending at 10.2%.

The firm added that austerity and changing policy demands have left councils struggling to innovate in their services and prevented investment in finance and procurement, diminishing the sector's ability to tackle medium-term challenges.

Grant Thornton said additional government funding alone will not lead to improvements, and that councils should focus on improving governance and developing financial stability plans.

Joanne Pitt, local government policy manager at CIPFA, said: "With no spending review and no fair funding review, CIPFA shares Grant Thornton's concerns about the financial sustainability of some in the sector.

"While there are actions local authorities can take to strengthen their own financial resilience, they are facing significant inflationary pressures and rising demand which makes this hugely challenging for the sector."

Audit Committees: Practical Guidance For Local Authorities And Police – CIPFA

In October CIPFA published this guide, stating “This fully revised and updated edition takes into account recent legislative changes and professional developments and supports the 2022 CIPFA Position Statement. It includes additional guidance and resources to support audit committee members, and those working with and supporting the committee’s development.”

CIPFA go on to state “Audit committees are a key component of governance. Their purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. They play an important role in supporting leadership teams, elected representatives, police and crime commissioners and chief constables.

This edition updates CIPFA’s 2018 publication to complement the 2022 edition of the CIPFA Position Statement on audit committees.

The suite of publications has separate guidance resources for audit committee members in authorities, members of police audit committees, and a supplement for those responsible for guiding the committee.

New aspects include legislation changes in Wales and new expectations in England following the Redmond Review. All authorities and police bodies are encouraged to use the publication to review and develop their arrangements in accordance with the Position Statement.

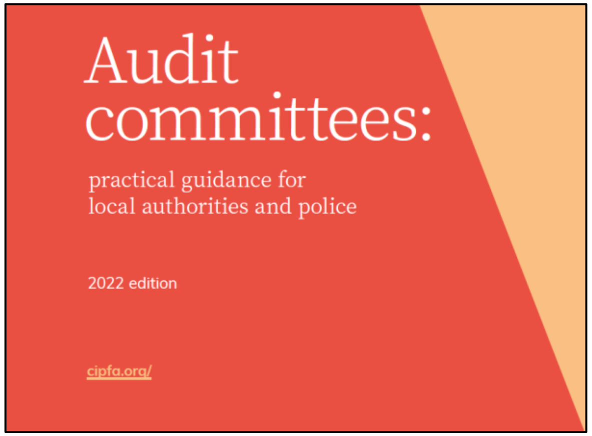
The appendices include suggested terms of reference, a knowledge and skills framework and effectiveness improvement tools.”

The guide covers a number of key areas for Audit Committees, including:

- Purpose
- Core functions:
  - Governance, Risk and Control
  - Accountability and Public Reporting
  - Assurance and Audit arrangements
  - Ensuring focus
- Independence and accountability
- Membership and effectiveness

The guide can be purchased via the CIPFA website:

[Audit Committee Guidance: 2022 update | CIPFA]



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Agenda Item No:

Report to: **Audit Committee**

Date of Meeting: **12 January 2023**

Report Title: **Treasury Management Mid-Year Report 2022-23**

Report By: **Simon Jones**
Deputy Chief Finance Officer

Purpose of Report

This report advises the Audit Committee of the Treasury Management activities and performance during the current year. It provides the opportunity to review the Treasury Management Strategy and make appropriate recommendations to Cabinet and Council to take account of any issues or concerns that have arisen since approving the strategy in February 2022.

Recommendation

Audit Committee is asked to recommend the following to the full Council:

1) To note the Mid-Year report.

Reasons for Recommendations

The Code of Practice on Treasury Management requires, as a minimum, a mid-year review of the Treasury Management Strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved (February 2022). It is a requirement of the Code of Practice that the Mid-year review is considered by Cabinet, Audit Committee and full Council.

.

Background

Capital Strategy

1. In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. These require all local authorities to prepare a Capital Strategy which is to provide the following: -

    - a high-level 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,
    - The implications for future financial sustainability.

Treasury Management

2. The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure in combination with funding from reserves. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity initially before considering optimising investment return.

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

4. Accordingly, treasury management is defined as:

    "The management of the local authority'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."

5. Covid-19 has again highlighted the fundamental requirement for local authorities to have proper and effective Treasury Management Practices and Policies in place. The Council was able to sustain its services throughout the Covid-19 pandemic, did not experienced undue difficulties in managing major cash flows, and retained sufficient reserves (given government assistance) throughout the period.

Introduction

6. The CIPFA Code of Practice on Treasury Management (revised 2017) was adopted by this Council in February 2018.

7. The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.
- 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.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

8. This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

   - An economic update for the first part of the 2022/23 financial year;
   - A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
   - The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
   - A review of the Council's investment portfolio for 2022/23;
   - A review of the Council's borrowing strategy for 2022/23;
   - A review of any debt rescheduling undertaken during 2022/23;
   - A review of compliance with Treasury and Prudential Limits for 2022/23.

9. **The Committee will need to determine whether there are any issues that require the amendment of the Council's Treasury Management Strategy or Investment Policy and that they therefore wish to draw to the attention of Council.**

10. The Council has increased its levels of income generation over the last few years and this has entailed new borrowing over long periods, with consequent risks in terms of asset valuations, credit worthiness, cash and reserve fund availability. Such risks cannot be considered in isolation of all the issues facing the Council now and potentially in the future. The Council strengthened its reserves when taking on these additional risks and the level of reserves have to date proven more than adequate to cope with the immediate effects of Covid-19, increased expenditure levels and reduced income. However, additional cost pressures are being experiences e.g. homelessness, which will reduce reserves the level of reserves unless additional government funding is received or the Council takes action to reduce its costs.

11. The Cabinet will consider a similar mid-year report at their meeting on 3 January 2023 as will full Council.

Economic Update

12. A short economic update from the Council's treasury advisors is provided below with further detail provided at Appendix B:

13. The second quarter of 2022/23 saw:

    - GDP revised upwards in Q1 2022/23 to +0.2% q/q from -0.1%, which means the UK economy has avoided recession for the time being;
    - Signs of economic activity losing momentum as production fell due to rising energy prices;
    - CPI inflation ease to 9.9% y/y in August, having been 9.0% in April, but domestic price pressures showing little sign of abating in the near-term;
    - The unemployment rate fall to a 48-year low of 3.6% due to a large shortfall in labour supply;
    - Bank Rate rise by 100bps over the quarter, taking Bank Rate to 2.25% with further rises to come;
    - Gilt yields surge and sterling fall following the "fiscal event" of the new Prime Minister and Chancellor on 23rd September.

Interest rate forecasts

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

15. The latest forecast on 27th September sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, whilst the government is providing a package of fiscal loosening to try and protect households and businesses from the ravages of ultra-high wholesale gas and electricity prices.

16. The increase in PWLB rates reflects a broad sell-off in sovereign bonds internationally but more so the disaffection investors have with the position of the UK public finances after September's "fiscal event". To that end, the MPC has tightened short-term interest rates with a view to trying to slow the economy sufficiently to keep the secondary effects of inflation – as measured by wage rises – under control, but its job is that much harder now.

17. Our PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1st November 2012.

Link Group Interest Rate View	27.09.22											
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

The Council's Treasury Position – 30 September 2022

Borrowing

18. The Council’s debt and investment position at the 30 September 2022 was as follows:

Table 1 – Borrowing

Debt	1 April 2022 Principal	Start Date	Maturity Date	30 Sept 2022 Principal	Rate
PWLB	£7,500,000	25/05/2007	01/02/2033	£7,500,000	4.80%
PWLB	£909,027	04/09/2014	02/09/2044	£909,027	3.78%
PWLB (Optivo)	£1,788,235	04/09/2014	02/09/2044	£1,788,235	3.78%
PWLB (FT) (Annuity)	£125,981	21/03/2016	20/03/2026	£110,685	1.66%
PWLB	£1,000,000	11/05/2016	11/05/2056	£1,000,000	2.92%
PWLB	£1,000,000	11/05/2016	11/05/2046	£1,000,000	3.08%
PWLB	£1,000,000	11/05/2016	11/05/2036	£1,000,000	3.01%
PWLB	£1,000,000	11/05/2016	11/05/2026	£1,000,000	2.30%
PWLB	£2,000,000	24/06/2016	24/06/2054	£2,000,000	2.80%
PWLB	£1,000,000	24/06/2016	24/06/2028	£1,000,000	2.42%
PWLB	£2,000,000	21/03/2017	21/03/2057	£2,000,000	2.53%
PWLB	£2,000,000	21/03/2017	19/09/2059	£2,000,000	2.50%
PWLB	£2,000,000	23/03/2017	23/03/2060	£2,000,000	2.48%
PWLB (Annuity)	£6,772,356	01/06/2017	01/06/2057	£6,712,915	2.53%
PWLB (Annuity)	£7,860,481	22/11/2017	22/11/2057	£7,795,488	2.72%
PWLB	£2,000,000	12/12/2018	12/06/2028	£2,000,000	1.98%
PWLB (Annuity)	£3,820,026	13/12/2018	13/12/2058	£3,788,678	2.55%
PWLB (Annuity)	£2,387,758	31/01/2019	31/01/2059	£2,368,204	2.56%
PWLB (Annuity)	£4,273,795	31/01/2019	31/01/2069	£4,250,066	2.56%
PWLB (Annuity)	£8,976,150	20/03/2019	20/03/2059	£8,902,335	2.54%
PWLB (Annuity)	£4,649,533	02/09/2019	02/09/2069	£4,618,608	1.83%
PWLB	£2,000,000	13/01/2022	13/01/2062	£2,000,000	1.89%
Total Debt	**£66,063,342**			**£65,744,241**	**2.75%**

19. The Minimum Revenue Provision (MRP) amount to be paid for 2022/23 is £1,707,349. This is equivalent to 2.37% of the 2022/23 opening Capital Financing Requirement (£71,970,496).

20. At the 30 September 2022 the Council had debt amounting to £65.744m (PWLB debt). The Council has not taken on any more debt in the year (as at 31 October 2022).

21. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend.

22. Part of the Council's treasury activities is to address the funding requirements for the Council's borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets) or utilising temporary cash resources within the Council.

23. The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

24. The total CFR can also be reduced by:

    - the application of additional capital financing resources (such as unapplied capital receipts); or
    - charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

25. The Council's 2022/23 MRP Policy was approved as part of the Treasury Management Strategy Report for 2022/23 by Council in February 2022.

26. The Council's CFR for the year is shown below and represents a key prudential indicator. It includes leased items on the balance sheet, which increase the Council's borrowing need (albeit no additional borrowing is actually required against such items).

Table 2 CFR: General Fund	2021/22 Actual £000's	2022/23 Estimate £000's
Opening balance	72,683	71,970
Add unfinanced capital expenditure	955	9,804
Less MRP	(1,668)	(1,707)
Closing balance	**71,970**	**80,067**

27. Borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

28. The Council's long-term borrowing must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2022/23 plus the expected changes to the CFR over 2023/24 and 2024/25 from financing the capital programme. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2022/23.

Table 3 Internal Borrowing	2021/22 Actual £000's	2022/23 Estimate (As at 31/10/22) £000's
Capital Financing Requirement	71,970	80,067
External Borrowing	66,063	75,867
Net Internal Borrowing	**5,907**	**4,200**

29. The table above highlights the Council's gross borrowing position against the CFR, which provides an indication of affordability for the Council. The Council has complied with this prudential indicator.

Investments in 2022-23

30. Table 4 below provides a snapshot of the investments and deposits held on 30 September 2022. The level of investments can fluctuate significantly on a day-to-day basis, given the level of funding received, precept payments, grants payable and receivable, salaries and wages, etc.

31. The Council also had longer term investments with CCLA in a property fund and Diversified Income Fund.

Table 4 – Investments and deposits	Interest Rate	Start Date	End Date	Principal	Term
Lloyds	0.30%	-	-	£5,701,666	Call
Barclays Corporate	0.25%	-	-	£5,003,195	Call
NatWest	0.10%	-	-	£6,147	Call
Australia & NZ BCG Ltd	0.43%	14/07/2021	14/10/2022	£5,000,000	Fixed
DBS Bank Ltd, London	3.14%	01/09/2022	01/03/2023	£5,000,000	Fixed
Helaba Landesbank Hessen	3.09%	01/09/2022	01/03/2023	£5,000,000	Fixed
Clydesdale Bank	2.25%	12/09/2022	12/12/2022	£5,000,000	Fixed
Goldman Sachs	3.00%	30/09/2022	30/12/2022	£5,000,000	Fixed
TOTAL				**£35,711,008**	

32. As at 30 September 2022 three longer term loans are outstanding – loans made to other organisations.

Table 5 – Loans to Other Organisations

Table 5 – Loans to Other Organisations	Interest Rate	Start Date	End Date	Principal O/S as at 30/09/2022	Type
Amicus (Optivo)	3.78%	04/09/2014	02/09/2044	£1,788,235	Maturity
Foreshore Trust	1.66%	21/03/2016	20/03/2026	£110,685	Annuity
The Source	2.43%	17/12/2015	17/12/2025	£9,444	Annuity

33. Borrowing from the PWLB was taken to fund the Amicus Horizon (now Optivo) loan (£1,788,235 - Maturity loan) and the loan to the Foreshore Trust (£300,000 originally borrowed - Annuity loan); these correspond to PWLB loans in Table 1 above.

34. The overall investment performance for the first 6 months of 2022/23 provided an average return of 2.06% (2.18% including CCLA) (2020/21 0.16%).

35. The total interest received for the first 6 months is £44,743 (£128,955 including CCLA) (2021/22 £24,976). These figures exclude the interest receivable in respect of the three loans to other organisations and the housing company detailed below.

Loans to Hastings Housing Company Ltd

36. Hastings Housing Company repaid the revenue loan and interest due to the Council in September 2020. It still has a capital loan of £5,489,398 outstanding. The capital loan interest rate is based on the rate prevailing at the time of the advance and is fixed for the period of the loan. The borrowing costs incurred by the Council in making advances to the housing company are covered by the interest repayments.

The Council's Capital Position (Prudential Indicators)

37. This part of the report is structured to provide updates on:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

Prudential Indicator for Capital Expenditure

38. This table shows the forecast outturn for capital expenditure for 2022/23.

Table 6 Capital Expenditure (Net) by Service	2022/23 Original Estimate (net) £'000	2022/23 Forecast Outturn (net) £'000
Corporate Resources	11,174	8,404
Operational Services	3,680	3,275
Total Capital Expenditure (Net)	**14,854**	**11,679**

Capital Expenditure – Financing

39. The new Capital schemes, approved since the budget, will generally be financed by borrowing, unless grants or Capital receipts from the sale of assets are available.

40. The larger schemes in the capital programme which are expected to require financing in 2022/23 from borrowing include:-

(1) Buckshole Reservoir Works
(2) Priory Meadow
(3) Cornwallis Street Development
(4) Churchfield Business Centre
(5) Lacuna Place Development / Refurbishment
(6) Castleham Industrial Units
(7) Playground upgrades
(8) Energy – Solar Panels
(9) Pelham Crescent building and road works
(10) Bexhill Road South (Housing & Car Park)
(11) Lower Bexhill Road (Housing)

(12) Mayfield E (Housing)

(13) MUGA Refurbishment

Impact on the prudential indicators

41. The Capital Financing Requirement has continued to increase. It is expected to reach some £80.1m by April 2023. The position at 31 October 2022 is shown in Table 3 above, and highlights that there would be an underlying financing requirement of some £4.2m by the year end if further borrowing is undertaken. The option of using capital receipts, once received, in lieu of external borrowing is expected to be beneficial to the Council.

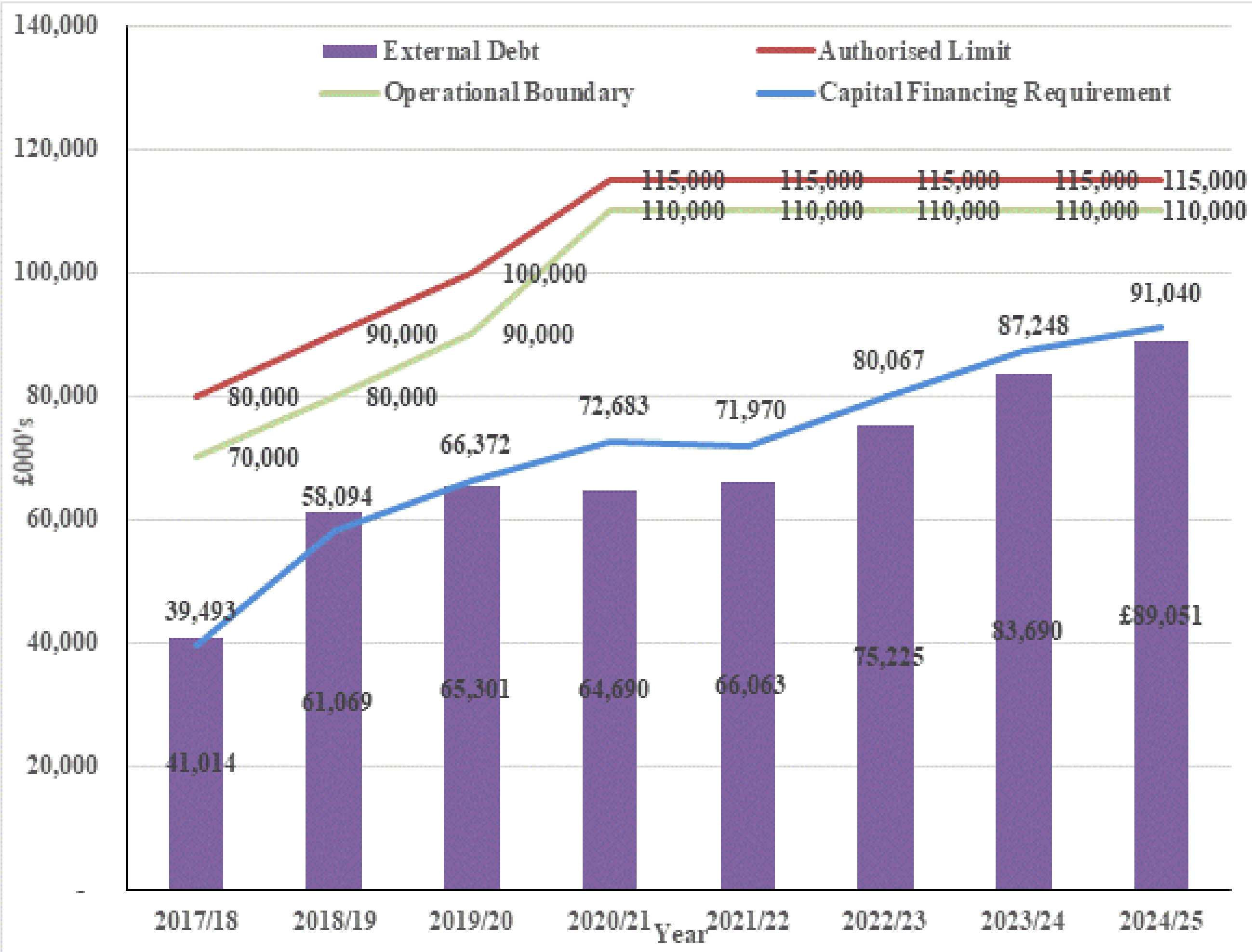
Compliance with the limits in place for borrowing activity.

42. The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years.

43. A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited; this is set by full Council and can only be revised by full Council. It reflects the level of borrowing which, while not desired, could be afforded in the short term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3(1) of the Local Government Act 2003.

44. The graph below shows that the Council is operating within its approved borrowing limits.

Graph: Estimated CFR/ Debt and Debt boundaries at year end



Borrowing Strategy

45. The Council now has some £65.74m of PWLB debt and could potentially borrow up to a level of £80.1m (estimated CFR at 31 March 2023). This figure does not take account of any new capital spending in future years which could potentially be funded by new borrowing.

46. The interest rate forecasts from the Council's treasury advisers identify that it is likely interest rates will rise to hit a peak of 5% in March 2023 before starting to gradually reduce at the end of 2023 and the coming years. The era of historically low interest rates has come to an abrupt end with the Bank of England base rate sharply rising from 0.1% in December 2021 to 2.25% by October 2022, with further rate rises anticipated.

47. The Council's corporate plans require substantial new borrowing by the Council in the future and play a part in the consideration as to when to borrow and the level of internal borrowing. Given the sharp rise in interest rates and the cost of borrowing now jeopardising the viability of some capital schemes there is a stronger case for increasing the level of internal borrowing in order to reduce the impact of borrowing costs on the revenue budget. It appears that the Council may benefit for taking any

future borrowing over a short initial period and then looking to refinance at a later date when interest rates are anticipated to have reduced. This does however open the Council up to the interest rate risk i.e., events may lead to rates being unexpectedly high at the time that refinancing is necessary.

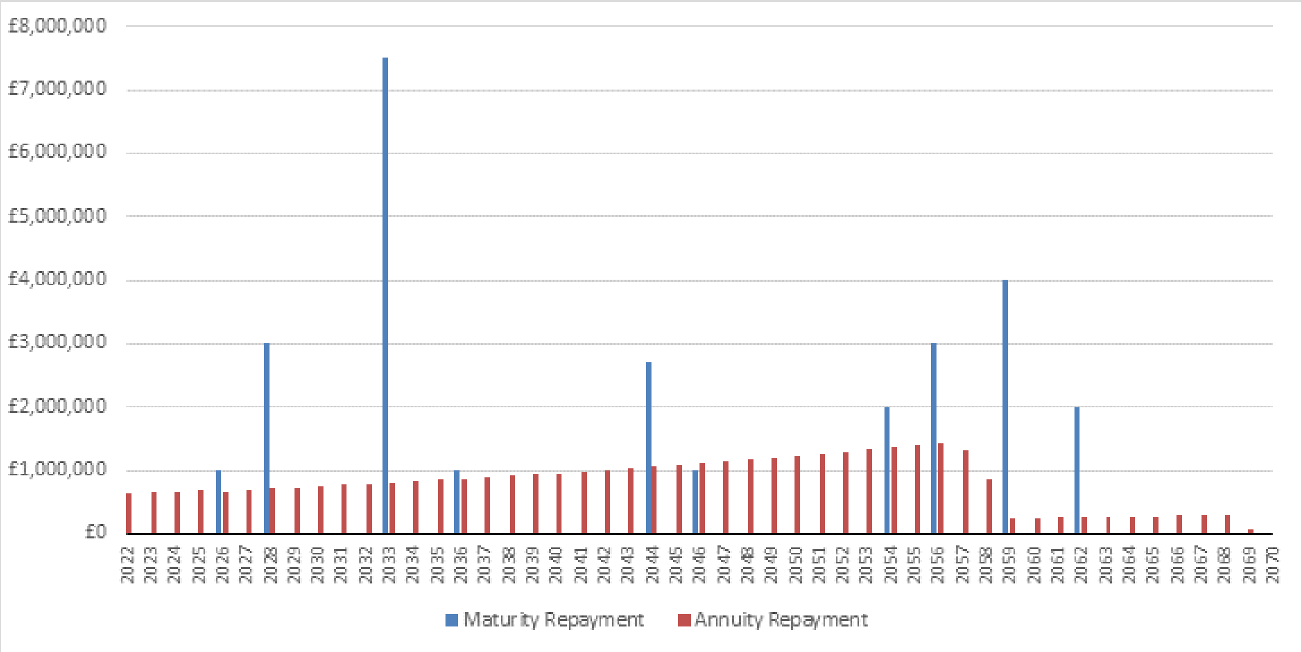
48. Commercial investments (including commercial property) are not part of cashflow management or prudent treasury risk management, and they do not directly help deliver service outcomes. Leveraged investment is a form of speculation, which chooses to take on additional risk in order to earn a profit, much as an investment bank or property company might do. A local authority has powers to borrow and invest ‘for the prudent management of its financial affairs’ (Local Government Act 2003 sections 1 and 12). It is CIPFA’s view that throughout the public services the priority for treasury management is to protect capital rather than to maximise return. The magnified risks of leveraged investments, and the fact that they put public money at unnecessary risk, mean that borrowing in order to invest for the primary purpose of earning a return is not in CIPFA’s view a prudent use of public funds. Regeneration, and investing for economic development purposes, particularly within the boundary of the local authority is still permitted.

49. CIPFA has updated the prudential Code guidance and released a statement on borrowing to invest. The Code says that authorities must not borrow to invest for the primary purpose of financial return, but it is not always straightforward to identify if the authority is borrowing for this purpose or not. Any authority which is a net borrower and which is holding or considering investments of a long term nature must consider whether it is in effect borrowing to invest.

50. The Code’s statement that authorities ‘must not borrow to invest for the primary purpose of financial return’ is not intended to require the forced sale of existing commercial investments, whether commercial properties or financial investments. Selling these investments and using the proceeds to net down debt does, however, reduce treasury risks on both sides of the balance sheet and is therefore an option which should be kept under review, especially if new long-term borrowing is being considered. Code paragraph 53 also makes it clear that where an authority has existing commercial properties, the Code’s requirement that an authority must not borrow to invest for the primary purpose of financial return, is not intended to prevent authorities from appropriate capital repair, renewal or updating of existing properties. The Council has, and continues to hold, a large number of industrial units and other properties within the borough which provide substantial income for the Council – without which the Council would be unsustainable in its current form.

Debt Maturity

51. The Graph below shows the profile of when debt (loans from the PWLB) become repayable. Blue lines indicate maturity loans and red lines indicate annuity loans.



52. The Council will need to carefully consider the structure and timing of any new borrowing to ensure debt does not exceed the CFR in the years ahead.

Debt Rescheduling

53. Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year. However, now that the whole of the yield curve has shifted higher there may be better opportunities in the future, although only prudent and affordable debt rescheduling will be considered.

Investment Strategy

54. The Treasury Management Strategy Statement (TMSS) for 2022/23, which includes the Annual Investment Strategy, was approved by full Council on 16 February 2022. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:
    - Security of capital
    - Liquidity
    - Yield

55. The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

56. Priority is given to security and liquidity of investments in order to reduce counterparty risk to the maximum possible extent.

57. The Council has a limit of £5m with any one institution (rated A or above, supported by Government, and given a blue (12 month) rating by Link Group). This generally represents a level of up to 20% of the investment portfolio with any one institution or group at any one time. It is also necessary, at times, to invest sums of this size in order to attract the larger institutions which have the higher credit ratings.

58. The world economic climate has led to a number of downgrades to banks' credit ratings, making it increasingly difficult to spread investments across a number of institutions. The Chief Finance Officer has the authority to amend the limits if necessary, to ensure that monies can be placed with appropriate institutions.

59. The net cost to the Council of borrowing, investment interest and fees will be reviewed as part of the budget setting process.

Property Fund

60. It was agreed in February 2017 that the option for diversification of some of the investments into a property fund be undertaken with CCLA in the sum of £2m. The investment being in respect of the Council's reserves that are not required for a period of at least 5 years in order that any fall in values and entry costs into such funds can be covered. The £2m was invested in April 2017 and the performance from June 2020 is detailed below:

CCLA – LA's Property Prices and Dividend yields

End of	Sep-22	Jun-22	Mar-22	Sep-21	Mar-21	Mar-20	Mar-19	Mar-18	Apr-17
Offer Price p	371.27	387.73	368.46	335.31	313.45	315.7	327.4	322.40	307.19
Net Asset Value p	347.79	363.21	345.17	314.11	293.63	295.74	306.7	302.01	287.77
Bid Price p	342.40	357.58	339.82	309.24	289.08	291.15	301.95	297.33	283.31
Dividend* on XD Date p	3.26	2.8523	2.7875	2.6917	2.9797	3.25	3.31	3.21	-
Dividend* - Last 12 Months p	11.78	11.21	11.22	12.28	12.63	13.06	13.08	13.70	13.19
Dividend Yield on NAV %	3.39	3.09	3.13	3.91	4.3	4.41	4.26	4.54	4.58

61. The dividend yield is around 3.39% on the net asset value, which results in quarterly cash dividends of around £21,200. Full year dividends are estimated at around £77,000.

Property Fund Capital Value

Units (651,063)	Sep-22	Jun-22	Mar-22	Sep-21	Mar-21	Mar-20	Mar-19	Mar-18	Apr-17
Mid Market Price(£)	2,264,332	2,364,726	2,247,274	2,045,054	1,911,716	1,925,454	1,996,810	1,966,275	1,873,564
Bid Price (£)	2,229,240	2,328,071	2,212,442	2,013,347	1,882,093	1,895,570	1,965,885	1,935,806	1,844,527

62. The Capital value has increased by 20.86% between April 2017 and September 2022 and is now above that of the original investment. At the end of September 2022, the mid-market value is £2,229,240. It is important that this is continued to be viewed as a longer-term investment (5 years plus).

Diversified Income Fund

63. It was agreed in February 2019 that a sum of £3m would be made available for further diversification of the Council's investments. £1m was invested on 26 July 2019 and a further £2m investment was made on 24 September 2019 into the CCLA Diversified

Income Fund. Anticipated returns were around 3% with the added advantage of much higher liquidity than the property fund.

64. The capital value has decreased by 9.43% from the initial investment and was valued at £2,717,180 at the end of September 2022. The quarterly dividend yield was 2.79% for September (£18,443). This compares to a dividend yield of 2.62% in June 2022 (£25,959). It should be remembered that this is a long-term investment and prices can go up and down – as the impact of the pandemic has highlighted. Despite the current loss in capital value the fund has paid out consistent quarterly dividends which have been more than what we could get from other investments and have helped support the revenue budget. Over time the capital value should recover its losses and continue to grow.

Compliance with Treasury Limits

65. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30th September 2022, the Council has operated within the treasury and prudential indicators set out in the Council’s Treasury Management Strategy Statement for 2022/23. The Chief Finance Officer reports that no difficulties are envisaged for the current or future years in complying with these indicators.

66. All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices. The Prudential Indicators have been complied with - reproduced in Appendix 1 for reference.

67. Due to difficulties in identifying enough suitable counterparties there have been times where the limits for balances held with Lloyds bank were raised about the initial £5m limit – approved by the Chief Finance Officer in compliance with the Council's Treasury Management Practices. Exceeding the normal approved limits is a decision that is not taken lightly, and whilst the investment return achieved will have been lower than otherwise may have been the case, the need for security has been considered to be more important.

Financial Implications

68. The Council’s 2022/23 budget included an estimated return on investments of just 0.2% (excluding CCLA funds). This was consistent with returns being achieved at the time. Since setting the budget there have been rapid increases in the Bank of England base rate which has increased from 0.5% when the budget was agreed to 2.25% in October 2022.

69. The Council’s actual average rate of return for the year to 30 September 2022 was 2.06% (2.18% including the CCLA investments).

Risk Management

70. The Council continues to face serious risks in terms of volatility in its income streams, expenditure and future funding. Business rates and property income are susceptible during economic recessions and business rate appeals for example can have sudden and significant impacts. The Council has seen a massive increase in its homelessness expenditure this year and inflation is resulting budget overspends. Income from sales

fees and charges e.g. car park income, remains at risk. Where there is more risk and volatility in income streams the Council will need to ensure that it maintains sufficient reserves to ensure the Council's ability to deliver key services is not jeopardised.

71. The Council spreads its risk on investments by limiting the amount of monies with any one institution or group and limiting the timeframe of the exposure. In determining the level of the investment and period the Council considers formal credit ratings (Fitch) along with its own advisers (Link Group) ratings advice.

72. The security of the principal sum remains of paramount importance to the Council.

73. To date the strategy of externalising debt has been successful. The fact that the Council's reserves were cash backed meant that there was no need to borrow at high interest rates when funds were required during Covid. Currently the Council has not borrowed externally as it may wish to finance Capital expenditure from capital receipts and avoid borrowing costs. It is thus borrowing internally i.e. temporarily using its cash balances/reserves to fund the expenditure.

74. The investments made in the Property Fund (CCLA) and the Diversified Investment Fund (CCLA), totalling £5m are currently showing good returns. The risks currently faced in achieving a sustainable Council budget mean that no further long-term investments can be made. However, there are no reasons to sell the current investments at this time.

Timetable of Next Steps

1. Please include a list of key actions and the scheduled dates for these:

Action	**Key milestone**	**Due date (provisional)**	**Responsible**
Review and revise Annual Treasury Management Strategy & Capital Strategy	Setting of 2023/24 Budget	February 2023	Deputy Chief Finance Officer
Treasury Management Outturn Report to Cabinet	Close of 2022/23 accounts	July 2023	Deputy Chief Finance Officer

Wards Affected

None

Area(s) Affected

None

Implications

Relevant project tools Applied? N/A

Climate change implications considered? N/A

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No
Anti-Poverty	No

Additional Information

Appendix 1: Prudential Indicators
Appendix 2: Economic Update from Link Group
Appendix 3: Approved countries for investments as of 30th September 2022

Officer to Contact

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APPENDIX 1 - Prudential Indicators

The Council’s Capital expenditure plans are the key driver of treasury management activity. The output of the Capital expenditure plans (detailed in the budget) is reflected in the prudential indicators below.

TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt					
borrowing	110,000	110,000	110,000	110,000	110,000
other long term liabilities	5,000	5,000	5,000	5,000	5,000
TOTAL	115,000	115,000	115,000	115,000	115,000
Operational Boundary for external debt					
borrowing	105,000	105,000	105,000	105,000	105,000
other long term liabilities	5,000	5,000	5,000	5,000	5,000
TOTAL	110,000	110,000	110,000	110,000	110,000

The Council’s external borrowing at 30 September 2022 amounted to £65,744,241 which is well within approved borrowing limits.

Interest Rate Exposures	**2021/22 Upper**	**2022/23 Upper**	**2023/24 Upper**
Limits on fixed interest rates based on **net** debt	100%	100%	100%
Limits on variable interest rates based on **net** debt	100%	100%	100%
Limits on fixed interest rates:			
· Debt only	100%	100%	100%
· Investments only	100%	100%	100%
Limits on variable interest rates			
· Debt only	30%	30%	30%
· Investments only	100%	100%	100%

Maturity Structure of fixed interest rate borrowing 2022/23	**Lower**	**Upper**
Under 12 Months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%

Maturity Structure of variable interest rate borrowing 2022/23	**Lower**	**Upper**
Under 12 Months	0%	30%
12 months to 2 years	0%	30%
2 years to 5 years	0%	30%
5 years to 10 years	0%	30%
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%

Affordability prudential indicator - Ratio of financing costs to net revenue stream

This indicator assesses the affordability of the capital investment plans. It provides an indication of the impact of the capital investment plans on the Council's overall finances 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.

Prudential Indicator: Financing Cost to Net Revenue Stream	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Financing Costs	£'000	£'000	£'000	£'000	£'000
1. Interest Charged to General Fund	1,805	2,137	2,320	2,494	2,994
2. Interest Payable under Finance Leases and any other long term liabilities	-	-	-	-	-
3. Gains and losses on the repurchase or early settlement of borrowing credited or charged to the amount met from government grants and local taxpayers	-	-	-	-	-
4. Interest and Investment Income	(540)	(503)	(513)	(505)	(605)
5. Amounts payable or receivable in respect of financial derivatives	-	-	-	-	-
6. Minimum Revenue Provision (MRP) / Voluntary Revenue Provision (VRP)	1,668	1,707	1,943	2,243	2,554
7. Depreciation/Impairment that are charged to the amount to be met from government grants and local taxpayers	-	-	-	-	-
Total	2,933	3,341	3,750	4,232	4,943
Net Revenue Stream Amount to be met from government grants and local taxpayers	14,253	14,245	13,960	13,821	13,683
Ratio **Financing Cost to Net Revenue Stream**	**21%**	**23%**	**27%**	**31%**	**36%**

Note: Outturn figures for 2021/22 are unaudited

This prudential indicator shows that the ratio of financing costs to the net revenue stream is increasing. This is not unexpected given the Council's large capital expenditure ambitions and agreed programmes of Capital expenditure - thus increasing borrowing costs.

APPENDIX 2 - Economic Update from Link Group

Further details from our treasury management advisors, Link Group, to accompany the economic update in the body of the report are shown below:

1. The UK economy grew by 0.2% q/q in Q1 2022/23, though revisions to historic data left it below pre-pandemic levels.

2. There are signs of higher energy prices creating more persistent downward effects in economic activity. Both industrial production (-0.3% m/m) and construction output (-0.8% m/m) fell in July 2022 for a second month in a row. Although some of this was probably due to the heat wave at the time, manufacturing output fell in some of the most energy intensive sectors (e.g. chemicals), pointing to signs of higher energy prices weighing on production. With the drag on real activity from high inflation having grown in recent months, GDP is at risk of contracting through the autumn and winter months.

3. The fall in the composite PMI from 49.6 in August to a 20-month low preliminary reading of 48.4 in September points to a fall in GDP of around 0.2% q/q in Q3 and consumer confidence is at a record low. Retail sales volumes fell by 1.6% m/m in August, which was the ninth fall in 10 months. That left sales volumes in August just 0.5% above their pre-Covid level and 3.3% below their level at the start of the year. There are also signs that households are spending their excess savings in response to high prices. Indeed, cash in households' bank accounts rose by £3.2bn in August, which was below the £3.9bn rise in July and much smaller than the 2019 average monthly rate of £4.6bn.

4. The labour market remained exceptionally tight. Data for July and August provided further evidence that the weaker economy is leading to a cooling in labour demand. Labour Force Survey (LFS) employment rose by 40,000 in the three months to July (the smallest rise since February). But a renewed rise in inactivity of 154,000 over the same period meant that the unemployment rate fell from 3.8% in June to a new 48-year low of 3.6%. The single-month data showed that inactivity rose by 354,000 in July itself and there are now 904,000 more inactive people aged 16+ compared to before the pandemic in February 2020. The number of vacancies has started to level off from recent record highs but there have been few signs of a slowing in the upward momentum on wage growth. Indeed, in July, the 3my/y rate of average earnings growth rose from 5.2% in June to 5.5%.

5. CPI inflation eased from 10.1% in July to 9.9% in August, though inflation has not peaked yet. The easing in August was mainly due to a decline in fuel prices reducing fuel inflation from 43.7% to 32.1%. And with the oil price now just below $90pb, we would expect to see fuel prices fall further in the coming months.

6. However, utility price inflation is expected to add 0.7% to CPI inflation in October when the Ofgem unit price cap increases to, typically, £2,500 per household (prior to any benefit payments). But, as the government has frozen utility prices at that level for two years, energy price inflation will fall sharply after October and have a big downward influence on CPI inflation.

7. Nonetheless, the rise in services CPI inflation from 5.7% y/y in July to a 30-year high of 5.9% y/y in August suggests that domestic price pressures are showing little sign of abating. A lot of that is being driven by the tight labour market and strong wage growth. CPI inflation is expected to peak close to 10.4% in November and, with the supply of workers set to remain unusually low, the tight labour market will keep underlying inflationary pressures strong until early next year.

8. During H1 2022, there has been a change of both Prime Minister and Chancellor. The new team (Liz Truss and Kwasi Kwarteng) have made a step change in government policy. The government's huge fiscal loosening from its proposed significant tax cuts will add to existing domestic inflationary pressures and will potentially leave a legacy of higher interest rates and public debt. Whilst the government's utility price freeze, which could cost up to £150bn (5.7% of GDP) over 2 years, will reduce peak inflation from 14.5% in January next year to 10.4% in November this year, the long list of tax measures announced at the "fiscal event" adds up to a loosening in fiscal policy relative to the previous government's plans of £44.8bn (1.8% of GDP) by 2026/27. These included the reversal of April's national insurance tax on 6th November, the cut in the basic rate of income tax from 20p to 19p in April 2023, the cancellation of next April's corporation tax rise, the cut to stamp duty and the removal of the 45p tax rate, although the 45p tax rate cut announcement has already been reversed.

9. Fears that the government has no fiscal anchor on the back of these announcements has meant that the pound has weakened again, adding further upward pressure to interest rates. Whilst the pound fell to a record low of $1.035 on the Monday following the government's "fiscal event", it has since recovered to around $1.12. That is due to hopes that the Bank of England will deliver a very big rise in interest rates at the policy meeting on 3rd November and the government will lay out a credible medium-term plan in the near term. This was originally expected as part of the fiscal statement on 23rd November but has subsequently been moved forward to an expected release date in October. Nevertheless, with concerns over a global recession growing, there are downside risks to the pound.

10. The MPC has now increased interest rates seven times in as many meetings in 2022 and has raised rates to their highest level since the Global Financial Crisis. Even so, coming after the Fed and ECB raised rates by 75 basis points (bps) in their most recent meetings, the Bank of England's latest 50 basis points hike looks relatively dovish. However, the UK's status as a large importer of commodities, which have jumped in price, means that households in the UK are now facing a much larger squeeze on their real incomes.

11. Since the fiscal event on 23rd September, we now expect the Monetary Policy Committee (MPC) to increase interest rates further and faster, from 2.25% currently to a peak of 5.00% in February 2023. The combination of the government's fiscal loosening, the tight labour market and sticky inflation expectations means we expect the MPC to raise interest rates by 100bps at the policy meetings in November (to 3.25%) and 75 basis points in December (to 4%) followed by further 50 basis point hikes in February and March (to 5.00%). Market expectations for what the MPC will do are volatile. If Bank Rate climbs to these levels the housing market looks very vulnerable, which is one reason why the peak in our forecast is lower than the peak of 5.50% - 5.75% priced into the financial markets at present.

12. Throughout 2022/23, gilt yields have been on an upward trend. They were initially caught up in the global surge in bond yields triggered by the surprisingly strong rise in CPI inflation in the US in May. The rises in two-year gilt yields (to a peak of 2.37% on 21st June) and 10-year yields (to a peak of 2.62%) took them to their highest level since 2008 and 2014 respectively. However, the upward trend was exceptionally sharp at the end of September as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the government's extraordinary fiscal stimulus plans. The 30-year gilt yield rose from 3.60% to 5.10% following the "fiscal event", which threatened financial stability by forcing pension funds to sell assets into a falling market to meet cash collateral requirements. In response, the Bank did two things. First, it postponed its plans to start selling some of its quantitative easing (QE) gilt holdings until 31st October. Second, it committed to buy up to £65bn of long-term gilts to "restore orderly market conditions" until 14th October. In other words, the Bank is restarting QE, although for financial stability reasons rather than monetary policy reasons.

13. Since the Bank's announcement on 28th September, the 30-year gilt yield has fallen back from 5.10% to 3.83%. The 2-year gilt yield dropped from 4.70% to 4.30% and the 10-year yield fell back from 4.55% to 4.09%.

14. There is a possibility that the Bank continues with QE at the long-end beyond 14th October or it decides to delay quantitative tightening beyond 31st October, even as it raises interest rates. So far at least, investors seem to have taken the Bank at its word that this is not a change in the direction of monetary policy nor a step towards monetary financing of the government's deficit. But instead, that it is a temporary intervention with financial stability in mind.

15. After a shaky start to the year, the S&P 500 and FTSE 100 climbed in the first half of Q2 2022/23 before falling to their lowest levels since November 2020 and July 2021 respectively. The S&P 500 is 7.2% below its level at the start of the quarter, whilst the FTSE 100 is 5.2% below it as the fall in the pound has boosted the value of overseas earnings in the index. The decline has, in part, been driven by the rise in global real yields and the resulting downward pressure on equity valuations as well as concerns over economic growth leading to a deterioration in investor risk appetite.

APPENDIX 3 - Approved countries for investments as of 30th September 2022

Based on lowest available rating

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Hong Kong
- Qatar
- **U.K.**

Agenda Item 7

Report To:	**Audit Committee**
Date of Meeting:	**12 January 2023**
Report Title:	**Treasury Management Strategy and Capital Strategy 2023/24**
Report By:	**Simon Jones**
	Deputy Chief Finance Officer
Key Decision:	**Yes**
Classification:	**Open**

Purpose of Report

To consider the draft Treasury Management Strategy, Annual Investment Strategy, Minimum Revenue Provision (MRP) Policy and Capital Strategy and make recommendations to full Council as appropriate. This is to ensure that there is an effective framework for the management of the Council's investments, cash flows and borrowing activities prior to the start of the new financial year.

The Council is expected to have some £65.4 million of external debt (as at 31 March 2023), and investments which can fluctuate between £15m and £35m in the year. The level of debt is set to increase to some £110.3m by 2024/25.

Recommendations

Audit Committee recommends to Cabinet and full Council that:

A. The Council approve the Treasury Management Strategy, Minimum Revenue Provision (MRP) Policy, Annual investment Strategy and the Capital Strategy.

B. The strategies listed are updated as necessary during 2023/24 in the light of changing and emerging risks and the Council's evolving future expenditure plans.

Reasons for Recommendations

1. The Council seeks to minimise the costs of borrowing and maximise investment income whilst ensuring the security of its investments. The Council continues to make substantial investments in property, housing and energy generation initiatives, and this will continue to involve the Council in taking on additional borrowing.

2. The sums involved are significant and the assumptions made play an important part in determining the annual budget. The CIPFA Treasury Management Code of Practice, previously adopted by the Council, has been revised to take account of the more commercialised approach being adopted by councils and the enhanced levels of transparency required. The Code has represented best practice and helps ensure compliance with statutory requirements.

3. The Council has the ability to diversify its investments and must consider carefully the level of risk against reward against a background of historically very low interest rates. Investments can help to close the gap in the budget in the years ahead and thus help to preserve services, assist in the regeneration of the town, provide additional housing and enhance the long-term sustainability of the town. However, over reliance on such income streams would involve taking unnecessary risks with the future of the Council and its ability to deliver statutory services.

Introduction

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

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

3. The contribution the treasury management function makes to the authority 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 see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will result in a loss to the General Fund balances.

4. Treasury management in this context is defined by CIPFA as:

"The management of the organisation'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"

5. The Cabinet are due to receive the same report and strategies at its meeting on the 6 February 2023 and will thereafter make recommendations on the policies and strategies to full Council on 15 February 2023.

Revisions to the Prudential Code and Treasury Management Code

6. CIPFA published the revised Codes on 20th December 2021 and has stated that revisions need to be included in the reporting framework from the 2023/24 financial year. The Council, therefore, has to have regard to these Codes of Practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to full Council for approval.

7. The Treasury Management Strategy details the requirements of the revised codes.

Borrowing / Borrowing Levels

Investment guidance

8. The revised Treasury Management Code requires all investments and investment income to be attributed to one of the following three purposes: -

Treasury management
Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery
Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

Commercial return
Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to an authority's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

The Primary Requirements of the Code

9. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

10. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

11. Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Capital Strategy, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.

12. 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.

13. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

14. Publication of the Strategies on the Council's website.

Reporting Arrangements

15. The reporting arrangements proposed, in accordance with the requirements of the Code, are summarised below:-

Area of Responsibility	**Council/ Committee/ Officer**	**Frequency**
Treasury Management Strategy / Annual Investment Strategy / MRP policy/ Capital Strategy (in future years)	Cabinet and Council	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy / Capital Strategy/MRP policy – Mid Year report	Cabinet and Council	Mid-year
Treasury Management Strategy/Capital Strategy / Annual Investment Strategy / MRP policy – updates or revisions at other times	Cabinet and Council	As required
Annual Treasury Outturn Report	Cabinet and Council	Annually by 30 September after the end of the year
Treasury Management Practices	S151 Officer	Reviewed as required (minimum - annually)

Scrutiny of Treasury Management Strategy	Audit Committee	Annually before the start of the year
Scrutiny of treasury management performance and strategy	Audit Committee	Quarterly Monitoring reports, Mid-Year report,

16. The CIPFA Code of Practice on Treasury Management (2021) was adopted by this Council in February 2022. The main clauses adopted are included in Appendix 8.

17. The Audit Committee is required to consider the Prudential Indicators as part of the Treasury Management Strategy and make recommendations to Cabinet and full Council; these are identified in the report and Appendix 4 of the Treasury Management Strategy.

Capital Strategy

18. In the light of the increasing commercialisation within local government in particular, in December 2017, CIPFA issued revised Prudential and Treasury Management Codes. The codes require all local authorities to produce detailed Capital Strategies.

19. The Capital Strategy is intended to give a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.

20. The development of such a strategy allows flexibility to engage with full council to ensure that the overall strategy, governance procedures and risk appetite are fully understood by all elected members.

21. The Capital Strategy should be tailored to the authority’s individual circumstances but should include capital expenditure, investments and liabilities and treasury management. The Capital Strategy should include sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured and to meet legislative requirements on reporting.

22. The Capital strategy being a high-level document that summarises in appropriate detail the requirements for specific investment appraisals. As a minimum such requirements being:

- The capital schemes that are proposed and their objectives
- The legal power to undertake a particular scheme
- The key aspects of the financial appraisal, including any significant risks that have been identified
- Qualitative criteria that have underpinned the recommendation for a scheme to proceed e.g. links to Corporate plan, economic growth, job retention, etc.
- Likely source of funding
- Long term implications
- Risks and affordability

23. In assessing new income generating proposals the Council does already consider the above list of issues as part of the due diligence checklist and decisions are fully documented.

24. This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset.

25. The Capital Strategy looks to cover a much longer planning period than the existing capital programme. The future expenditure plans continue to evolve. The capital strategy and all the prudential indicators and controls are attached for the known schemes. Borrowing limits will need to be determined by full Council based on affordability and risk in due course.

Risk Management

26. The Investment strategy prioritises security of investments over return. Where investments are made, they are limited in size and duration. External treasury advisers are used to advise the Council and have been used to train members. The Council has introduced further checks on credit worthiness of counterparties over the years as and when these have been further developed by its advisers.

27. Whilst there is no absolute security for investments made, the Council has limited its investments to the higher rated institutions, in order to mitigate the risk as far as practical and looks to reduce the risk by spreading its investment portfolio. The Council has adopted the CIPFA Code of Practice.

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

29. The training needs of treasury management officers will also be reviewed in the light of the Code's requirements and experience of new staff.

30. The additional risks that the Council has taken on with commercial property, housing and energy investments needs to be considered in the context of the totality of risk that the Council faces e.g. unexpected expenditure demands, robustness of income streams, loans and guarantees to other parties, economic downturns, pandemics etc. Where there is more risk and volatility in income streams the Council will need to ensure that it maintains sufficient reserves to ensure the Council's ability to deliver key services is not jeopardised.

31. The Council spreads its risk on investments by limiting the amount of monies with any one institution or group and limiting the timeframe of the exposure. In determining the level of the investment and period the Council considers formal credit ratings (Fitch) along with its own advisers (Link Group) ratings advice.

32. The security of the principal sum remains of paramount importance to the Council.

Economic/Financial Implications

33. The Council generally has investments in the year of between £15 million and £35 million at any one time and is estimated to have longer term borrowings of £65.4m by the end of March 2023 (if no further external borrowing is undertaken). Management of its investments, borrowing and cash flow remains crucial to the proper and effective management of the Council. The Strategies and Policies detailed in the report directly influence the Council's Medium Term Financial Strategy and the annual budget.

Organisational Consequences

34. The Cabinet is responsible for the development and review of the Treasury Management Strategy, Minimum Revenue Provision (MRP) Policy, Investment Strategy and the future Capital Strategy. The Audit Committee is responsible for scrutinising these strategies, policies and performance throughout the year. Full Council, as the budget setting body, remains responsible for the approval of the Treasury Management Strategy, MRP Policy, and Investment Strategy and for the Capital Strategy.

35. Monitoring reports will be produced and will be presented to Cabinet and the Audit Committee. A mid-year report is presented to full Council on any concerns arising since approving the initial strategies and policies. Only full Council will be able to amend the Treasury Management Strategy, MRP Policy, Investment Strategy or Capital Strategy. The Chief Finance Officer will determine the Treasury Management Practices and associated schedules.

36. There are new responsibilities placed on the Council and the Chief Finance officer from the 2021 Codes of Practice which relate to governance arrangements, ensuring robustness of business cases, and risk management. The risk management requirements relate to asset related properties which the Council has borrowed to finance, and assessments of overall risk.

37. There are specific requirements to maintain schedules of counterparties and of any guarantees that the Council may give or have given in the past in order to fully assess the potential risks that the Council may be exposed to when making investment decisions.

Timetable of Next Steps

Please include a list of key actions and the scheduled dates for these:

Action	Key milestone	Due date (provisional)	Responsible
Arrange Training for new and existing members / officers	For Mid-Year Review and prior to setting strategies for the	July 2023 &	Chief Finance Officer

	forthcoming year Report	January 2024	

Wards Affected

None

Policy Implications

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues & Climate Change	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	Yes
Local People's Views	No
Anti-Poverty	No
Legal	No

Additional Information

Documents Attached:

(i)Treasury Management Strategy (including Investment Policy)

Includes the following Appendices:-

1. MRP Introduction and Policy Statement
2. Interest Rate Forecasts
3. Economic Review
4. Prudential and Treasury Indicators
5. Specified and non-Specified Investments
6. Approved Countries for Investments
7. Treasury Management Policy Statement
8. Purpose and Requirements of the Code
9. Treasury Management Scheme of Delegation
10. The Treasury Management Role of the Section 151 Officer

(ii) Capital Strategy

Other Supporting Documents:-

CIPFA - Treasury Management Code of Practice (2021)
CIPFA - The Prudential Code (2021)
Budget Report - Cabinet 6 February 2023

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Treasury Management Strategy (TMS) for 2023/24

1. The Local Government Act 2003 (the Act) and supporting regulations require the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice 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.

2. The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy; this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. There is also the requirement to produce a Capital Strategy – also for determination by full Council.

3. The Treasury Management strategy covers two main areas:

(i) Capital issues

- the capital plans (in summarised form) and the prudential indicators;
- the Minimum Revenue Provision (MRP) policy.

(ii) Treasury management issues

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

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

5. The strategy for 2023/24 in respect of the following aspects of the treasury management function is based upon the Council officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor, Link Group.

Revisions to the Prudential Code and Treasury Management Code

6. CIPFA published the revised Codes on 20th December 2021 and has stated that revisions need to be included in the reporting framework from the 2023/24 financial year. The Council, therefore, has to have regard to these Codes of Practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to full Council for approval.

7. The revised Treasury Management Code requires all investments and investment income to be attributed to one of the following three purposes: -

Treasury management
Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which

seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery
Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

Commercial return
Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to an authority's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

8. The revised Treasury Management Code will requires an authority to implement the following: -

1. **Adopt a new liability benchmark treasury indicator** to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained;

2. **Long-term treasury investments**, (including pooled funds), are to be classed as commercial investments unless justified by a cash flow business case;

3. **Pooled funds** are to be included in the indicator for principal sums maturing in years beyond the initial budget year;

4. Amendment to the **knowledge and skills register** for officers and members involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each authority;

5. **Reporting to members is to be done quarterly.** Specifically, the Chief Finance Officer (CFO) is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The CFO is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to full Council and should be reported as part of the authority's integrated revenue, capital and balance sheet monitoring;

6. **Environmental, social and governance (ESG)** issues to be addressed within an authority's treasury management policies and practices (TMP1).

9. The main requirements of the Prudential Code relating to service and commercial investments are: -

1. The risks associated with service and commercial investments should be proportionate to their financial capacity – i.e. that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services;

2. An authority must not borrow to invest for the primary purpose of commercial return;

3. It is not prudent for local authorities to make any investment or spending decision that will increase the CFR, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority, and where any commercial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose;

4. An annual review should be conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt;

5. A prudential indicator is required for the net income from commercial and service investments as a proportion of the net revenue stream;

6. Create new Investment Management Practices to manage risks associated with non-treasury investments, (similar to the current Treasury Management Practices).

10. An authority's Capital Strategy or Annual Investment Strategy should include: -

1. The authority's approach to investments for service or commercial purposes (together referred to as non-treasury investments), including defining the authority's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence;

2. An assessment of affordability, prudence and proportionality in respect of the authority's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services);

3. Details of financial and other risks of undertaking investments for service or commercial purposes and how these are managed;

4. Limits on total investments for service purposes and for commercial purposes respectively (consistent with any limits required by other statutory guidance on investments);

5. Requirements for independent and expert advice and scrutiny arrangements (while business cases may provide some of this material, the information contained in them will need to be periodically re-evaluated to inform the authority's overall strategy);

6. State compliance with paragraph 51 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest primarily for financial return;

11. As this Treasury Management Strategy Statement and Annual Investment Strategy deals solely with treasury management investments, the categories of service delivery and commercial investments should be addressed as part of the Capital Strategy report.

Background

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

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

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

15. CIPFA defines treasury management as:

"The management of the local authority's borrowing, investments and cash flows, including 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."

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

Reporting Requirements

Capital Strategy

17. The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report which will provide the following: -

- a high-level 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;
- The implications for future financial sustainability.

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

Treasury Management Reporting

19. The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

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

- an Annual Investment Strategy, (the parameters on how investments are to be managed)

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition the Council will report performance against all forward-looking prudential indicators quarterly as part of the quartetly budget monitoring process.

c. **An annual treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

20. The above reports are required to be adequately scrutinised before being recommended to the full Council. This role is undertaken by the Audit Committee.

21. Quarterly reports – In addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June/end of December) is also required. However, these additional reports do not have to be reported to full Council but do require to be adequately scrutinised. This role is undertaken by the Overview & Scrutiny Committee.

Key Notes to the Strategy

22. The key notes and changes from the previous year's strategy are:

1. The Council has not taken on any additional external borrowing in the last 12 months. The level of capital expenditure has been lower than forecast as a result of slippage in the capital programme and borrowing has remained well within the operational and authorised boundaries.

   The Capital expenditure plans of the Council are expected to involve more borrowing again in 2023/24 and the years ahead. The borrowing limits proposed in the strategy have been increased to allow for the additional capital expenditure expected. If the business plans for the Town Deal projects involve additional borrowing by the council these limits will need to be reviewed and increased further.

2. The majority of the new borrowing in future years will be for Capital purposes, but there will inevitably continue to be a smaller requirement for loans that are revenue in nature – to cover potential short term cash deficits. Such monies cannot be borrowed from the Public Works Loan Board, and will be financed from the market or where there are revenue loans made e.g. to the housing company then from existing Council reserves.

3. The Council is required to make a Minimum Revenue Provision in respect of its borrowing – to ensure debt is repaid over an appropriate period. Where the Council is making significant investments in property, housing or other programmes the Council's MRP policy enables the Council to match the principal repayments made on loans arranged with a near equal MRP payment (an annuity methodology).

4. Investment returns are increasing as the bank base rate is increasing rapidly. The investing enviroment ramins uncertain. The overall cash returns are expected to decrease as the Council's reserves decline.

5. The Council invested some £5m of its reserves in longer period investments e.g. Property Fund, Diversified Investment fund. There are no proposals to invest more

monies for potentially longer periods given the further potential calls on reserves. The monies in these funds can still be obtained quickly should the need arise.

Balanced Budget

23. It is a statutory requirement under the Local Government Finance Act 1992, for the Council to calculate its Council Tax requirement. In particular, Section 31 requires a local authority in calculating the Council Tax requirement for each financial year to include the revenue costs that flow from capital financing decisions. Thus, any increases in costs (running costs & borrowing costs) from new capital projects must be limited to a level which is affordable within the projected income of the Council for the foreseeable future.

Environmental, Social & Governance (ESG) Considerations

24. This topic is becoming a more commonplace discussion within the wider investment community, including Local Authorities. While around two thirds of councils have declared a “climate emergency” to date, this has not translated into the incorporation of something more formal within their treasury-related Annual Investment Strategy. Changes to the CIPFA TM Code 2021 will see ESG incorporated into Treasury Management Practice 1. The following wording (page 18 of the Treasury Management Code) suggests the scope of what is included: “The organisation's credit and counterparty policies should set out its policy and practices relating to environmental, social and governance (ESG) investment considerations. This is a developing area, and it is not implied that the organisation’s ESG policy will currently include ESG scoring or other real-time ESG criteria at individual investment level.”

25. Furthermore, page 50 of the Treasury Management Code states “ESG issues are increasingly significant for investors and investment managers. This is better developed in equity and bond markets than for short-term cash deposits, and there is a diversity of market approaches to ESG classification and analysis. This means that a consistent and developed approach to ESG for public service organisations is currently difficult. Organisations are therefore recommended to consider their credit and counterparty policies in light of ESG information and develop their own ESG investment policies and treasury management practices consistent with their organisation’s own relevant policies, such as environmental and climate change policies.”

26. The most important issue is ensuring that there is a clear understanding of what “environmental, social and governance (ESG)” investment considerations means. It is about understanding the ESG “risks” that an entity is exposed to and evaluating how well it manages these risks, (all entities will be subject to these to one extent or other). It is NOT the same as Socially Responsible Investing, (typically where you apply negative screens), and equally, it is NOT the same as Sustainable Investing, (investing in products / companies based on expected sustainable and beneficial societal impact, alongside a financial return).

27. There is such a huge potential for misunderstanding which could have material unintended consequence i.e., limiting of potential counterparty options, thus decreasing diversification. The above could then lead to authorities widening credit criteria to take on more names, or those with a stronger “ESG” performance, which could then increase credit risk…which would place the cornerstone of prudent investing at risk.

28. The other factor, i.e., what local authorities can or already do to take this into account, is credit ratings. All the main agencies are now extoling how they incorporate ESG risks alongside more traditional financial risk metrics when assessing counterparty ratings. As such, you could argue that their incorporation is already being done, to an extent, by the use of mainstream rating agencies.

29. Also, a final note to point out is that given ESG risks are all about potential impact on entity enterprise value; the "G" is by far the most important one when considering treasury investments, the majority of which will be shorter-term in nature. This is because poor governance can have a more immediate impact on the financial circumstances of an entity and the potential for a default event that would impact the amount the local authorities receive back from their investments. Those financial institutions that are viewed as having poor/weak corporate governance are generally less well rated in the first instance or have a higher propensity for being subject to negative rating action. So, this element of ESG is of high importance to an investor that is following investment guidance with the security, liquidity and yield (SLY) principle at its core. Environmental & Social factors are also important, but more for the long-term impact, unless you are specifically going down the "impact" / "sustainable" type investment route…and there are not many options for that in respect of short-term investments.

PRUDENTIAL AND TREASURY LIMITS FOR 2023/24 TO 2025/26

The Council's Capital Position (Prudential Indicators)

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

31. The prudential code requires the local authority to identify prudential indicators that enable members, officers and the public to make a meaningful judgement on the Council's total exposure from borrowing and investment decisions. The indicators are required to cover both the Council's current position and the expected position assuming all planned investments in the forthcoming years are completed.

32. This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Reviewing the limits in place for borrowing activity.

Prudential Indicator for Capital Expenditure

33. 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. The table summarises how the capital expenditure plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

	Actual 2021/22 £'000s	Budget 2022/23 £'000s	Forcast 2022/23 £'000s	Budget 2023/24 £'000s	Budget 2024/25 £'000s	Budget 2025/26 £'000s
Capital Expenditure	**4,614**	**26,380**	**17,593**	**30,716**	**14,524**	**2,591**
Financed by:						
Capital receipts	60	5,000	0	0	0	0
Capital grants	3,192	8,943	9,687	5,347	3,243	2,056
Reserves	407	4,246	0	0	0	0
Revenue	0	0	0	0	0	0
Borrowing	**955**	**8,191**	**7,906**	**25,369**	**11,281**	**535**

Capital Expenditure – Financing

34. The table above summarises the capital expenditure plans and how these plans are being financed – either by own resources e.g. Section 106, Capital receipts or through borrowing. New Capital schemes will generally be financed by borrowing, unless Capital receipts from the sale of assets are available. If capital receipts can be generated from asset sales the amount of borrowing shown above may decrease.

35. The schemes in the capital programme which are expected to require financing (as least in part) from borrowing in 2023/24 are:

- Cornwallis Street Development (£9m)
- Housing Acquisition Programme 50 units of Temporary Accomodation (£4.7m)
- Mayfield E – Housing (£3.5m)
- Bexhill Road South (£2.5m)
- Energy – Unallocated (£2.3m)
- Cliff Railways (£1m)
- Annual programme of roof refurbishment (£700k)
- Grounds Maintenance Equipment (£626k)
- Energy – Solar Panels (£500k)
- Priory Meadow Contribution to Capital Works (£288k)
- Restoration of Pelham Crescent / Pelham Arcade (£100k)
- Conversion of 12-13 York Buildings (£74k)
- Groyne Refurbishment (£35k)

Impact on the prudential indicators

36. The treasury indicators for borrowing activity are the **Authorised Limit** and the **Operational Boundary** for external debt.

The **Authorised Limit**, which is a limit beyond which external debt is prohibited, needs to be set or revised by the full Council; it is a statutory duty under Section 3 (1) of the Local Government Act 2003 and supporting regulations. It reflects the level of borrowing which, while not desired, could be afforded in the short term. It is the expected maximum borrowing need with some headroom for unexpected movements.

Authorised Limit	2021/22	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000	£'000
Debt	110,000	110,000	135,000	135,000	135,000
Other long term liabilities	5,000	5,000	5,000	5,000	5,000
TOTAL	115,000	115,000	140,000	140,000	140,000

The **Operational Boundary** is the limit beyond which external debt is not normally expected to exceed.

Operational Boundary	2021/22	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000	£'000
Debt	105,000	105,000	130,000	130,000	130,000
Other long term liabilities	5,000	5,000	5,000	5,000	5,000
TOTAL	110,000	110,000	135,000	135,000	135,000

37. Essentially the Council is required to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future Council Tax levels is ‘acceptable’.

38. Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion in the Capital programme incorporate financing by both external borrowing as well as other forms of liability e.g. Credit arrangements (such as leases).

39. The Authorised Limit and Operational Boundary are to be set, on a rolling basis, for the forthcoming financial year and two successive financial years by full Council as part of this strategy.

40. 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.

41. Given the current level of capital expenditure plans for the years ahead it is recommened that the limits are each increased by £25m to allow sufficient headroom for our capital aspirations.

PROSPECTS FOR INTEREST RATES

42. The Council has appointed Link Group, Link Treasury Services Limited as its external treasury management advisor. Part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 19/12/2022. These are forecasts for certainty rates, gilt yields plus 80 bps.The table below provides an overview (please also see Appendix 2).

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

43. Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

44. The central forecast reflects a view that the MPC will be keen to demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened throughout 2022, but the new Government's policy of emphasising fiscal rectitude will probably mean Bank Rate does not now need to increase to further than 4.5%.

45. Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures have lessened – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

46. The CPI measure of inflation will peak at close to 11% in Q4 2022. Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market. Wage increases, excluding bonuses, are currently running at 5.7%.

47. Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started but will focus on the short to medium end of the curve for the present. This approach will prevent any further disruption to the longer end of the curve following on from the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy.

48. In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.

49. On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

50. An economic review from the Council's treasury advisors is included in Appendix 3. Such forecasts are being kept under regular review.

Public Works Loan Board (PWLB) Rates

51. Yield curve movements have become less volatile under the Sunak/Hunt government. PWLB 5 to 50 years Certainty Rates are, generally, in the range of 3.75% to 4.50%. The medium to longer part of the yield curve is currently inverted (yields are lower at the longer end of the yield curve compared to the short to medium end).

52. Link Group view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the poor inflation outlook but markets are volatile and further whipsawing of gilt yields across the whole spectrum of the curve is possible.

The balance of risks to the UK economy:

53. The overall balance of risks to economic growth in the UK is to the downside. Indeed, the Bank of England projected two years of negative growth in their November Quarterly Monetary Policy Report.

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

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

- The Bank of England acts too quickly, or too far, over the next two years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

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

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

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

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates an even more rapid series of increases in Bank Rate faster than we currently expect.

- The Government acts too slowly to increase taxes and/or cut expenditure to balance the public finances, in the light of the cost-of-living squeeze.

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

- Longer term US treasury yields rise strongly, if inflation numbers disappoint on the upside, and pull gilt yields up higher than currently forecast.

54. **Borrowing advice from Link Group:** Our long-term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are now above this level, borrowing strategies will need to be reviewed in that context. Better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023.

55. Link Group's suggested budgeted earnings rates for investments up to about three months' duration in each financial year are as follows: -

Average earnings in each year	
2022/23 (remainder)	3.95%
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

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

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

BORROWING STRATEGY

58. The capital expenditure plans set out in the budget provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities.

Current Portfolio Position

59. The Council's forecast debt position for 31 March 2023, if no further borrowing is taken for the rest of the financial year, as at 12 January 2023, amounted to £65.4m (See Table 1 below).

Table 1 - Borrowing

Debt	1 April 2022 Principal	Start Date	Maturity Date	31 March 2023 Principal	Rate
PWLB	£7,500,000	25/05/2007	01/02/2033	£7,500,000	4.80%
PWLB	£909,027	04/09/2014	02/09/2044	£909,027	3.78%
PWLB (Optivo)	£1,788,235	04/09/2014	02/09/2044	£1,788,235	3.78%
PWLB (FT) (Annuity)	£125,981	21/03/2016	20/03/2026	£95,262	1.66%
PWLB	£1,000,000	11/05/2016	11/05/2056	£1,000,000	2.92%
PWLB	£1,000,000	11/05/2016	11/05/2046	£1,000,000	3.08%
PWLB	£1,000,000	11/05/2016	11/05/2036	£1,000,000	3.01%
PWLB	£1,000,000	11/05/2016	11/05/2026	£1,000,000	2.30%
PWLB	£2,000,000	24/06/2016	24/06/2054	£2,000,000	2.80%
PWLB	£1,000,000	24/06/2016	24/06/2028	£1,000,000	2.42%
PWLB	£2,000,000	21/03/2017	21/03/2057	£2,000,000	2.53%
PWLB	£2,000,000	21/03/2017	19/09/2059	£2,000,000	2.50%
PWLB	£2,000,000	23/03/2017	23/03/2060	£2,000,000	2.48%
PWLB (Annuity)	£6,772,356	01/06/2017	01/06/2057	£6,652,722	2.53%
PWLB (Annuity)	£7,860,481	22/11/2017	22/11/2057	£7,729,610	2.72%
PWLB	£2,000,000	12/12/2018	12/06/2028	£2,000,000	1.98%
PWLB (Annuity)	£3,820,026	13/12/2018	13/12/2058	£3,756,930	2.55%
PWLB (Annuity)	£2,387,758	31/01/2019	31/01/2059	£2,348,400	2.56%
PWLB (Annuity)	£4,273,795	31/01/2019	31/01/2069	£4,226,034	2.56%
PWLB (Annuity)	£8,976,150	20/03/2019	20/03/2059	£8,827,583	2.54%
PWLB (Annuity)	£4,649,533	02/09/2019	02/09/2069	£4,587,401	1.83%
PWLB	£2,000,000	13/01/2022	13/01/2062	£2,000,000	1.89%
Total Debt	**£66,063,342**			**£65,421,204**	**2.81%**

60. The Council has loaned money to four other organisations. Six longer-term loans are outstanding. Namely:

Table 2 - Loans to Other Organisations

3rd Party Organisations	Rate/ Return (%)	Start Date	End Date	Principal Outstanding as at 31/03/2023 £	Type
Amicus /Optivo	3.78%	04/09/2014	02/09/2044	£1,788,235	Maturity
The Foreshore Trust	1.66%	21/03/2016	20/03/2026	£95,262	Annuity
The Source	2.43%	17/12/2015	17/12/2025	£8,144	Annuity
			Sub-Total	**£1,891,641**	
Hastings Housing Company					
Hastings Housing Company - Loan 1	4.48%	28/02/2018	28/02/2058	£784,676	Maturity
Hastings Housing Company - Loan 2	4.84%	12/02/2019	12/02/2059	£344,810	Maturity
Hastings Housing Company - Loan 3	4.84%	13/06/2019	13/06/2059	£4,359,912	Maturity
			Sub-Total	**£5,489,398**	
			Total	**£7,381,039**	

61. Borrowing from the PWLB was taken to fund the Amicus Horizon (now Optivo) loan (£1,788,235 - maturity loan) and the loan to the Foreshore Trust (£300,000 originally borrowed – annuity loan); these correspond to PWLB loans in Table 1 above. The

£25,000 loan to the Source is repayable over a 10 year period and is financed from HBC reserves.

62. Borrowing from the PWLB was taken to fund the loans to Hastings Housing Company Ltd (HHC). The three loans, totalling £5,489,398, are maturity loans and will be due for repayment by HHC at the end of their term.

Borrowing Limit – Capital Financing Requirement (CFR)

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

64. The Council has at the time of writing some £65.4m of PWLB debt. To borrow for the remainder of the 2022/23 capital programme i.e. up to the projected level of the CFR (£78.2m) it would need to borrow a further £12.8m by the end of March 2023. The Capital Financing Requirement has increased significantly over the last few years. It is expected to reach some £110.3m by 2024/25 (based on the capital programme).

65. As a key indicator the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional CFR for 2022/23 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.

66. The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

67. The total CFR can also be reduced by:

(i) the application of additional capital financing resources (such as unapplied capital receipts); or

(ii) charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

68. The Council had achieved a near fully funded position at the start of 2020/21 which put the Council in a good position when the pandemic hit. This means that the capital borrowing need (the Capital Financing Requirement), has been fully funded with loan debt. This strategy had been considered prudent as borrowing costs had been increasing. However, there is a cost of doing this as investment returns are

low compared to borrowing costs and counterparty risk is still an issue that needs to be considered.

69. However during 2020/21 and much of 2021/22, interest rates looked set to remain low for a period of time and thus there was a stronger case to not borrow externally until we really had to i.e. temporarily use existing resources. This was the strategy that was proposed for 2021/22 (as far as practical) and has saved on borrowing costs and assisted the Council's revenue account. There is however only a limited ability to do this given the depletion of Council reserves, and funds already invested for longer periods.

70. For 2021/22 the Council started the year with internal borrowing of £7.994m - cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure to fund the Capital expenditure. With interest rates now increasing and forecast to increase further over the coming years, the Council will need to externalise some of this internal borrowing. This process has already begun with the Council taking a new £2m, 40 year maturity loan from the PWLB on 13th January 2022. The rapid rate of the rise of interest rated during 2022 has caught the Council somewhat off guard with the potential cost of borrowing now jepodising some capital schemes.

71. To finance the future Capital programme will require substantial new borrowing by the Council. The key considerations are when to borrow and the level of internal borrowing. The Chief Finaince Officer will make these dicisions in conjunction with advice and guidance from our treasury advisors. Current guidance suggest that interest rates will peak in December 2023 so the strategy will be looking at untalising internal borrowing as much as possible to see us through untill the expected lower rate environment. Where borrowing is required the option of borrowing short-term will be considered rather than locking into to higher rates for a prolonged period. Some longer term borrowing will be required and will be encouraged where affordable as it reduced the risk of future adverse movements in interest rates.

The table below provides an estimate of the Council's Capital Financing Requirement (CFR) for the current and next 3 years.

Table 3 - Capital Financing Requirement (CFR)

CFR	2021/22 (unaudited) £'000s	2022/23 (Estimate) £'000s	2023/24 (Estimate) £'000s	2024/25 (Estimate) £'000s	2025/26 (Estimate) £'000s
CFR-Opening	72,683	71,970	78,169	101,589	110,303
Less MRP	(1,668)	(1,707)	(1,950)	(2,567)	(3,127)
Plus New Borrowing	955	7,906	25,369	11,281	535
CFR Closing	**71,970**	**78,169**	**101,589**	**110,303**	**107,711**

72. The table below highlights the Council's projected gross borrowing position against the CFR (showing the level that is financed from internal borrowing).

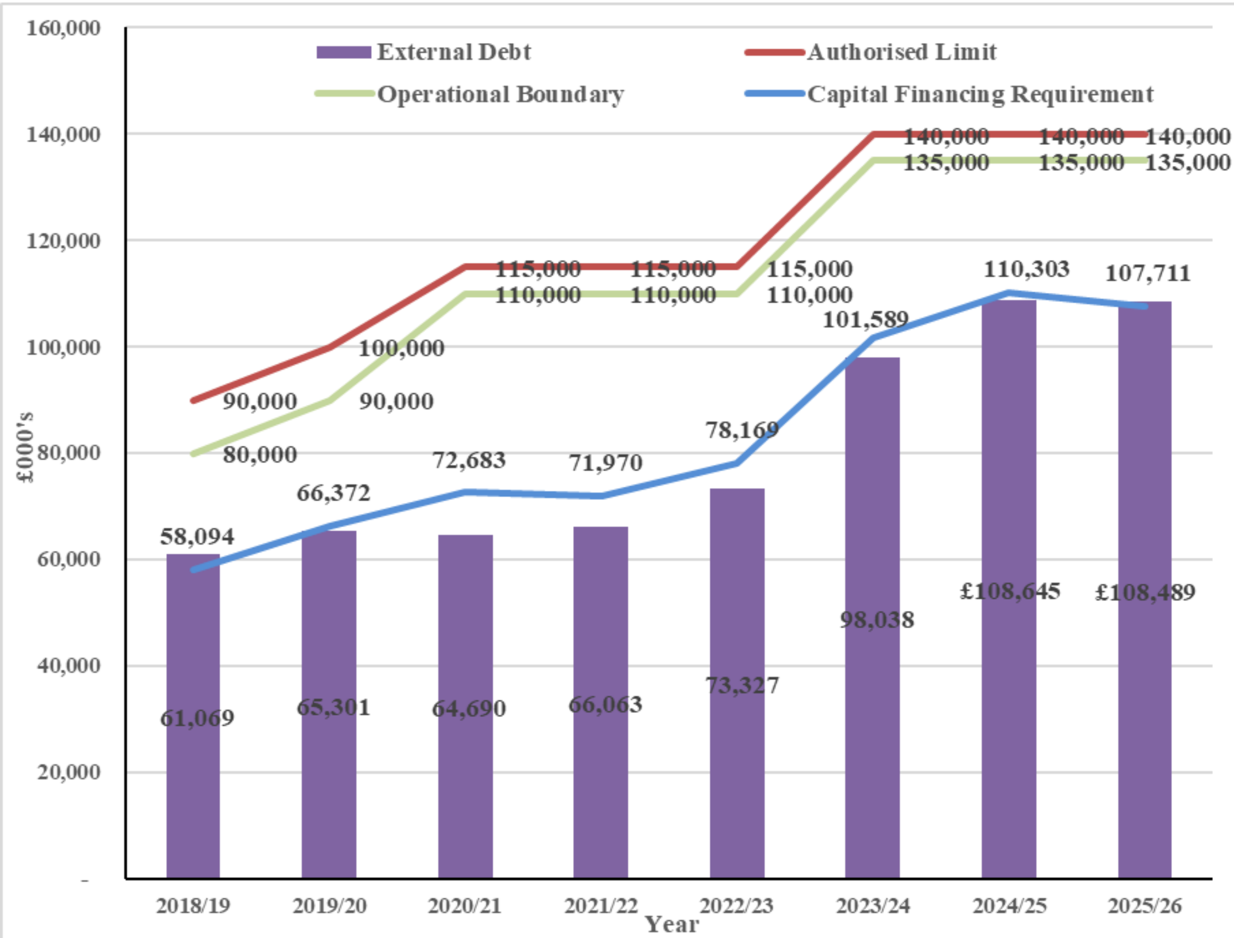
Table 4 - Council's Projected Gross Borrowing Position Against the CFR

Internal Borrowing	2020/21 Actual £000's	2021/22 Actual £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's	2025/26 Estimate £000's
Capital Financing Requirement (CFR)	72,683	71,970	78,169	101,589	110,303	107,711
External Borrowing	64,690	66,063	73,327	98,038	108,645	107,711
Net Internal Borrowing	**7,994**	**5,907**	**4,842**	**3,551**	**1,658**	**0**

73. The Council is now (12 January 2023) maintaining an under-borrowed position.

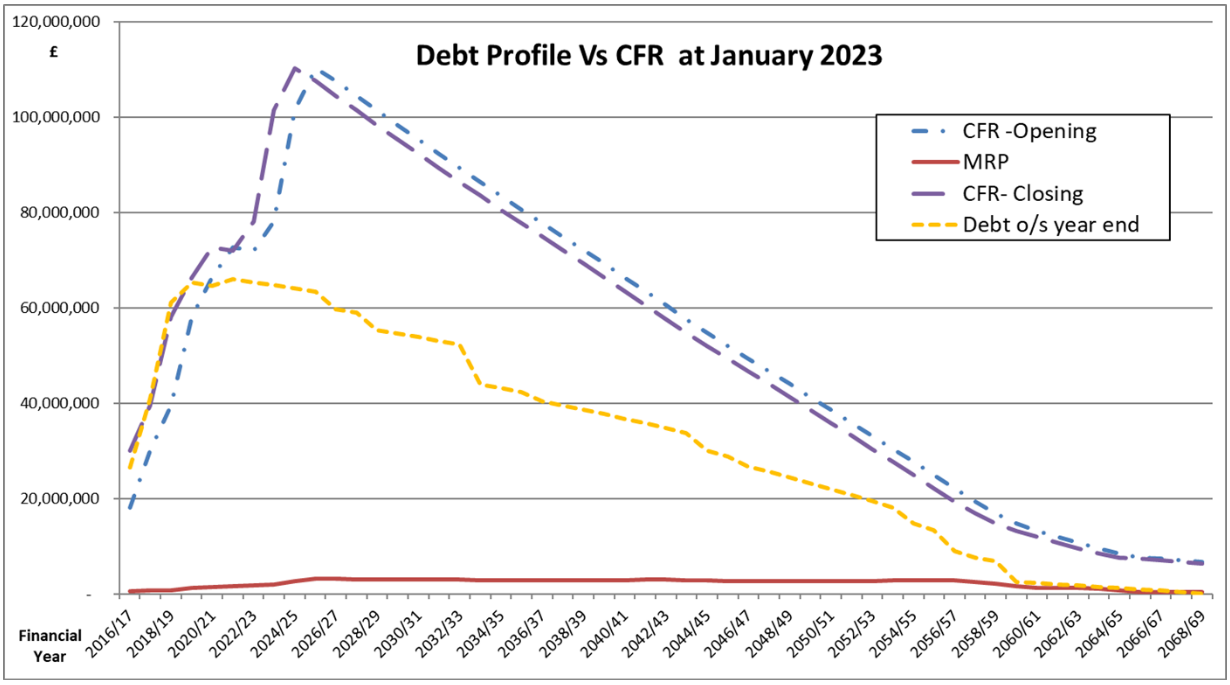
Borrowing activity is constrained by prudential indicators particularly the CFR, and by the authorised limit. The Council's long term borrowing must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure.

Table 5 - External Debt, Authorised Limits and CFR Projections



Debt Profile and CFR

74. The graph below shows how the CFR (blue and purple lines) reduce over time as MRP payments are made. The yellow line shows the level of external debts reducing as principal repayments are made (see debt maturity graph below).



75. The graph above is based on the current known capital programme up to 2025/26. If further capital expenditure is finance by borrowing, which is highly likely, then this will push the trajectory of the graph out into further years and increase future MRP payment.

Liability Benchmark

76. A third and new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum, however CIPFA strongly recommends that the LB is produced for at least 10 years and should ideally cover the full debt maturity profile of the local acthority.

77. There are four components to the LB:

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

2. **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.

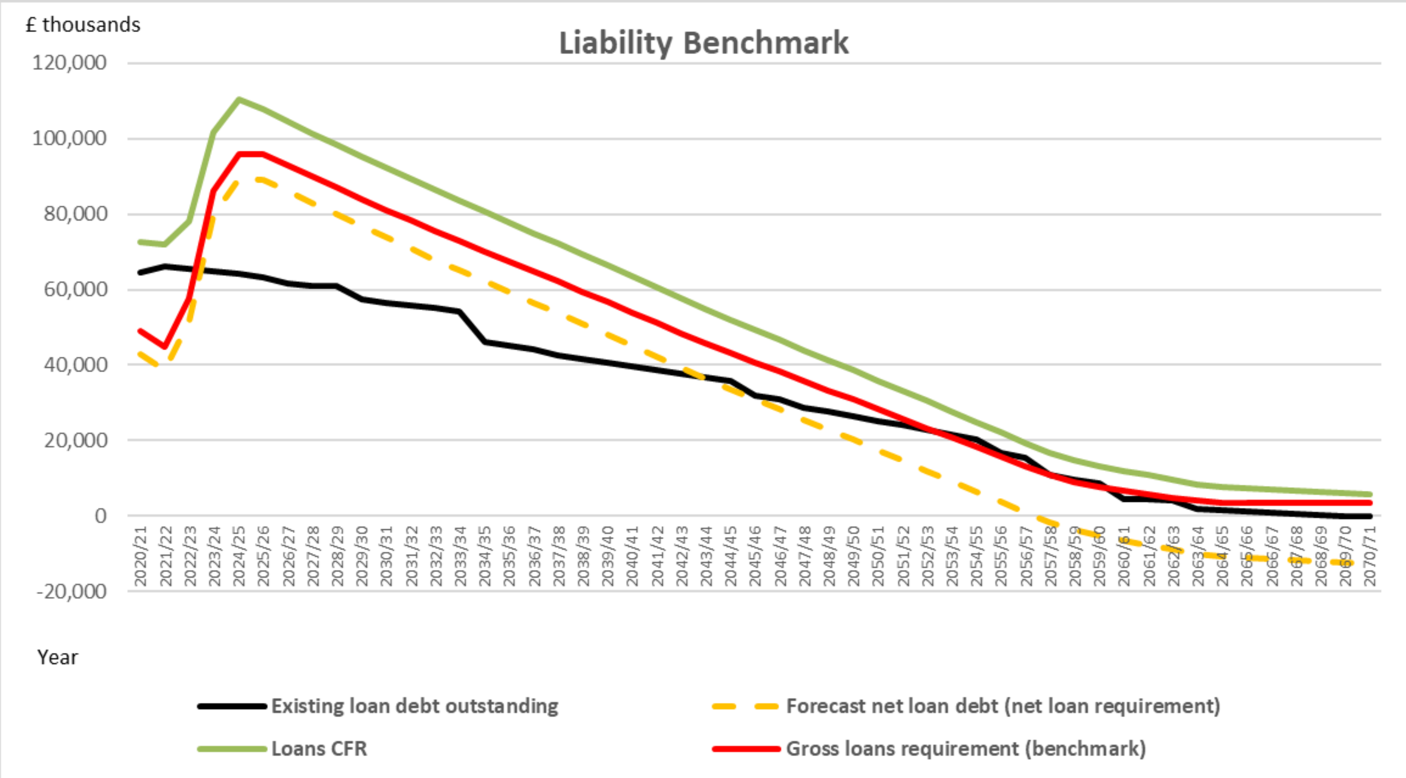
3. **Net loans requirement**: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

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

78. CIPFA notes on page 13 of the 2021 TM Code: "The liability benchmark should be analysed as part of the annual treasury management strategy, and any substantial mismatches between actual loan debt outstanding and the liability benchmark

should be explained. Any years where actual loans are less than the benchmark indicate a future borrowing requirement; any years where actual loans outstanding exceed the benchmark represent an overborrowed position, which will result in excess cash requiring investment (unless any currently unknown future borrowing plans increase the benchmark loan debt requirement). The treasury strategy should explain how the treasury risks inherent in these mismatched positions will be managed."

79. The Liability Benchmark for the Council is shown in the chart below.



80. Some analysis on the lines on the chart above is provided below:

- Existing Loan Debt Outstanding (black line) – The line shows the external loans that the Council has with the PWLB and how the value decreases over time as the principal is repaid.

- Loans CFR (green line) – This line shows the Capital Finaincing Requirement for the Council. The line decreases as annual MRP payments are made.

- Net Loan Debt (yellow dotted line) – This line shows the Council's debt (CFR) less the value of any external investments it has made i.e. the net debt. You can see that in 2057/58 the line goes below zero and becomes negative. This is because the value of external investments the council is forcasitng to be holding is greater that the level of debt that the council has.

- Groass loans requirement (red line) – this line very closely mirrors the Net Loan Debt (yellow dotted) line. It essentially shows the same thing but with an added liquidity allowance – essentially a working balance for the councils treasuty activities. This level has been set at £6m to match the councils minimum recommended level of reserves (but in the chart has been inflated by 2% annually so that it maintains it’s value in real terms).

81. It should be noted that the Libality Benchmark is only a snapshot in time and as capital expendite plans evolve further borrowing is likely to be incurred which will increase the CFR and push the point at which the lines move towards zero further out into future years.

Borrowing – Overall Limits

82. In determining what is a prudent level of borrowing, the Council needs to ensure that it would still be able to provide core services if its investments or income generating initiatives failed – at least in part. As a guide each £1m of new borrowing, financing an asset with a life of 40 years would currently cost the Council some 7% p.a. (based on a maturity loan with a 4.5% interest rate) i.e. £70,000 p.a.

83. In taking on significant levels of additional debt the Council has to ensure that it can afford to do so. It also needs to ensure that it has an affordable exit strategy in the event that expected returns are not realised. Where property is concerned there is normally an asset to dispose of and such schemes are not therefore at the higher end of the risk spectrum. It is considered that the Council currently has sufficient reserves to ensure that it could dispose of assets in a reasonable period and not be forced into an immediate fire sale. In the event that property values fell by say 20% the Council would not be forced to sell assets providing the rental streams were secure.

Borrowing – Certainty Rate

84. The Council again registered for the PWLB certainty rate earlier in the year which has given a 20 basis point reduction in the average rate of borrowing. The Council will look to do so again annually – for as long as it remains available.

Borrowing – Change of Sentiment

85. In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted below. The Chief Finance Officer, in conjunction with the treasury advisors, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

a. if it were felt that there was a significant risk of a sharp FALL in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

b. if it were felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still relatively cheap.

Borrowing – Timing

86. The general aim of this treasury management strategy is to minimise the costs of borrowing in both the short and longer term. In the short term it can consider avoiding new borrowing and using cash balances to finance new borrowing (internal borrowing). However, to minimise longer term costs it needs to borrow when rates are at lower levels. The timing of new borrowing is therefore important to minimise the overall costs to the Council.

87. The Council has previously sought to achieve near full financing of the Capital programme via external debt over recent years in order to take advantage of the historically low borrowing rates and avoid the risk of having to lock into high interest rates when it has no option but to borrow. For the last year a higher level of internal borrowing was adopted to temporarily finance long life assets. Currently, with interest rates looking likely to increase further the Council is considering externalising some of the internal debt to lock in rates at lower levels.

88. Given that the Council is increasingly using its reserves these need to be readily available and not subjected to unnecessary risk or exposure.

Summary

89. No new external borrowing has been taken over the last 12 months but instead the council has been utalising internal borrowing to minimise interest costs.

90. The capital expenditure plans require further substantial new borrowing by the Council. The plans play a large part in the consideration as to when to borrow and the level of internal borrowing. The Council has taken advantage of other investment opportunities which have been providing higher returns than the cost of borrowing e.g. property funds. To date the Council has increased the level of internal funding in order to save on interest payments as the cost of these exceeds returns that can be achieved by investing surplus funds in the short term.

91. For the last few years the cheapest borrowing has been internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However, the Council may not have sufficient balances to temporarily finance all the capital expenditure in 2022/23 and may need to borrow before March 2023. In view of the overall forecast for long term borrowing rates to increase in the medium term, consideration has been given to weighing the short term advantage of internal borrowing against the potential increase in long term costs as rates rise. As such additional new borrowing will continue to be taken when good opportunities arise in the interest of minimising the costs of debt over the long term.

92. The use of PWLB variable rate loans for up to 10 years will still be considered as they can be repaid early without early redemption premiums. They can also be converted into longer dated fixed rate debt should it be considered prudent to do so.

93. The use of fixed rate market loans will also be considered should rates be below PWLB rates for the equivalent maturity period. The use of either PWLB maturity or annuity loans will be considered in order to minimise annual borrowing costs.

Policy on borrowing in advance of need

94. The Council will not borrow more than, or in advance of, its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in

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

95. In determining whether borrowing will be undertaken in advance the Council will:

a. 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.

b. ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered.

c. evaluate the economic and market factors that might influence the manner and timing of any decision to borrow.

d. consider the merits and demerits of alternative forms of funding.

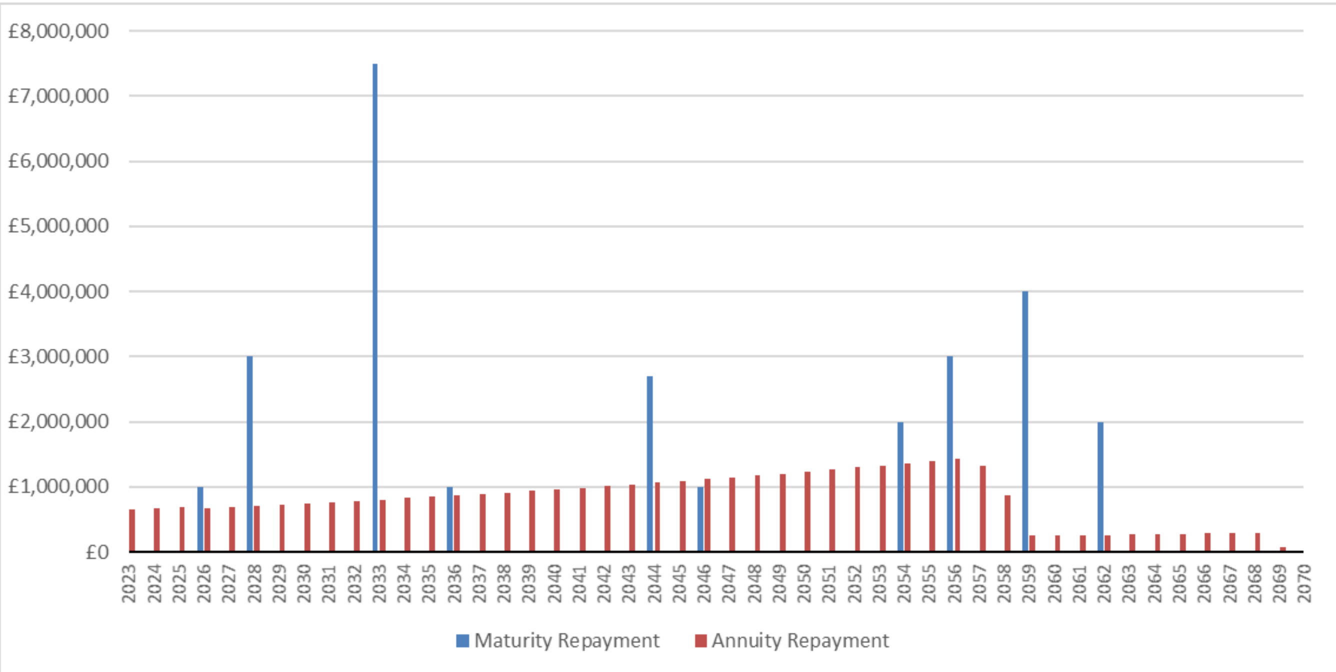
e. consider the appropriate funding period.

f. consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and the level of such risks given the controls in place to minimise them.

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

Debt Maturity

97. The Graph below shows the profile of when debt (loans from the PWLB) become repayable. Blue lines indicate maturity loans and red lines indicate annuity loans.



98. The Council will need to carefully consider the structure and timing of any new borrowing to ensure debt does not exceed the CFR in the years ahead.

Debt Rescheduling

99. The Council also keeps under review the potential for making premature debt repayments in order to reduce borrowing costs as well as reducing counterparty risk by reducing investment balances. However, the cost of the early repayment premiums that would be incurred and the increase in risk exposure to significantly higher interest rates for new borrowing, continue to make this option unattractive. No debt rescheduling is being contemplated at present.

100. The reasons for any rescheduling to take place will include:

   a. the generation of cash savings and / or discounted cash flow savings,

   b. helping to fulfil the strategy outlined above

   c. enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

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

Other Source of Borrowing

102. Currently the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

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

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

Minimum Revenue Provision (MRP)

104. Appendix 1 of this report provides the detail on what the MRP is and the basis of the calculation. Basically, authorities are required each year to set aside some of their revenues as provision for debt repayment. Unlike depreciation which is reversed out of the accounts, this provision has a direct impact on the Council Tax requirement. The provision is in respect of capital expenditure that is financed by borrowing or credit arrangements e.g. leases.

105. The Council is required to make a “Prudent Provision” which basically ensures that revenue monies are set aside to repay the debt over the useful life of the asset acquired i.e. the Minimum Revenue Provision (MRP). This can be achieved by equal annual instalments (current practice) or an annuity method – annual payments gradually increasing over the life of the asset. Where an annuity loan is taken, the

Council's policy (Appendix 1) was amended to reflect the matching, as far as possible, of the MRP with the actual principal repaid (within each debt repayment).

106. The MRP for 2023/24 is estimated at £1,949,600 (the statutory charge to revenue that remains within the accounts).

107. The Government are consulting on amendinig MRP regulations/guidance for England. One of the revisions likely is to make it clear to all authorities that where loans have been made for capital purposes to other organisations e.g local authority companies, housing providers, then provision for debt repayments must be made. Hastings BC has always done so and is not caught out by this sensible requirement. The latest information we have is that any changes to the guidance will take effect from 2024/25 at the earliest.

ANNUAL INVESTMENT STRATEGY

Investment Policy

108. The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy.

109. The Council's investment policy has regard to the DLUHC's Guidance on Local Government Investments ("the Guidance"), the CIPFA Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code") and the CIPFA Treasurym Management Guidance Notes 2021.

110. The Council's investment priorities will be security first, portfolio liquidity second, and then yield (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite.

111. In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider "laddering" investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

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

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

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

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

d. This Council has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in Appendix 5 under the categories of 'specified' and 'non-specified' investments.

   Specified investments are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally, they were classified as being non-specified investments solely due to the maturity period exceeding one year.

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

e. **Lending limits**, (amounts and maturity), for each counterparty as set out in the creditworthiness policy below.

f. **Transaction limits** are set for each type of investment.

g. Investments will only be placed with counterparties from countries with a specified **minimum sovereign rating**.

h. This Council has engaged **external consultants** (Link Group), 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.

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

j. Consideration wil be given to organisations Environmental, Social & Governance (ESG) credentials, although no scoring will be applied.

k. As a result of the change in accounting standards for 2022/23 under IFRS 9, the 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. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending

31/03/2023. In December 2022 a further extension to the over-ride was agreed by Government until 31/03/2025.

113. However, the Council will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

114. There are no changes in our risk management policy and the above criteria remain unchanged from last year.

115. The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

116. In accordance with guidance from the DLUHC and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency.

Creditworthiness Policy

117. The Council uses the creditworthiness service provided by Link Group. The potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poor's, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays: -

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

118. 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 code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments and are therefore referred to as durational bands. This is a service which the Council would not be able to replicate using in-house resources.

119. The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Link Group's weekly credit list of worldwide potential counterparties. The Council will therefore use counterparties within the following durational bands: -

- Purple 2 years (but HBC will only invest for up to 1 year – except Property Fund and Diversified Income Fund)

- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No Colour not to be used

120. The Link Groups' 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.

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

122. This Council will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties as Moody's tend to be more aggressive in giving low ratings than the other two agencies. This would therefore be unworkable and leave the Council with few banks on its approved lending list. The Link creditworthiness service does though, use ratings from all three agencies, but by using a risk based scoring system, does not give undue weighting to just one agency's ratings.

123. The Council is alerted to the changes to credit ratings of all three agencies through its use of the Link creditworthiness service. These are monitored on a daily basis with lists updated weekly by Link Group. If a downgrade results in the counterparty / investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.

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

125. The Council only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 6. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy. The maximum investment in any non UK country is not to exceed £10m.

Investment Strategy

126. The level of investments can fluctuate significantly on a day to day basis, given the level of funding received, precept payments, grants payable and receivable, salaries and wages, etc.

127. As at 1 December 2022 the Council had balances amounting to £35.7m. The monies held are higher than would normally be expected and include monies that the Council is holding in respect of a number of grant schemes.

128. Priority is given to security and liquidity of investments in order to reduce counterparty risk to the maximum possible extent. To this end at the start of the Covid-19 crisis special arrangements were made with the Council's bankers to be able to accommodate larger than normal balances and daily transaction amounts associated with the government's business grant schemes. The Council is now again in the position to ensure that its cash balances are spread across numerous counterparties.

129. The Council has had various investment limits depending upon the credit rating e.g. £5m with any one institution with a minimum short term rating of F+, and a long term rating of A+ or above, supported by a red (6 month) rating by Link Group. The £5m limit generally represents a level of up to 25% of the investment portfolio with any one institution or group at any one time. It is also necessary, at times, to invest sums of this size in order to attract the larger institutions which have the higher credit ratings.

130. The Eurozone and Brexit led to a number of downgrades to banks' credit ratings, making it increasingly difficult at times to spread investments across a number of institutions. The Chief Finance Officer has the authority to amend the limits on a daily basis if necessary, to ensure that monies can be placed with appropriate institutions. The use of Money Market funds is anticipated and the Council is in the process of getting setup on a portal to allow access to a diversified range of money market funds from different providers.

131. The pandemic has impacted on countries around the world and in turn on credit ratings. The Council follows the Credit ratings of Link Group and the ratings now enable the Council to invest £5m with any one institution with a minimum short term rating of F (rather than F+), and a long term rating of A+ and above (Unchanged), supported by a red (6 month) rating.

Investment Strategy – Property Fund

132. It was agreed in February 2017 that the option for diversification of some of the investments into a property fund be undertaken with CCLA in the sum of £2m. The investment being in respect of the Council's reserves that are not required for a period of at least 5 years in order that any fall in values and entry costs into such funds can be covered. The £2m was invested in April 2017 and the performance is detailed below:

Table 6: CCLA – LA's Property Prices and Dividend yields

End of	Sep-22	Jun-22	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18	Apr-17
Offer Price p	371.27	387.73	368.46	313.45	315.7	327.4	322.40	307.19
Net Asset Value p	347.79	363.21	345.17	293.63	295.74	306.7	302.01	287.77
Bid Price p	342.40	357.58	339.82	289.08	291.15	301.95	297.33	283.31
Dividend* on XD Date p	3.26	2.8523	2.7875	2.9797	3.25	3.31	3.21	-
Dividend* - Last 12 Months p	11.78	11.21	11.22	12.63	13.06	13.08	13.70	13.19
Dividend Yield on NAV %	3.39	3.09	3.13	4.3	4.41	4.26	4.54	4.58

133. The dividend yield is currently around 3.4% p.a. on the net asset value. Dividends for the first 2 quarters of 2022/23 amount to £39,811 (£36,178 at the same point last year). Full year dividends for 2022/23 are estimated at around £80,300 and a similar return is anticipated for 2023/24.

Table 7: CCLA - Property Fund Capital Value

Units (651,063)	Sep-22	Jun-22	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18	Apr-17
Mid Market Price(£)	2,264,332	2,364,726	2,247,274	1,911,716	1,925,454	1,996,810	1,966,275	1,873,564
Bid Price (£)	2,229,240	2,328,071	2,212,442	1,882,093	1,895,570	1,965,885	1,935,806	1,844,527

134. The Capital value has increased by 20.86% between April 2017 and September 2022 and is now above that of the original investment made and continues to recover from the low point experienced in August 2020 following the impact of Covid-19. It is important that this is continued to be viewed as a longer term investment (5 years plus).

Diversified Income Fund

135. It was agreed in February 2019 that a sum of £3m would be made available for further diversification of the Council's investments. £1m was invested on 26 July 2019 and a further £2m investment was made on 24 September 2019 into the CCLA Diversified Income Fund. Anticipated returns were around 3% with the added advantage of much higher liquidity than the property fund.

136. The capital value had recovered from the initial investment where charges are effectively deducted and was valued at £3,012,479 at the end of December 2019. In March 2020 the market value had fallen to £2.62m but continues to recover and was valued at £2,717,180 on 30 September 2022 (9.4% below the initial investment amount). Dividend yield on price was at 2.79% for September 2022 (2.6% September 2021). Dividends payable for the first 2 quarters of 2022/23 amount to £44,402 (£39,614 at the same point last year). It should be remembered that this is a long term investment and prices can go up and down.

Investment Strategy – View on Interest Rates

137. As the Bank of England (BOE) has increased interest rates investment returns have increased in line with the increase in base rate. Investment returns are likely to increase further as additional increases in the base rate are anticipated. The Council at this time needs access to its cash reserves and as such cannot afford to invest further longer term – until it achieves a balanced budget or has capital receipts.

Investment Return Expectations

138. Bank Rate is forecast to peak at 4.5% in the second quarter of 2023 then gradually reduce over the following years. However, as has been seen during 2022 the financial position can often change quickly, and the Council needs to be prepared for increases in rates. The historic low interest rates that we have been accustomed to have now gone and we may never see rates at those levels again.

139. The Council will look to report on the actual return achieved on its cash investments, both in terms of percentage and actual cash. It will look to report separately on different categories of cash investments e.g. Property Fund.

Regeneration and Economic Development – Income Generation

140. The Council has remained keen to pursue capital schemes that also generate income. Substantial investments in housing and energy projects will necessitate new borrowing. The levels of new borrowing that the Council can afford to take on board will be dependent upon the individual proposals and credit worthiness of the counterparties involved.

141. The additional risks that the Council is taking on need to be considered in the context of the totality of risk that the Council faces e.g. external claims, rates revaluation, robustness of income streams, economic downturns, etc. Where there is more risk and volatility in income streams the Council will need to ensure that it maintains sufficient reserves to ensure the Council's ability to deliver key services is not jeopardised.

Treasury Management Reporting

142. The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a) Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report is forward looking and covers:

- the capital plans, (including prudential indicators);
- a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
- an investment strategy, (the parameters on how investments are to be managed).

b) A mid-year treasury management report – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c) An annual treasury report – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy. At the end of the financial year, officers will report to Council on its investment activity as part of its Annual Treasury Report (to be presented by no later than 30 September).

Policy on Use of External Service Providers

143. The Council uses Link Group, Treasury solutions as its external treasury management advisors. There is currently value in employing external providers of

treasury management services in order to acquire access to credit worthiness information and specialist advice.

Training

144. The CIPFA Code requires the responsible officer (Chief Financial Officer) to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. In terms of treasury management in general, training has been undertaken by members on an annual basis to date.

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

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

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and key members.
- Require treasury management officers and key members to undertake self-assessment against the required competencies.
- Have regular communication with officers and key members, encouraging them to highlight training needs on an ongoing basis.

147. Treasury Management Training was offered to all members on 10th January 2022 and the following year on 11th January 2023. Further training will be arranged as required.

148. The training needs of treasury management officers are periodically reviewed.

149. A formal record of the training received by officers and members central to the Treasury function is maintained by the Deputy Chief Finance Officer.

MiFID II (Markets in Financial Instruments Directive)

150. In brief, this directive requires the Council to distinguish itself as either a retail or professional client. In order to qualify for professional status, the Council is required to show that it has more than £10m in investments, invests regularly (more than 10 times a quarter), as well as having appropriately trained and experienced staff.

151. To date only two counterparties have required us to complete the forms in order to maintain the existing professional status. The directive became law on 1 January 2018.

152. The two parties to date are Link Group and CCLA. A schedule of such counterparties will be maintained, as per the requirements of the Code, should the list expand further.

Scheme of Delegation

153. Please see Appendix 9.

Role of the Section 151 Officer

154. Please see Appendix 10.

APPENDIX 1

Minimum Revenue Provision – An Introduction

1. What is a Minimum Revenue Provision?

Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred therefore such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision, which was previously determined under Regulation, and will in future be determined under Guidance.

2. Statutory duty

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP).

The Authority is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance (2018) gives four ready-made options for calculating MRP, but the Authority can use any other reasonable basis that it can justify as prudent.

The MRP policy statement requires full council approval in advance of each financial year.

There is no requirement to charge MRP where the Capital Financing Requirement is nil or negative at the end of the preceding financial year.

3. Government Guidance

Along with the above duty, the Government issued guidance which came into force on 31st March 2008 which requires that a Statement on the Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate.

The Council is legally obliged to "have regard" to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The guidance offers four main options under which MRP could be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to 'have regard' to the guidance therefore means that: -

Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.

It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

Option 1: Regulatory Method
Under the previous MRP regulations, MRP was set at a uniform rate of 4% of the adjusted CFR (i.e. adjusted for “Adjustment A”) on a reducing balance method (which in effect meant that MRP charges would stretch into infinity). This historic approach must continue for all capital expenditure incurred in years before the start of this new approach. It may also be used for new capital expenditure up to the amount which is deemed to be supported through the Supported Capital Expenditure (SCE) annual allocation.

Option 2: Capital Financing Requirement Method
This is a variation on option 1 which is based upon a charge of 4% of the aggregate CFR without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation. The CFR is the measure of an authority’s outstanding debt liability as depicted by their balance sheet.

Option 3: Asset Life Method.
This method may be applied to most new capital expenditure, including where desired that which may alternatively continue to be treated under options 1 or 2.

Under this option, it is intended that MRP should be spread over the estimated useful life of either an asset created, or other purpose of the expenditure. There are two useful advantages of this option: -

- Longer life assets e.g. freehold land can be charged over a longer period than would arise under options 1 and 2.
- No MRP charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use (this is often referred to as being an ‘MRP holiday’). This is not available under options 1 and 2.

There are two methods of calculating charges under option 3:
- equal instalment method – equal annual instalments,
- annuity method – annual payments gradually increase during the life of the asset.

Option 4: Depreciation Method
Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions) i.e. this is a more complex approach than option 3.

The same conditions apply regarding the date of completion of the new expenditure as apply under option 3.

Minimum Revenue Provision Policy Statement 2023/24

The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2008/09 and will assess the MRP for 2023/24 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

A major proportion of the MRP for 2023/24 relates to the more historic debt liability that will continue to be charged at the rate of 4%, in accordance with option 1 of the guidance. Certain expenditure reflected within the debt liability at 31st March 2023 will under delegated powers be subject to MRP under option 3, which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

Estimated life periods will be determined under delegated powers – subject to the limitations of the government's investment requirements (2018). To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

Repayments included in finance leases are applied as MRP. It should also be noted that in regards of the loans to Optivo (previously Amicus Horizon) in respect of the Coastal Space scheme, Optivo will meet the costs of the Council PWLB loan (Principal and Interest) and the Council makes the payments to the PWLB i.e matching the MRP requirement. Likewise, for any loan to the Foreshore Trust - as the interest and principal repayments made by the Council to the PWLB are funded in full from the sums payable by the Trust this matches the MRP requirement for the Council.

Where the Council generates additional income from capital Investments it will look to make a prudent provision for the repayment of debt over the expected life of the asset. In doing so, where an annuity loan is taken or may be taken at some stage in the future to finance the purchase the MRP made will reflect as far as possible the principal element of the actual loan repayments (rather than accruals). The interest rate to be calculated at the outset being determined by the Chief Finance Officer.

Capital expenditure incurred during 2022/23 will not be subject to an MRP charge until 2023/24, or in the year after the asset becomes operational.

MRP in respect of assets acquired under Finance Leases or PFI will be charged at an amount equal to the principal element of the annual repayment.
MRP Overpayments - Under the MRP guidance, any charges made in excess of the statutory MRP can be made, known as voluntary revenue provision (VRP).
VRP can be reclaimed in later years if deemed necessary or prudent. In order for these amounts to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Cumulative VRP overpayments made to date are £0m.

APPENDIX 2 - Interest Rate Forecasts

Link Group Interest rate forecast – Dec 2022 – March 2025

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

Note: PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

APPENDIX 3 - Economic Review (by Link Group)

ECONOMIC BACKGROUND

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps since the turn of the year. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	Eurozone	US
Bank Rate	3.5%	2.0%	4.25%-4.50%
GDP	-0.2%q/q Q3 (2.4%y/y)	+0.2%q/q Q3 (2.1%y/y)	2.6% Q3 Annualised
Inflation	10.7%y/y (Nov)	10.1%y/y (Nov)	7.1%y/y (Nov)
Unemployment Rate	3.7% (Oct)	6.5% (Oct)	3.7% (Nov)

Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, CPI inflation has picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023.

The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c£500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22nd February 2022.

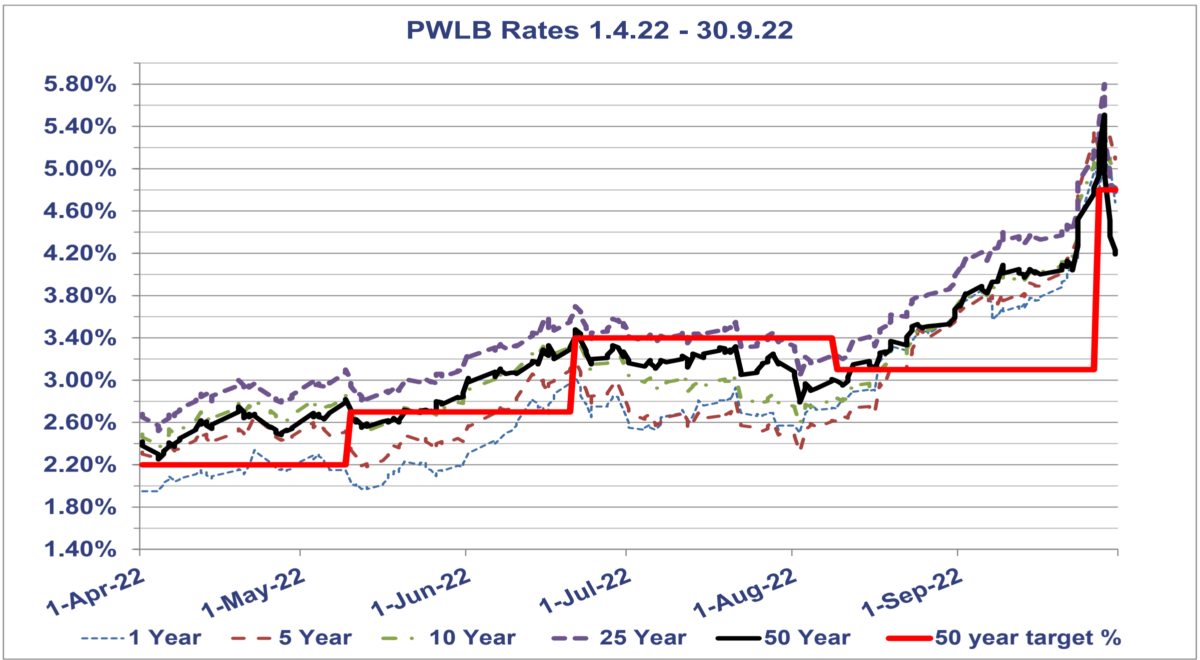
Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3% in November and the market expects Bank Rate to hit 4.5% by May 2023.

Following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and December. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of 17th November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have completely reversed the increases seen under the previous tenants of No10/11 Downing Street.

Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one if not more quarters of GDP contraction. In November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank.

The £ has strengthened of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.20. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

In the table below, the rise in gilt yields, and therein PWLB rates, through the first half of 2022/23 is clear to see.



However, the peak in rates on 28th September as illustrated in the table covering April to September 2022 below, has been followed by the whole curve shifting ever lower. PWLB rates at the front end of the curve are generally over 1% lower now whilst the 50 years is over 1.75% lower.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

After a shaky start to the year, the S&P 500 and FTSE 100 have climbed in recent weeks, albeit the former is still 17% down and the FTSE 2% up. The German DAX is 9% down for the year.

CENTRAL BANK CONCERNS – NOVEMBER 2022

At the start of November, the Fed decided to push up US rates by 0.75% to a range of 3.75% - 4%, whilst the MPC followed a day later by raising Bank Rate from 2.25% to 3%, in line with market expectations. EZ rates have also increased to 1.5% with further tightening in the pipeline.

Having said that, the press conferences in the US and the UK were very different. In the US, Fed Chair, Jerome Powell, stated that rates will be elevated and stay higher for longer than markets had expected. Governor Bailey, here in the UK, said the opposite and explained that the two economies are positioned very differently so you should not, therefore, expect the same policy or messaging.

Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 4.5% - 4.75%, caution is advised as the Bank of England Quarterly Monetary Policy Reports have carried a dovish message over the course of the last year, only for the Bank to have to play catch-up as the inflationary data has proven stronger than expected.

In addition, the Bank's central message that GDP will fall for eight quarters starting with Q3 2022 may prove to be a little pessimistic. Will the £160bn excess savings accumulated by households through the Covid lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

APPENDIX 4 - Prudential Indicators

The Council's Capital expenditure plans are the key driver of treasury management activity. The output of the Capital expenditure plans (detailed in the budget) is reflected in the prudential indicators below.

TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2021/22	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt					
borrowing	110,000	110,000	135,000	135,000	135,000
other long term liabilities	5,000	5,000	5,000	5,000	5,000
TOTAL	115,000	115,000	140,000	140,000	140,000
Operational Boundary for external debt					
borrowing	105,000	105,000	130,000	130,000	130,000
other long term liabilities	5,000	5,000	5,000	5,000	5,000
TOTAL	110,000	110,000	135,000	135,000	135,000

Interest Rate Exposures	**2022/23 Upper**	**2023/24 Upper**	**2024/25 Upper**
Limits on fixed interest rates based on **net** debt	100%	100%	100%
Limits on variable interest rates based on **net** debt	100%	100%	100%
Limits on fixed interest rates:			
· Debt only	100%	100%	100%
· Investments only	100%	100%	100%
Limits on variable interest rates			
· Debt only	30%	30%	30%
· Investments only	100%	100%	100%

Maturity Structure of fixed interest rate borrowing 2023/24	**Lower**	**Upper**
Under 12 Months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%

Maturity Structure of variable interest rate borrowing 2023/24	**Lower**	**Upper**
Under 12 Months	0%	30%
12 months to 2 years	0%	30%
2 years to 5 years	0%	30%
5 years to 10 years	0%	30%
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%

Affordability Prudential Indicator - Ratio of financing costs to net revenue stream

This indicator assesses the affordability of the capital investment plans. It provides an indication of the impact of the capital investment plans on the Council's overall finances. 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.

Prudential Indicator: Financing Cost to Net Revenue Stream	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Financing Costs	£'000	£'000	£'000	£'000	£'000
1. Interest Charged to General Fund	1,825	1,847	2,811	3,681	3,665
2. Interest Payable under Finance Leases and any other long term liabilities	-	-	-	-	-
3. Gains and losses on the repurchase or early settlement of borrowing credited or charged to the amount met from government grants and local taxpayers	-	-	-	-	-
4. Interest and Investment Income	(540)	(808)	(824)	(618)	(618)
5. Amounts payable or receivable in respect of financial derivatives	-	-	-	-	-
6. Minimum Revenue Provision (MRP) / Voluntary Revenue Provision (VRP)	1,668	1,707	1,950	2,567	3,127
7. Depreciation/Impairment that are charged to the amount to be met from government grants and local taxpayers	-	-	-	-	-
Total	2,953	2,746	3,937	5,630	6,174
Net Revenue Stream Amount to be met from government grants and local taxpayers	14,253	14,530	14,821	15,117	15,420
Ratio **Financing Cost to Net Revenue Stream**	**21%**	**19%**	**27%**	**37%**	**40%**

Note: Outturn figures for 2021/22 are unaudited

This prudential indicator shows that the ratio of financing costs to the net revenue stream is increasing. This is not unexpected given that the Council has had an income generation strategy that has resulted in increased Capital expenditure over the period 2017/18 to 2021/22 and that the Council agreed a programme for over £54m of Capital expenditure over the period 2020/21 to 2023/24 - thus increasing borrowing costs. The above ratio does not take into account the income is being generated from some of the initiatives and commercial property acquisitions as these are not treated as investment income.

Other Prudential Indicators

Internal Borrowing and Gearing ratios for the authority are included in the Capital Strategy.

APPENDIX 5 - Specified and Non-Specified Investments

Specified Investments:

The idea of specified investments is to identify investments offering high security and high liquidity. All these investments should be in sterling and with a maturity of up to a maximum of one year.

Schedule A

	Security / Minimum Credit Rating	Maximum Maturity Period
Local authorities	N/A	1 year
DMADF – UK Government	N/A	1 year
Money Market Funds (CNAV, LVAV,VNAV)	AAA	Liquid
Term deposits with banks and building societies	Blue Orange Red Green No Colour	Up to 1 year Up to 1 year Up to 6 months Up to 3 months Not for use
Certificates of deposits (CDs) issued by credit rated deposit takers (banks and building societies)	Blue Orange Red Green No Colour	Up to 1 year Up to 1 year Up to 6 months Up to 3 months Not for use
UK Government Gilts	UK sovereign rating	12 months
UK Government Treasury Bills	UK sovereign rating	12 months

Non-Specified Investments

These are any investments which do not meet the specified investment criteria.
The aim is to ensure that proper procedures are in place for undertaking risk assessments of investments made for longer periods or with bodies which do not have a “high” credit rating. As far as this Council is concerned the risks are in relation to the value of the investments, which may rise, or fall, rather than deficient credit rating.

There is no intention to invest in Non-Specified Investments, other than those Property Funds where there are no Capital accounting implications, without taking specialist advice first. The limits on Investments in Property Funds will be agreed as part of this Treasury Management Strategy and Investment Policy. For clarity any increase in the level of the investment would need Council approval.

Schedule B

Investment	Security / Minimum credit rating	(A) Why use it? (B) Associated risks
Property Funds	*The use of these instruments can be deemed capital expenditure, and as such will be an application (spending) of capital resources. This Authority will check on the status of any fund it may consider using. Appropriate due diligence will also be undertaken before investment of this type is undertaken. These are longer term investments and will extend beyond 365 days (expected to be invested for 5 years or more)*	
UK Government Gilts with maturities in excess of 1 year Custodial arrangement required prior to purchase	Government backed	(A) Why use it? (i) Excellent credit quality. (ii) Very liquid. (iii) if held to maturity, known yield (rate of return) per annum – aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk. (B) Associated risks (i) 'Market or interest rate risk': Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss.

APPENDIX 6 - Approved Countries for Investments

The list is based on those countries which have sovereign ratings of AA- or higher (the lowest rating shown from Fitch, Moody’s and S&P) and also have banks operating in sterling markets which have credit ratings of green or above in the Link credit worthiness service.

Countries that meet our criteria 1 (at 02.12.2022)

Based on lowest available rating

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

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

APPENDIX 7 - Treasury Management Policy Statement

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

“The management of the organisation’s borrowing, investments and cash flows, including 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”.

This 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 for the organisation, and any financial instruments entered into to manage these risks.

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 value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.”

APPENDIX 8 - Key Principles and Clauses formally adopted

The Code identifies three key principles:

Key Principle 1

Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

Key Principle 2

Their policies and practices should make clear that the effective management and control of risk are the prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds.

Key Principle 3

They should acknowledge that the pursuit of value for money in treasury management and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

Clauses formally adopted

1. This organisation will create and maintain, as the cornerstones for effective treasury management:

   - A Treasury Management Policy Statement, stating the policies, objectives and approach to risk management of its treasury management activities.

   - Suitable Treasury Management Practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

   - Investment Management Practices (IMPs) for investments which are not for treasury management purposes

   The content of the policy statement TMPs and IMPs will follow the recommendations contained in Sections 6, 7 and 8 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Codes key principles.

2. This organisation (i.e. full Council) will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid- year review and an annual report after its close, in the form prescribed in its TMPs and IMPs.

3. This council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury decisions to the Chief Financial Officer, who will act in accordance with the organisations policy statement,TMPs and IMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

4. This Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

APPENDIX 9 - Treasury Management Scheme of Delegation

(i) Full Council

1. Approval of the Treasury Management Strategy - prior to the new financial year

2. Approval of the Investment Strategy - prior to the new financial year

3. Approval of the MRP Policy - prior to the start of the new financial year

4. Approval of any amendments required to the Strategy during the year

5. Receipt of a mid-year report on the Treasury Management Strategy, to include consideration of any recommendations of the Cabinet or Audit Committee arising from any concerns since the original approval.

(ii) Cabinet

1. Developing and determining the Treasury Management Strategy, Investment Strategy and MRP policy and recommending them to full Council - prior to the start of the new financial year.

2. Receipt of a mid-year report on the Treasury Management Strategy and any concerns since the original approval and making recommendations to Council as appropriate.

3. Receiving, and reviewing reports on treasury management policies, practices, activities, and performance reports (based on quarterly reporting).

4. Approval of/amendments to the organisation’s adopted clauses, treasury management policy statement;

5. Budget consideration and approval;

6. Approval of the division of responsibilities;

(iii) Audit Committee

1. Scrutinising the Council's Treasury Management Strategy, Investment Strategy and MRP policy, Treasury Management Policy Statement and Treasury Management Practices and making recommendations to Cabinet and Council as appropriate.

2. Receiving and reviewing monitoring reports (based on quarterly reporting) and making recommendations as appropriate.

APPENDIX 10 - The Treasury Management Role of the Section 151 Officer

Chief Finance Officer (S151 Officer) responsibilities:

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

Additional Responsibilities following new Codes of Practice/ Investment Guidance

The above list of specific responsibilities of the S151 officer in the 2021 Treasury Management Code has not changed. However, implicit in the changes in both the Prudential and the Treasury Management Codes, is a major extension of the functions of this role, especially in respect of non-financial investments, (which CIPFA has defined as being part of treasury management). Namely:-

1. preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe (say 20+ years – to be determined in accordance with local priorities).

2. ensuring that the capital strategy is sustainable, affordable and prudent in the long term and provides value for money.

3. ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority.

4. ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing.

5. ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources.

6. ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities.

7. provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees

8. ensuring that members are adequately informed and understand the risk exposures taken on by an authority.

9. ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above.

10. creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following): -

    - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;

    - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;

    - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;

    - Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;

    - Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

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Capital Strategy (2023/24)

Introduction

1. Hastings Borough Council has a range of capital resources at its disposal which is used in the delivery of its strategic priorities and objectives. These resources include iconic assets such as Hastings Castle and the Cliff Railways, to parks and open spaces, leisure facilities and entertainment venues.

2. The council's ability to ensure that these vital assets are well maintained is crucial to the future financial stability and resilience of the council. If assets fall into disrepair and are no longer fulfilling their maximum potential and primary purpose, then the ability to deliver our objectives and priorities is severely hindered.

3. The Capital Strategy should provide a high-level overview of how capital expenditure, capital financing, investments, liabilities and treasury management activity contribute to the provision of services. Together with an overview of how associated risk is managed and the implications for future financial sustainability.

4. It is therefore imperative that the council manages and plans its use of capital resources wisely and why one of the stated corporate objectives is to develop a full and detailed Corporate Asset Management Plan which will feed into future capital strategies, along with a Housing Strategy to deal with the Housing crisis that the Council finds itself in currently.

5. With all capital expenditure comes associated risk, and this comes in different forms and needs to be managed by the council when apprising different options. The risks could be from;

    - Will the Asset deliver the projected outcome?
    - Are the estimates for running costs and income accurate?
    - What is the most prudent way of financing the asset i.e. borrowing?

Regulation

6. The CIPFA revised Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report, which seeks to 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.
    - the implications for future financial sustainability.

7. The aim of this capital strategy is to ensure that all elected members on the full Council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

8. This Capital Strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the Capital Strategy and the budget report. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset.

9. The capital strategy seeks to identify:

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

10. Where a physical asset is being bought, details of market research, advisers used, ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

11. To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are identified.

12. The Capital strategy, and in particular the capital programme supports the Council's Corporate plan and is closely tied to the Medium Term Financial Strategy and the budget. The Capital Strategy is required to be compiled for a longer timeframe – generally 10 to 20 years although not specified.

13. The Council's future spending plans are continuing to evolve and as such the Capital Strategy and other strategies may need to be re-determined by full Council when the future plans are sufficiently robust – given the impact of the Towns Fund monies and the potential housing schemes. The report does detail

the Council's borrowing commitments until 2069/70 that result from past and current capital programmes.

Objectives of the Capital Strategy

14. The Capital Strategy is one of the council's key documents in providing a medium to long term plan. It needs to be consistent with other key plans such as the following;

- Corporate Asset Strategy
- Corporate Plan
- Capital Programme
- Treasury Management Strategy
- Medium Term Financial Plan
- Revenue Budget
- Resources Plan

15. The Capital Strategy is therefore the policy framework document that sets out the principles to be used to guide the allocation of capital investment across all of the councils' priorities and informs the decisions on capital spending priorities.

16. In addition, and as part of the strategy, the Chief Financial Officer reports explicitly on the affordability and risk associated with the Capital Strategy.

High Level Overview of how Capital Expenditure, Capital Financing and Treasury Management Activity Contribute to the Provision of Services

17. As detailed in the Council's Medium Term Financial Strategy (MTFS), the Council continues to be in a difficult financial position requiring service reforms in its journey to becoming a lower spending council. The Council seeks to use capital investment in the borough to not only achieve key corporate objectives but also to generate additional income in order to continue to provide services to its residents. The expenditure plans for the next three years are detailed below along with the expected outcomes.

Capital Expenditure 2023/24

18. Capital Investment is defined as 'Expenditure on the acquisition, creation, or enhancement of 'non-current assets' i.e. items of land, property and plant which have a useful life of more than 1 year'. Expenditure outside of this definition will therefore be revenue expenditure.

19. The Council's Capital programme amounts to some £30.716m (£25.369m net of grants and contributions) in 2023/24. The major areas of expenditure include**:-**

(I) **Cornwallis Street Development (£9m for 2023/24)**
The redevelopment of Cornwallis street car park for a hotel. This is expected to help regenerate the town centre, provide much needed overnight accommodation, as well as securing new jobs.

(II) **Housing Acquisition Programme (£11,866,000 of which £5.953m is expected to be spent in 2023/24)**
A programme to potentially acquire up to 50 housing units of various bedroom sizes to use as Temporary Accommodation to reduce the cost to the council of using privately owned accommodation.

(III) **Mayfield E – Affordable Housing (£8m of which £3.5m is expected to be spent in 2023/24)**
Development of 38 affordable housing units.

(IV) **Bexhill Road South – Affordable Housing and Car Park (£3.575m of which £2.5 is expected to be spent in 2023/24)**
Affordable housing development of 16 plus units and car park refurbishment. The council has set a target to provide 500 Affordable Rent Homes over 5 years through a variety of projects, including direct delivery.

(V) **Energy Generation – Unallocated (£4.3m of which £2.3m is expected to be spent in 2023/24)**
An additional £4.3m has been allocated for energy generation projects but remains unallocated.

(VI) **Disabled Facility Grants (£2.056m (Est) – all grant funding)**
Property related grants for adapting homes. In 2022/23 the Council will receive funding approaching £2.1m. The figure for 2023/24 is not yet known – but is not expected to be less. Unspent grant from previous years can be carried forward to use for future spend.

(VII) **Lower Bexhill Road – Housing Development (£6.9m of which £2.m is expected to be spent in 2023/24)**
The Council has received funding of some £6.9m to progress this site (grant claimed in arrears).

(VIII) **Cliff Railway (£1m for 2023/24)**
East Hill Cliff Railway essential Health & Safety improvements and track maintenance.

(IX) **Annual programme of roof refurbishment (£1.7m of which £0.7m is expected to be spent in 2023/24)**
An annual programme of roof refurbishment is required for our commercial and industrial buildings to ensure they remain watertight for their tenants and the council is able to maintain their rental income over the coming years.

(X) Grounds Maintenance Equipment (£626k for 2023/24)
Equipment is required for the new in-house grounds maintenance team to be able to carry out their role.

(XI) Energy – Solar Panels (£1.638m of which £0.5m is expected to be spent in 2023/24)
The installation of solar panels on non-domestic rooftops within the borough – providing cheaper energy for businesses. An additional £4.3m has been allocated for energy generation projects in future years but remains unallocated.

(XII) Priory Meadow Contribution to capital works (£288,000 for 2023/24)
The Council owns 10% of the Priory Meadow shopping centre. The money represents its share of any capital investment costs for 2022/23. The Council receives 10% of the net income for the centre which provides a significant contribution towards meeting the service costs of the council.

(XIII) Pelham Crescent / Pelham Arcade – Building/Restoration Works (£204,000 in 2023/24)
In line with the strategic priority of an attractive town, the council is working with property owners to restore the crescent and roadway. Much of the work is conditional on receipt of external grants and contributions.

(XIV) Conversion of 12/13 York Buildings (£74k for 2023/24)
Final costs for the conversion of 6 flats at York Buildings.

(XV) Groyne Refurbishment (£35k for 2023/24)
Preserving sea defences and the town is a key priority. The Council funds the groyne refurbishment/ sea defence works and sets aside £35,000 p.a. for this – sometimes packaged together over several years.

Capital Expenditure 2024/25

20. The 2024/25 Capital programme amounts to some £14.524m (£11.281m net of grants and contributions).

21. The main areas of expenditure are Housing Acquisition Programme (£5.933m), Mayfield E Housing (£3.5m), Disabled Facility Grants (£2.056m fully grant funded), Energy Generation (£2m unallocated, £500,000 for Solar Panels), Annual programme of roof refurbishment (£500,000) and Groyne refurbishment (£35,000).

Capital Expenditure 2025/26

22. The Council's current capital expenditure plans for 2025/46 amount to some £2.591m (£535,000 net of grants and contributions).

23. The main areas of expenditure are currently Disabled Facility Grants (£2.056m fully grant funded), Annual programme of roof refurbishment (£500,000) and Groyne Refurbishment (£35,000).

Summarised Capital Expenditure and Funding - 2022/23 to 2025/26

24. The table below shows a summary of the expenditure for the current and next three years, along with the projected borrowing requirements.

	Forecast 2022/23 £'000s	2023/24 £'000s	2024/25 £'000s	2025/26 £'000s
Gross Capital Expenditure	17,593	30,716	14,524	2,591
Net Capital Expenditure	7,906	25,369	11,281	535
Financing from own resources / Grants	9,687	5,347	3,243	2,056
Borrowing Requirement	7,906	25,369	11,281	535

Financing the Capital Programme

25. The Council can invest in a capital programme so long as its capital spending plans are "affordable, prudent and sustainable".

26. The main sources of finance for capital projects are as follows:

- Capital receipts (from asset sales)
- Capital grants (e.g. Disabled Facilities Grant)
- External contributions (e.g. Section 106 developers' contributions)
- Earmarked Reserves
- Revenue contributions
- Borrowing including internal (Capital Financing Requirement).

27. Borrowing (or Capital Financing Requirement) makes up the most significant element. While the Council has sufficient cash and investment balances in the near term it is able to internally borrow but, in the future, will need to borrow externally in addition to the estimated £65.4m borrowing which will be outstanding at 31 March 2023.

28. The Capital Financing Requirement is reduced over the life of individual assets by an annual contribution from revenue (Minimum Revenue Provision). Further information including borrowing forecasts, the provision for the repayment of debt, and borrowing limits are set out in the Treasury Management Strategy. The table below shows the projected indebtedness of the Council based on the current Capital programme and expected levels of capital receipts, grants and contributions.

Table: Capital Financing Requirement (CFR) less Minimum Revenue Provision (MRP)

CFR	2021/22 (unaudited) £'000s	2022/23 (Estimate) £'000s	2023/24 (Estimate) £'000s	2024/25 (Estimate) £'000s	2025/26 (Estimate) £'000s
CFR-Opening	72,683	71,970	78,169	101,589	110,303
Less MRP	(1,668)	(1,707)	(1,950)	(2,567)	(3,127)
Plus New Borrowing	955	7,906	25,369	11,281	535
CFR Closing	**71,970**	**78,169**	**101,589**	**110,303**	**107,711**

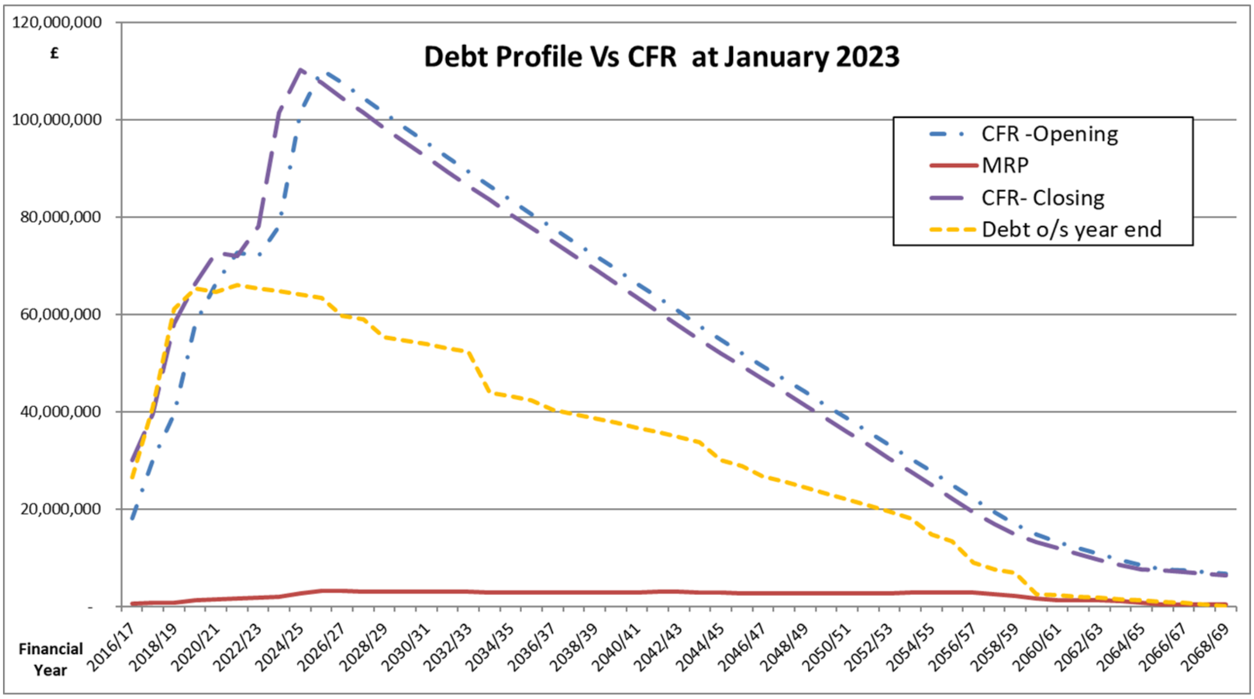
29. The table above highlights that by the end of 2024/25 the level of debt will have increased to some £110.3m (subject to viability and the approval of schemes within the Capital programme).

Revenue Consequences of the Capital Programme on the General Fund

30. Borrowing has long term revenue consequences. The overall indebtedness of the Council is reduced by the MRP each year. The overall level of debt needs to be viewed against the overall Long-Term Assets of the authority which stood at £185.420m at 31 March 2022 (unaudited) (£182.088m as at 31 March 2021).

Debt Profile and CFR

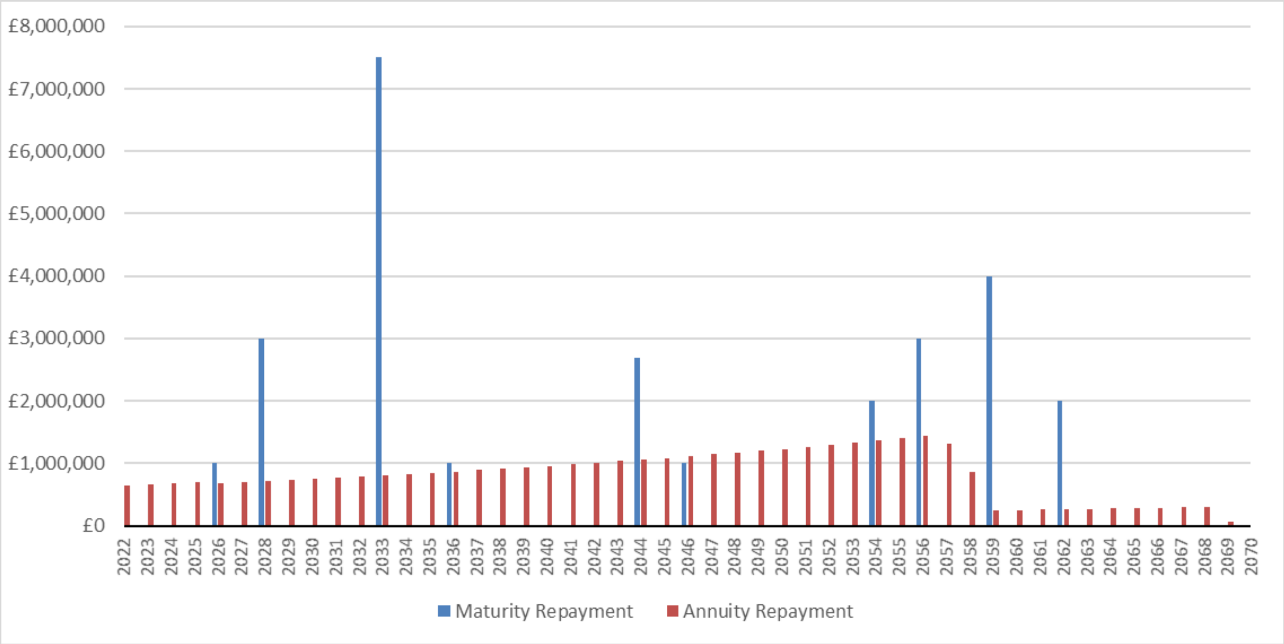
31. The graph below shows how the CFR (blue and purple lines) reduce over time as MRP payments are made. The yellow line shows the level of external debts reducing as principal repayments are made (see debt maturity graph below).



32. The graph above is based on the current known capital programme up to 2025/26. If further capital expenditure is finance by borrowing, which is highly likely, then this will push the trajectory of the graph out into further years and increase future MRP payment.

Debt Maturity

33. The Graph below shows the profile of when debt (loans from the PWLB) become repayable. Blue lines indicate maturity loans and red lines indicate annuity loans.



34. The Council will need to carefully consider the structure and timing of any new borrowing to ensure debt does not exceed the CFR in the years ahead.

Financial Risk Management

35. The treasury management strategy outlines in some detail the economic environment and the risks that the Council faces in managing its investments and borrowing activities.

36. A significant proportion of the Council's capital programme is likely to be financed by borrowing and this exposes the Council to the risk of changing interest rates and the ability to afford debt repayments.

37. Where borrowing money to finance economic development or regeneration schemes the Council is increasingly dependent upon the income streams to finance the debt repayments. No matter how good the business cases, and how much of the debt is at fixed rates, there is a limit to the exposure that is acceptable without putting the Council at complete risk of being unable to provide key services in the event of a significant recession.

38. To arrive at an overall borrowing level (Authorised and Operational borrowing limits), the Council needs to take a considered view of its other potential

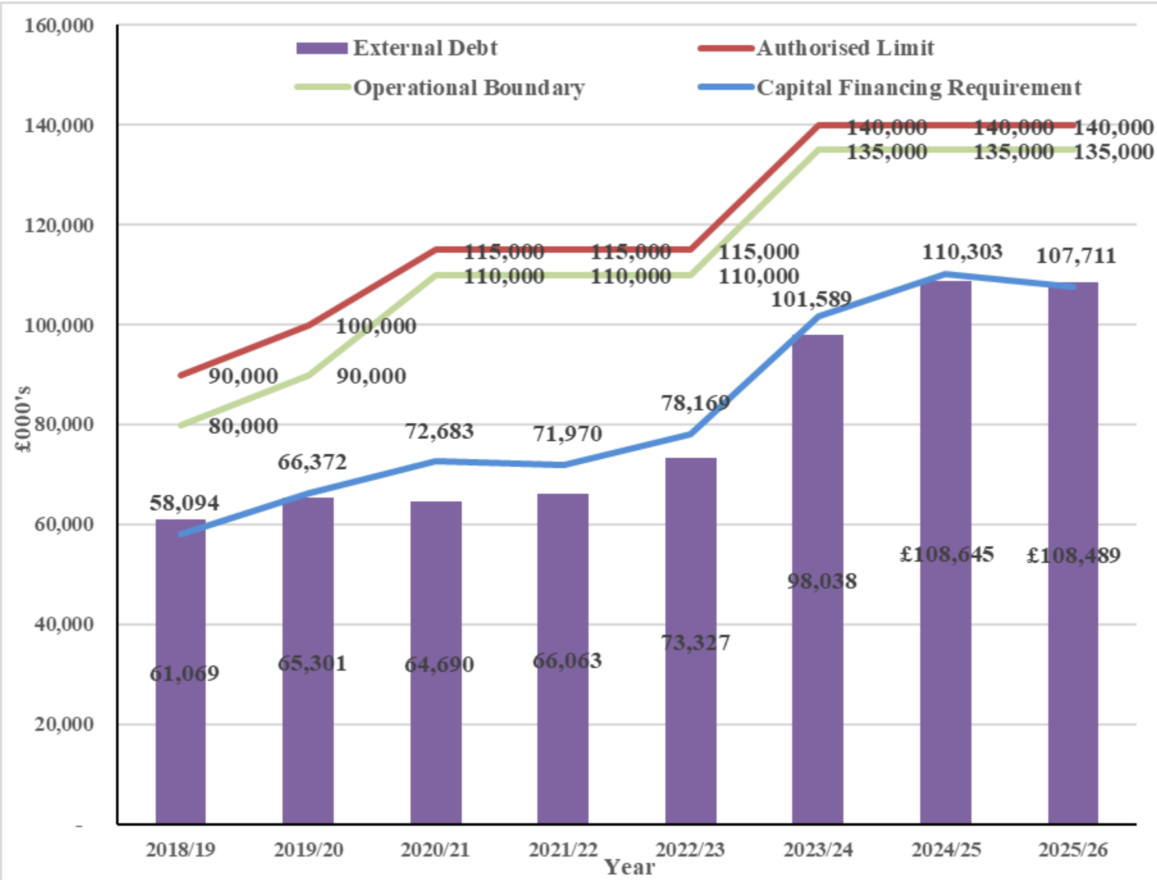
liabilities, future borrowing requirements, guarantees and loans given, bad debts, claims against the Council, future funding, security and diversity of the existing income streams, and unforeseen events e.g. a pandemic.

39. Based on the existing Capital programme, by 2024/25 interest on debt will amount to some £3.681m p.a. with capital repayments (MRP) of £2.567m; offset by income and interest. This represents some 37% of the net revenue stream (amount met from government grants and local taxpayers). Interest on debt is estimated at £2.811m for 2023/24.

40. The full Council determine the total limits on borrowing.

41. The graph below demonstrates the relationship between the various boundaries and limits and the actual borrowing undertaken to date or planned. The gap between the external debt and CFR also helps to illustrate the level of internal borrowing and potential interest rate exposure. The gap between the CFR and Operational Boundary/Authorised Limit highlights the potential scope/flexibility to borrow further, if the cashflow and treasury management position dictates.

Table: External Debt, Authorised Limits and CFR Projections



42. In terms of cash backed investments, the Investment Policy provides strict guidance on the counterparties the Council is prepared to invest with and for what periods. The Council invested £2m in a property fund (CCLA) in April 2017

and a further £3m tranche of monies in a diversified investment fund in 2020/21.

43. In terms of asset backed investments and projects e.g. involving commercial property and housing, the business cases look to identify the alternative options and uses of the premises should they become vacant. The Council increased the minimum level of reserves held in recognition of the fact that there will inevitably be void periods, and expenditure will be incurred in updating properties from time to time in order to re-let them. Where the Housing Company is concerned it will need to retain sufficient working balances to re-let and refurbish properties. It is important that void periods are minimised and that properties acquired are not inherently defective, and their needs to be regular oversight.

44. Some projects such as the solar panel installations have some asset backed values, but the ability to meet the debt repayments from energy savings and sale of the surplus energy will remain a risk unless long term forward sale agreements are made. However, such long-term agreements come at the cost of not necessarily obtaining the maximum income. A balance of risk and reward needs to be achieved.

Loans and Guarantees

45. The Council is required to maintain a schedule of loans and guarantees to other organisations.

Table: Loans to Other Organisations

3rd Party Organisations	**Rate/ Return (%)**	**Start Date**	**End Date**	**Principal Outstanding as at 31/03/2023 £**	**Type**
Amicus /Optivo	3.78%	04/09/2014	02/09/2044	£1,788,235	Maturity
The Foreshore Trust	1.66%	21/03/2016	20/03/2026	£95,262	Annuity
The Source	2.43%	17/12/2015	17/12/2025	£8,144	Annuity
			Sub-Total	**£1,891,641**	
Hastings Housing Company					
Hastings Housing Company - Loan 1	4.48%	28/02/2018	28/02/2058	£784,676	Maturity
Hastings Housing Company - Loan 2	4.84%	12/02/2019	12/02/2059	£344,810	Maturity
Hastings Housing Company - Loan 3	4.84%	13/06/2019	13/06/2059	£4,359,912	Maturity
			Sub-Total	**£5,489,398**	
			Total	**£7,381,039**	

46. The above table shows a series of loan to the Hastings Housing Company in respect of property purchases. As at 31 December 2022 the Capital loans amount to £5,489,398. The company has access to a revenue loan facility from

the Council; the company fully repaid the revenue loan but has outstanding commitments regarding the capital advances.

47. The Housing Service provides loans and guarantees to individuals for rent in advance and rental deposits and the Council also provides a limited loan facility to staff for car loans, season tickets, and bicycle loans.

48. The Council has other liabilities that need to be considered when assessing the overall financial position of the Council e.g. potential legal claims, pension liabilities.

Reserves

49. The Council maintains reserves for specific purposes (earmarked reserves) and also a general reserve for unavoidable future liabilities. The minimum recommended level of reserves to be maintained has been set at £6m. The adequacy of the reserve levels are reviewed on a regular basis, and particularly when determining the budget.

50. The Council's General and Earmarked reserves are set to fall further over the forthcoming 12 months. The balance at 1 April 2022 was £30,604m (unaudited). This figure however includes a large amount of ringfenced reserves that can only be used for specific purposes, for example Disabled Facilities Grant moneys. Once these balances are removed the level of freely usable reserves falls to £12.035m. At the 31 March 2023 the estimated balance will be £9.705m with the balance at the end of 2023/24 forecast to reduce further unless sufficient budget savings are made.

51. The reduction in balances will result in less interest being earned on investments, greater short-term borrowing to match cash flow requirements, along with the need to match future renewal and repair commitments to available resources. If general reserves are used to a significant level to finance emergency or non-avoidable expenditure, then future budget cuts (potentially in-year) will be required to restore reserves to minimum levels.

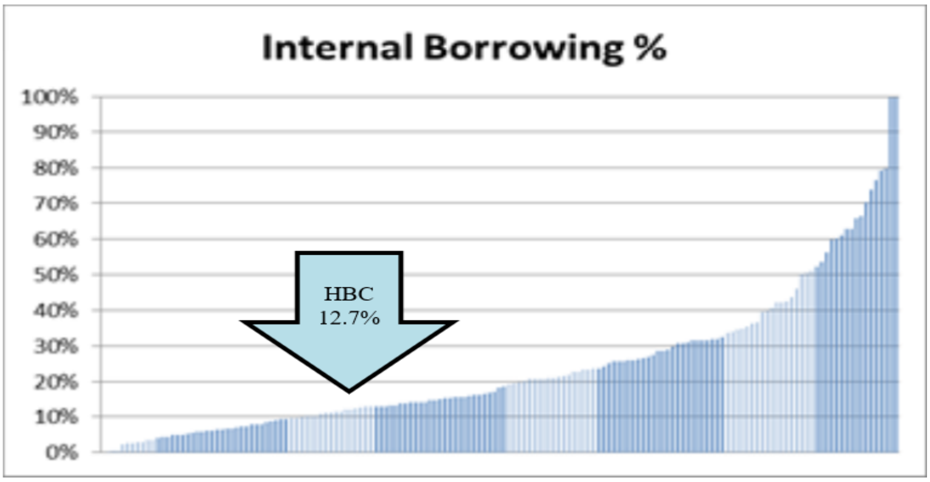
Risk Appetite & Prudential Indicators

Internal Borrowing

52. When undertaking Capital projects or purchasing new assets, the Council has a number of options as to when and how to finance these. If there are no grants or revenue resources and no capital receipts the Council will finance by borrowing. If it delays the borrowing, then it will be using its own monies (Internal borrowing - generally from reserves) to temporarily fund the assets.

53. If an authority has a large internal borrowing position, this will mean that reserves and balances have temporarily been used to support borrowing positions and therefore the reserves will not be backed by cash in the bank. This position continues to work for many, but as reserves and balances are utilised in the years ahead and balances fall, this will reduce any ability to internally borrow and may bring forward the need to borrow externally (potentially at a time of high interest rates, or when there is limited ability to borrow externally).

Table showing levels of Internal borrowing in Councils (Link Asset Service's Client Base)



54. The Council's Treasury advisers undertook a review of client's balance sheets and the average level of internal borrowing was, from the above graph, just under 20%. The level will vary depending upon when an authority finances expenditure and when debt is refinanced.

55. For Hastings Borough Council it has previously sought to achieve near full financing of the Capital programme over recent years in order to take advantage of the historically low borrowing rates and avoid the risk of having to lock into high interest rates when it has no option but to borrow. For the last year a higher level of internal borrowing was adopted. Currently, with interest rates having risen considerably from historic lows, and looking likely to increase further the Council will need to carefully consider when the best time to borrow is. Guidance from our external treasury managers will be sought before any borrowing decision are made.

56. For 2022/23 the level of internal borrowing by year end is expected to be £4.842m out of a total borrowing requirement of some £78.169m (6.2%).

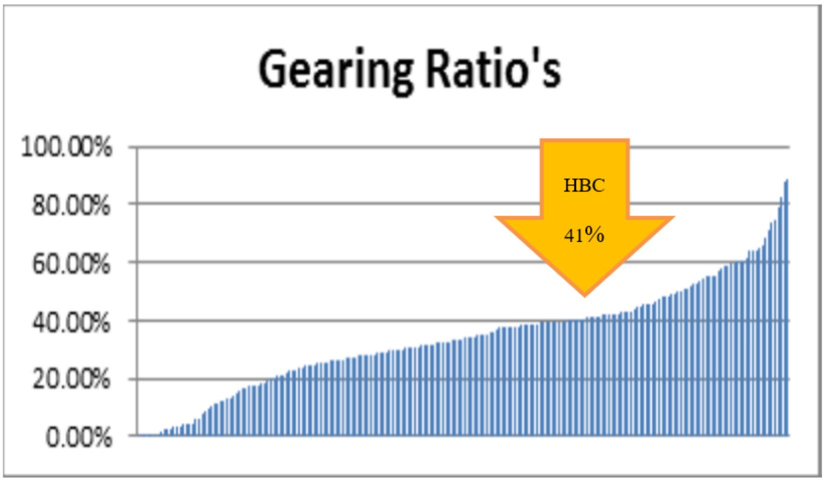
Gearing

57. Gearing has predominantly been a debt metric used by the private sector more than the public sector, but recent moves towards commercialism opportunities and investments means that borrowing is a much greater risk and gearing is an appropriate prudential indicator.

58. Based on Link Groups' analysis of balance sheet positions for 2017/18, gearing ratios for over 200 authorities averaged out at around 35% when comparing Capital Financing Requirements (CFR) to total Long-term Assets reported.

59. Due to the nature of assets held, services provided and historical debt decisions, positions will vary across different types of authority, and for many authorities the ratios will have increased since 2017/18. However, it still provides a useful comparator.

Table: Gearing ratios in Councils (Link Group's Client Base)



60. Gearing provides an early indication of where debt levels are rising, relative to long-term assets held.

61. Despite some of the adverse publicity around local authority finances, it can be argued that gearing of 35%, on average, is not a bad position for the sector to be in, as in simple terms 65% of the costs of long-term assets have been paid for, with debt outstanding on the remaining 35%.

62. In the private sector gearing is generally calculated on net assets and a generally accepted norm is a ratio between 25% and 50%. The risk exposures are generally deemed to be greater where a company has much of its borrowing at variable rates – which is the opposite of the Council's position (all is now at fixed rates).

Table showing Future Projections of Gearing Ratios – based on Capital programme

Gearing Calculation	Actual 2020-21 £'000	Actual 2021-22 £'000	Estimate 2022-23 £'000	Estimate 2023-24 £'000	Estimate 2024-25 £'000	Estimate 2025-26 £'000	Operational Boundary £'000
Capital Expenditure			17,593	30,716	14,524	2,591	
New Borrowing			7,906	25,369	11,281	535	
Net Assets	88,861	108,409	126,002	156,718	171,242	173,833	156,718
Long Term Assets	182,088	185,420	203,013	233,729	248,253	250,844	305,084
Capital Financing Requirement	72,683	71,970	78,169	101,589	110,303	107,711	135,000
RATIOS:							
Debt: Net Assets	**82%**	**66%**	**62%**	**65%**	**64%**	**62%**	**86%**
Debt: Long Term Assets	**40%**	**39%**	**39%**	**43%**	**44%**	**43%**	**44%**

Note: Outturn figures for 2020/21 and 2021/22 are unaudited

63. The Council's position will move from 39% to 43% but remains close to the average (35%), especially considering this average is likely to have increased since 2017/18. If the Council borrowed at the limits to its current Operational Boundary (£135m), then debt to long term assets ratio could rise to 44%.

64. All decisions around debt comes back to affordability, prudence and sustainability principles which are at the heart of the Prudential Code and have been since its inception in 2004.

65. The Chartered Institute of Public Finance and Accountancy have issued a clear statement on the levels of debt that Councils in general are accumulating following the purchase of commercial assets in particular. Such borrowing must be proportionate to the size of the authority. Further detailed guidance was released in autumn 2019, and further changes to the Treasury Management codes have been undertaken to produce revised 2021 editions.

66. The government revised their lending criteria for the Public Works Loan Board (PWLB) on the 25 November 2020 which effectively prevents Councils from borrowing for commercial property investments where the primary purpose is to make a return (yield). The Council has no intention of purchasing commercial property primarily for yield and were it to consider doing so it would need to seek full Council approval to do so.

Ratio of Financing Costs to Net Revenue Stream

67. Financing costs are the element of the budget which an authority is committed to, even before they have run a single service or incurred any other costs as they reflect the current costs of previous/planned capital financing decisions.

68. In Hasting's case the ratio of financing costs in 2023/24 represents, 27%, of the Net Revenue Stream which leaves 73% of the revenue stream for all the other

services to be provided. The higher the percentage, therefore, the less is left for running services.

69. If the Net Revenue Stream is reducing, as funding sources are reduced over time, then even though financing costs may be fixed through fixed-term loans and interest rate certainty, the ratio will potentially continue to climb leaving less available for front-line services and placing further pressures on budget positions (increases to 40% by 2025/26).

70. However, the income the Council receives from rents and fees and charges decreases the net expenditure of the Council. The calculation of debt charges to “the amount to be met from Grant and Collection Fund” as a proxy for the “Net Revenue Stream” therefore has to be treated with considerable caution.

71. This leads back then to local decision making and the need/objectives behind capital investment. Business cases must identify ongoing revenue implications and hence affordability. The Treasury Management Strategy includes a prudential indicator that identifies the ratio of financing costs to Net Revenue Stream. This is a further way of ensuring that affordability, prudence and sustainability considerations are kept to the fore in treasury reporting.

Corporate Governance Arrangements – Project Approval Process

72. The Council has an ambitious Corporate Plan, and it remains important that the capital programme remains realistic in terms of resources and timescales to achieve the desired outcomes.

73. The Council has a number of project management procedures and tools in place for managing individual projects. Key is the project initiation stage, the approval process and thereafter effective performance monitoring and reporting. A business case is required and a detailed report to Cabinet/Council. Any new Capital proposal requires full Council approval.

74. Major projects are likely to have impacts on other key services such as Legal, Finance and Estates teams depending upon the nature of the projects. External support is commissioned where there is insufficient capacity, knowledge, or expertise within the Council. Cabinet and the Overview and Scrutiny Committee receive quarterly updates on financial performance (including the capital programme).

75. Property developments and purchases are considered by Cabinet, and are subject to full Council approval, with delegated authority normally provided thereafter to the Chief Finance Officer in consultation with the leader to negotiate the final terms. The Council’s legal team, surveyors and Corporate Property Officer are all closely involved. The Council will normally employ the services of an agent to advise on the price and conduct negotiations. Necessary due diligence is conducted and external specialist surveyors and advisors employed as necessary.

Repair and Renewal Programme

76. The Council has a comprehensive repair and renewal programme. There are elements of a reactive and recurring nature and a separate costed schedule for planned maintenance items (see budget). The Council contributes an annual sum of £500,000 to a reserve which funds the programme. In 2021/22 there was expenditure of £658,026, for 2022/23 the budgeted expenditure amounts to £547,700 and in 2023/24 it is estimated at £762,300. As a result of expenditure exceeding income the balance on the reserve is expected to fall from £1.471m at 31 March 2022 to some £923,300 by the end of March 2023.

Information Technology Reserve

77. Like most Councils and businesses, the Council is totally reliant on effective IT in order to deliver services. The Council is continuously improving systems and looks to streamline service provision wherever possible. Business continuity planning remains vital against the continuing systems attacks that are experienced, and it remains critical that systems and virus protection software remain updated.

78. Like the Repair and Renewal programme the costs of acquiring and the updating of systems does not fall uniformly in any one year and hence an annual contribution is made into an IT Reserve.

79. The Council contributes £189,000 p.a. into the fund. The expenditure in 2021/22 amount to £230,300 and is estimated at £214,000 in 2022/23 and £214,000 in 2023/24 (see budget).

Knowledge, Skills and Training

80. In order to deliver the Capital Programme it is essential that the Council has access to the right knowledge and skills. The Council employs fully qualified and experienced staff such as solicitors, estate managers, surveyors and accountants.

81. The Council maintains a training budget, recognising that it remains critical to the organisation to have a well-trained and motivated workforce. The Council provides on-line training courses, internal and external training, to enable staff to complete their Continuing Professional Development (CPD) requirements.

82. The Council seeks to ensure members have access to training opportunities in order for them to adequately undertake their governance role. Workshops and training events are held on a regular basis.

83. Where specialist knowledge is required the Council will obtain expert advice, particularly around property specialisms, taxation, and legal advice.

Chief Finance Officer Report

84. Within the Prudential Code it is the responsibility of the Chief Finance Officer to explicitly report on the delivery, affordability and associated risks to the strategy.

Delivery

85. The Council, which has significant deprivation levels, understandably has an ambitious Corporate Plan. This is set against a background of severe funding reductions, and the need to provide good services to the many visitors, residents and businesses.

86. The delivery of the individual schemes in the Capital Programme are directly linked to the original approval and business case for each individual project which has an assigned project manager responsible for delivery.

87. As part of the quarterly financial update report the performance of individual projects are presented to Overview and Scrutiny along with all other financial performance.

Affordability

88. Affordability is critical in applying the capital strategy and approving projects for inclusion in the capital plan. This is mostly demonstrated by a specific report on the project being presented to council for approval supported by a business case identifying the expenditure and funding, appraisal of alternative options and the risks and rewards for the approval of the scheme.

89. The Capital programme is heavily reliant on borrowing and will continue to be so especially given that the Council is looking at some major economic development and regeneration schemes.

90. Where borrowing is to be used, the affordability is key, and that affordability has to include the interest costs of that borrowing and the provision for the repayment of the borrowing. This repayment is matched to a prudent asset life and any income streams estimated to fund this asset must be sustainable. The “rules” around the governance of this borrowing is outlined in the prudential code.

91. At no stage should the asset value be lower than the value of outstanding debt, other than for a short period, unless there is a clear plan to mitigate that shortfall or to sell that asset.

92. The Council's existing borrowing levels are not considered excessive. However, a downturn in the economy with resultant loss of income would require the Council to make greater service cuts to balance the budget. The Council must look to achieve a sustainable and balanced budget in future years, and reduce its reliance on drawing down from its Reserves.

Risks

93. The risks associated with individual projects are identified and mitigated as part of the initial business case development stage and reported through both the financial reporting process to Overview and Scrutiny as well as being included as part of the Corporate risk register.

94. There are clear links from the capital plan to both the treasury management strategy, prudential indicators, authorised borrowing limits and the revenue budget. These are also subject to review and oversight by members at Audit Committee and Council.

95. For any new borrowing, and this is a greater risk as the value of borrowing increases, this increases the councils overall liabilities that will need to be repaid in the future. In addition this increases the Council's level of fixed interest and repayment costs that it will incur each year. This is a clear risk that all members need to be aware of.

96. However, this risk for all assets is mitigated by a robust business case and a full MRP that will repay the borrowing costs over a (prudent) asset life. Any variation in expected income is an issue, however given the wide range of operational assets and different income streams this is not considered a significant risk.

97. This Capital Strategy and the Treasury Management Strategy is likely to be reviewed and updated during the year, and put before full Council, as and when the Council's spending plans are developed further.

Conclusion

98. The current system of borrowing is still a self-regulatory system which means that responsibility for borrowing decisions, and the level of borrowing incurred by a Council are determined at a local level.

"..the responsibility for decision making and ongoing monitoring in respect of capital expenditure, investment and borrowing, including prudential indicators, remains with full Council". (Prudential Code December 2017).

99. The Chief Finance Officers' personal view is that borrowing decisions result in a long term commitment to fund that borrowing, and that all decisions are made as a whole programme perspective and not on an individual basis.

100. However, for transparency and ease of comparison between projects, indicative full figures for borrowing will always be included in all business cases brought forward for decision making regardless of whether or not borrowing will actually be required.

Consultation and Communication

101. The detailed Capital Programme is included within the Council's budget which is on the Budget Cabinet agenda. The programme supports the Council's Corporate Plan which is likewise on the same Budget Cabinet agenda.

102. The draft budget for 2023/24 is subject to public consultation from January 2023.

Equality Impact Assessment

103. Equality Impact assessments are considered as part of the business case when considering individual capital proposals.

Appendix 1

Affordability Prudential indicator - Ratio of Financing Costs to Net Revenue Stream

Prudential Indicator: Financing Cost to Net Revenue Stream	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Financing Costs	£'000	£'000	£'000	£'000	£'000
1. Interest Charged to General Fund	1,825	1,847	2,811	3,681	3,665
2. Interest Payable under Finance Leases and any other long term liabilities	-	-	-	-	-
3. Gains and losses on the repurchase or early settlement of borrowing credited or charged to the amount met from government grants and local taxpayers	-	-	-	-	-
4. Interest and Investment Income	(540)	(808)	(824)	(618)	(618)
5. Amounts payable or receivable in respect of financial derivatives	-	-	-	-	-
6. Minimum Revenue Provision (MRP) / Voluntary Revenue Provision (VRP)	1,668	1,707	1,950	2,567	3,127
7. Depreciation/Impairment that are charged to the amount to be met from government grants and local taxpayers	-	-	-	-	-
Total	2,953	2,746	3,937	5,630	6,174
Net Revenue Stream Amount to be met from government grants and local taxpayers	14,253	14,530	14,821	15,117	15,420
Ratio **Financing Cost to Net Revenue Stream**	**21%**	**19%**	**27%**	**37%**	**40%**

Note: Outturn figures for 2021/22 are unaudited

Agenda Item 8

Report To:	**Audit Committee**
Date of Meeting:	**Thursday, 12 January 2022**
Report Title:	**Risk Registers**
Report By:	**Tom Davies, Chief Auditor**
Key Decision:	**N**
Classification:	**Open**

Purpose of Report

The purpose of the report is to inform the Audit Committee of the Strategic Risks and countermeasures in place for the council.

Recommendation(s)

1. **To review the Strategic Risks and comment as appropriate.**

Reasons for Recommendations

As part of the Corporate Risk Management Strategy agreed by Cabinet, the Risk Registers are to be reviewed by the Audit Committee each year.

Introduction

1. The Risk Registers, both Operational and Strategic are in SmartSheet and online. The latest Strategic Risk Register showing all open Strategic Risks is attached at appendix A.

Explanatory notes

2. Unfortunately, the reader will need to magnify the attached document in order to be able to read it properly. **We are looking to find a way of cutting the full version down which will reduce detail but enable it to be easily read.** If still in any difficulty, please contact the author of this report.

3. In the fast changing world, there will a small number of old references, for example, of government departments, but it is correct leave those where they were the body in question at the time. Similarly, please do not be caught out under the column for 'author' of the risk as several of these officers have now left the council. The relevant column is the one to the right of it and is to who the risk is assigned to.

4. The main Covid19 risks have passed but there is still some resurgence and effects of long term Covid.

Risk Mapping to Objectives

5. It is good practice to map risks to objectives. This has been done by cross referencing the Corporate Objective number in the far right hand side column to the Corporate Objective.

Corporate Objective	Reference No.
Tackling homelessness, poverty and ensuring quality housing	1
Keeping Hastings clean and safe	2
Making best use of our land, buildings, public realm and cultural assets	3
Minimising environment and climate harm in all that we do	4
Delivery of our major regeneration schemes	5
Ensuring the council can survive and thrive into the future	6

All Red Risks (Not listed in any particular order)

- **Russian/Ukraine war**

- **Systems audit - Risks of not identifying key weaknesses, or threats in a constantly changing risk environment**

- **CHART Insufficient project expenditure to enable forecasted M&A costs to be recovered (M&A budget max 25% of programme costs).**

- **CHART: Accountable body unable to claim back cash flowed fund/pay back received payments from Managing Authority due to project ineligible expenditure/outcomes. This is now appearing in our MA claim checks and some project irregularities.**

- **Changes in Central Government policy and legislation e.g. new environmental legislation**

- **Treasury Management - Loss of money**

- **Income streams**

- **Government Funding - Continued lower levels of funding with potentially even more reductions in the years ahead.**

- **Impact of economic climate , Covid-19, on Income and Expenditure levels**

- **'Brexit' implications**

- **Corporate Governance - Financial Information, Transparency, Effective Financial Management and controls.**

  Non Compliance with Financial Management Code of Practice as a Council and ensuring proper management of the Council's financial affairs

- **ERP contract renewal / Potential change to Working arrangements with Rother DC**

- **Increased demand for council services (e.g. Housing, Homelessness and associated risks around rough sleeping and Community Safety) because of economic/social deprivation as a consequence of the economic situation, constraints on Public Spending and changes in welfare benefit systems.**

- **Failure to secure affordable housing solutions to prevent rising numbers of homeless households.**

- **Loss of key staff within the Organisation and People Customer and Business Support service:**
  - Turnover
  -Redundancy/retirement
  - Re-structure
  (failure to take a strategic approach to workforce planning puts key services at risk)

- **Property, Planning & Contracts:**
  Instructions - lack of full, precise and timely instructions from client departments

  Failure to follow procurement rules

  Not enough attention paid to specification of contracts

- **Severe Business Disruption**

- **Insufficient organisational capacity to deliver existing commitments set out in the corporate plan alongside implementing required changes to meet the challenge of the council's budget deficit.**

- **No resilience in the organisation.**

- **Deterioration of the Council's assets i.e. those that create tourism public safety issues e.g. cliffs & sea front**

- **Bathing Water Quality**

- **Bathing water fails to meet annual European Union standard**

- **Flood Risk Management & Coastal Protection Impact of severe weather.**
  Failure of defences.
  Loss of Government Funding.

- **Failure to meet collection targets in respect of council tax & business rates**

Summary

6. The main risk groupings are around the national economic situation including uncertainty over government funding, the impact of loss of key staff and experience and to a lesser extent the effect of extreme weather.

7. The Risk Registers are reviewed monthly by Corporate Management Group who would bring forward the Register to the Audit Committee if any of the risks were to unexpectedly rise.

8. The Operational Risk Register will be presented to the Audit Committee at the meeting on 16 March 2023.

9. Timetable of Next Steps

Action	Key milestone	Due date (provisional)	Responsible
Ensure Risk Registers are easily readable for publication.	Next meeting-	16 March 2023	Chief Auditor

Wards Affected

(None);

Policy Implications

Reading Ease Score: 43.1

Have you used relevant project tools?: n/a

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	N
Crime and Fear of Crime (Section 17)	N
Risk Management	Y
Environmental Issues & Climate Change	N
Economic/Financial Implications	N
Human Rights Act	N
Organisational Consequences	N
Local People's Views	N
Anti-Poverty	N
Legal	N

Additional Information

Appendix A – Strategic Risk Register (All open Strategic Risks)

Officer to Contact

Officer Tom Davies
Email tdavies@hastings.gov.uk
Tel 01424 451524

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Sheet Name	Status	Risk	Impact	Financial impact if known	Likelihood	Severity	Priority	Counter measures	Residual Likelihood	Residual Severity	Residual Priority	Category	Date identified	Author	Assigned to	Available to public	CMG Report type	Send to Audit Committee	Send to CMG	Send to CRMG	Strategic risk	Public RAID item	Strategic RAID item		Corp. Obj
Audit - RAID log	Active	Russian/Ukraine war	Finance -soaring inflation	n/k	Medium	High	Red	- Budgetary reprioritisation	Medium	High	Red	Organisation	10/03/22	Tom Davies	Tom Davies	TRUE		TRUE			TRUE	Yes	Yes		6
Audit - RAID log	Increasing	Systems audit - Risks of not identifying key weaknesses, or threats in a constantly changing risk environment	- Loss of credibility of audit and false assurance	Worst case scenario, a malicious cyber attack would cost something in the low £millions.	Medium	High	Red	Experienced staff, review by Chief Auditor and buying-in resouce	Medium	High	Red	Organisation	01/01/21	Tom Davies	Stephen Dodson, Tom Davies	TRUE		TRUE			TRUE	Yes	Yes		6
Building Surveyors - RAID log	Increasing	Treasury Management - Cost of borrowing Increased borrowing or an increase in interest rates, plus eligibility to borrow from the Public Works Loan Board	£64.689m borrowed at 31 March 2021 Operational borrowing limit £110m in 2021/22 Authorised borrowing limit £115m in 2021/22	Each £1m of new borrowing, financing an asset with a life of 40 years would cost the Council some 5%p.a. (based on a maturity loan with a 2.5% interest rate) i.e. £50,000 p.a.	Medium	High	Red	- Use of External Advisers – Link Asset Services - Ensure staff are well trained - Ensure adequate cover - Treasury Management Strategy, Capital Strategy and Treasury Management Practices that are reviewed at least annually Use of Capital Receipts	Medium	Medium	Yellow	Business Organisation	01/01/21	Peter Grace	Kit Wheeler	TRUE		TRUE			TRUE	Yes	Yes		6
Business Support - RAID log	Active	Breach of fire and building health and safety regulations at Town Hall or Muriel Matters House and security,	- Potential injury to Persons and buildings		Low	High	Yellow	- Health & Safety Audits - Identity cards/lanyards issued to staff with a requirement to be worn. - Building checks undertaken by Business Support in conjunction with Health and Safety adviser. -Regular maintenance of systems.	Low	Low	Green	Business Organisation	01/01/21	Verna Connolly	Verna Connolly						TRUE	Yes	Yes		6
Business Support - RAID log	Active	Breach of Town Hall or Muriel Matters House Security including potential contentious public meetings – asset or data loss	- Legal action/Loss of reputation/ confidence - Potential harm to staff and public - Potential harm to HBC buildings		Low	Low	Green	Regular review at Corporate health and safety group of incidents reported. All relevant policies/procedures amended accordingly and disseminated to all staff. - Perform security reviews to test security arrangements – particularly at the Town Hall, as there are more tenants and members of the public in the building now. - Ensure that relevant teams undertake risk assessments as and when required for events in the buildings etc. - Test & maintain alarms. - Issue instructions on staff ID cards/ staff lanyards (grey)– mandatory - Monitor and maintain ID card and fob systems for staff - Monitor and maintain ID card and fob systems for tenants/contractors/councillors and visitors. - ensure visitors visibility improved through the use of named/coloured lanyards - staff encouraged to challenge individuals not displaying ID's and accompany them to Business Support to be issued with temporary ID (if appropriate) - Perform security reviews to test security arrangements – particularly at the Town Hall, as there are more tenants and members of the public in the building now. - Ensure that relevant teams undertake risk assessments as and when required for events in the buildings etc. - Test & maintain alarms. - Issue instructions on staff ID cards/ staff lanyards (grey)– mandatory - Monitor and maintain ID card and fob systems for staff - Monitor and maintain ID card and fob systems for tenants/contractors/councillors and visitors. - ensure visitors visibility improved through the use of named/coloured lanyards - staff encouraged to challenge individuals not displaying ID's and accompany them to Business Support to be issued with temporary ID (if appropriate)	Low	Low	Green	Business Organisation	01/01/21	Verna Connolly	Verna Connolly						TRUE	Yes	Yes		6
Cemetery & Crematorium - RAID log	Active	Failure to provide cremation and burial services through equipment failure, staffing issues/capacity, severe winter weather. Cremator equipment is older and more prone to maintenance issues.	Damage to reputation. Serious consequences for customers. Loss of income. Pressure on availability of services within reasonable timescales		Low	High	Yellow	Arrangement in place with Eastbourne Crematorium to undertake cremations in the event of total loss of service. Cremators regularly maintained and specialist maintenance contracts in place. Relief cremator operators trained to provide sickness / absence cover and enable shift working at peak times of demand. Effective and well tested contingency plans in place for winter. This under control	Low	Medium	Green	Business Community Finance	01/01/21	Mike Hepworth	David Birchenough, Natasha Tewkesbury						TRUE	Yes	Yes		6
CHART programme - RAID log	Active	Insufficient project expenditure to enable forecasted M&A costs to be recovered (M&A budget max 25% of programme costs).	M&A budget claimable and resulting grant income may be less than the M&A real cost expenditure, resulting in financial risk to council.	Approximately £90k	High	High	Red	Live tracking of project expenditure to assess M&A budget threshold. Actions to mitigate project underspend - such as handing back unallocated funds and re-profiling M&A expenditure. This is ongoing, but has now become an issue as well.	High	High	Red	Finance	01/01/20		Bridget Pont						TRUE	Yes	Yes		5
CHART programme - RAID log	Active	Accountable body unable to claim back cash flowed fund/pay back received payments from Managing Authority due to project ineligible expenditure/outcomes. This is now appearing in our MA claim checks and some project irregularities.	HBC will have paid out expenditure which it cannot recover from the Managing Authority, resulting in financial risk to council. Risk slightly increased by DWP releasing claim payments to us prior to checking our submission		Medium	High	Red	Animator to work closely with recipients to mitigate risk of ineligible claims being submitted. Project claims also checked by Compliance Officer, External Funding Manager and our Audit team before payments authorised. See comments	Medium	High	Red	Finance	01/01/20		Bridget Pont						TRUE	Yes	Yes		5
Community Safety - RAID log	Active	Large scale public disorder or loss of life at a public event	Reputational damage Litigation against the Council / staff members Civil or criminal prosecutions Increase in Community Tensions		Low	High	Yellow	Active participation in and leadership of the local Safety Advisory Group . The Safety Advisory Group encourages and drives continuous improvement in how local event organisers plan and manage their events. Effective enforcement of the management of licensed premises. Careful scrutiny of arrangements for events to be held on council land.	Low	High	Yellow	Community	01/01/21	John Whittington	John Whittington, Natasha Tewkesbury						TRUE	Yes	Yes		6
Community Safety - RAID log	Reducing	An act of terrorism	Significant loss of life Increase in community tensions Damage to the local economy and economic regeneration Reputational damage		Low	High	Yellow	Participation at Prevent Board meetings. Attendance at Prevent related Security Review meetings. Compliance with requirements of Counter Terrorism and Securities Act 2015. Local Prevent awareness training to front line staff. Promoting Prevent awareness amongst local businesses. Supporting Sussex Police in links with local Mosque. Safety Advisory Group also helps scrutinise event plans and Police review from terror perspective.	Low	High	Yellow	Community	01/01/21	John Whittington	John Whittington, Natasha Tewkesbury						TRUE	Yes	Yes		6
Continuous Improvement & Democratic Ser - RAID log	Active	Statutory publication dates for agendas and forward plan missed, resulting in meetings having to be cancelled and a delay to key decisions.	-Legal – Decisions made are open to challenge. -Reputational High risk of negative media and public profile.	-Financial – costs of legal challenges.	Low	High	Yellow	Legal provision is in place to obtain permission to accept late items if exceptional circumstances but only if certain conditions have been met -Forward Plan management via ModGov ensures that responsibility is shared with service departments. -Modern Gov system automated process for assisting with report publication rolled out.	Low	Medium	Green	Organisation	01/01/21	Stephen Dodson	Coral Harding						TRUE	Yes	Yes		6
Enforcement - RAID log	Active	Significant reduction in car parking income	Financial loss for the Council Reputation undermined		Low	High	Yellow	Adjust operational costs accordingly Budget regularly monitored, including income generation. If income dropped dramatically, could reduce costs by decreasing staff. Parking fees generally only changed every 2 years and impacts of fee increases and demand are carefully monitored.	Medium	Medium	Yellow	Business Finance	01/01/21	Mike Hepworth	Natasha Tewkesbury, Paul Cosson, Victoria Conheady						TRUE	Yes	Yes		6
Environmental Health - RAID log	Active	Serious Breaches of Health and Safety legislation.	Serious Injury/death. Reputational damage. Prosecution. Civil litigation. Financial penalties.		Low	High	Yellow	Maintenance and implementation of effective health and safety management systems including regular inspections and reviews. Implementation of effective health and safety training and awareness programme. Insurance and reserves	Medium	Medium	Yellow	Business Community Organisation Project/Work stream Technical Legal Finance HR	01/01/20	Mike Hepworth	Ian Wheeler	TRUE		TRUE	TRUE		TRUE	Yes	Yes		6
Environmental Health - RAID log	Active	Duty of care to the Public Negligence in inspecting and maintaining assets Trees failing / falling Out of date policies Failure to ensure fully trained and competent staff Loss of databases (plus documents stored within them)	Injury Claims Financial impact Reputation undermined		Medium	Medium	Yellow	Reviewed insurance cover especially in these areas. Risk assessments and periodic system of inspection in place for all park sites and buildings. Legionella, fire and asbestos risk assessments and controls in place. Regular electrical inspections in place. Programme of asset maintenance work in place to maintain all assets. Policies reviewed regularly. Staff training needs assessed at performance reviews, including Health and Safety updates. Contracts monitored with specific arrangements for H&S reporting via monthly meetings.	Low	High	Yellow	Business Community Finance	01/01/21	Mike Hepworth	Cameron Morley	TRUE		TRUE			TRUE	Yes	Yes		6
Estates - RAID log	Active	Failure to maintain assets managed by Estates	Properties fall into disrepair. Unexpected costs	Council contributes £508,000 p.a. to the Renewal and Repairs Reserve. Annual costs continue to exceed the annual provision being made	Medium	Medium	Yellow	Adequate budget (R&R and capital). Planned programme of repairs and inspections. However, large unexpected, uninsured events could result on calls to the General Reserve.	Medium	Medium	Yellow	Business Finance	01/01/20	Amy Terry	Amy Terry, Kit Wheeler	TRUE	4th option TBC	TRUE	TRUE	TRUE	TRUE	Yes	Yes		3

Finance - RAID log	Active	Changes in Central Government policy and legislation e.g. new environmental legislation	Changes over which the Council has little, or no control will happen. Changes in responsibilities and role of District/Borough Councils. Loss of income. New demands. Impact on contracts and tendering, reserves and staff resources	New legislation should result in new burdens funding. However funding is often "one off" whilst legislation is ongoing...	High	High	Red	Play an active role in lobbying Government to ensure the best awareness of District Councils views about key policy agendas via professional bodies and LGA. Track decisions and consider implications at an early stage to ensure HBC can respond. Project manage implementation of changes, potentially reallocating resources and reprioritising activity if required.	High	High	Red	Business Community Organisation Project/Work stream Technical Legal Finance HR	01/01/20	Tom Davies	Kit Wheeler	TRUE		TRUE	TRUE		TRUE	Yes	Yes		6
Finance - RAID log	Active	Treasury Management - Loss of money	Any loss of money through fraud, investment loss, etc is likely to be significant to the Council whether financially or reputationally, The investigation into cash losses and fraud are time consuming and often complex.	Gross budget £84.6m £15- £40 million invested at any one time, cash collection, electronic payments,	Medium	High	Red	- Use of External Advisers – Link Asset Services - Ensure staff are well trained - Ensure adequate cover - Treasury Management Strategy and Treasury Management Practices that are reviewed at least annually - Spread of investments Use of reserves Insurance - Money Policy/ Cash in Transit	Medium	High	Red	Business Organisation	01/01/21	Peter Grace	Kit Wheeler	TRUE		TRUE			TRUE	Yes	Yes		6
Finance - RAID log	Active	Income streams	- Budget deficits, Collection Fund Deficits, Bad debts	Reduced income levels due to Covid-19 pandemic. Structural changes in shopping habits will lead to reduced income from shops and potentially offices as market rentals reduce	High	High	Red	Adequate provisions - Ensure regular budget monitoring reports distributed followed up by meetings - Report variances quarterly through performance review -Active management of properties and services	High	High	Red	Business Organisation	01/01/21	Peter Grace	Kit Wheeler	TRUE		TRUE			TRUE	Yes	Yes		6
Finance - RAID log	Active	Budget setting - Limited information - Late decisions - Inadequate processes	- Staff disenfranchised - Low morale - In fighting		Low	Low	Green	- Ensure regular budget monitoring reports distributed followed up by meetings - Report variance through performance review - PIER process - Provide appropriate financial advice as directors/senior management request - Medium Term Financial Strategy	Low	Low	Green	Business Organisation	01/01/21	Peter Grace	Kit Wheeler						TRUE	Yes	Yes		6
Finance - RAID log	Active	External suppliers - Bankruptcy, administration	- Depends which contract		Medium	High	Red	Security bond in place for contracts over £250,000 (where appropriate) - Financial health checks - Adherence to Financial Rules when letting contracts - Effective use of Procurement Hub expertise	Medium	Medium	Yellow	Business Organisation	01/01/21	Peter Grace	Kit Wheeler						TRUE	Yes	Yes		6
Finance - RAID log	**Increasing**	**Government Funding - Continued lower levels of funding with potentially even more reductions in the years ahead.**	**Council unable to deliver Corporate Plan objectives and deliver services. Reserves diminish to below minimum recommended levels. Unsustainable budget necessitating reductions in staff and activities and inability to sustain Capital programme.**	**Budget Deficit of £1.483m in 2021/22, £2.258m in 2022/23 and £2.6m in subsequent years.**	**High**	**High**	**Red**	**PIER review - efficiencies/cuts, budget process, medium term financial strategy / plan. Energy generation options being considered which may provide additional income.**	**High**	**High**	**Red**	**Organisation Finance HR**	**01/01/20**	**Peter Grace**	**Kit Wheeler**	**TRUE**	**4th option TBC**	**TRUE**	**TRUE**	**TRUE**	**TRUE**	**Yes**	**Yes**		6
Finance - RAID log	**Increasing**	**Impact of economic climate , Covid-19, on Income and Expenditure levels**	**Loss of income. Increased service demand. Corporate regeneration priorities not delivered.**	**Decreased rental values, increased non payment of Council Tax and business rates, more bad debts, more court action**	**High**	**High**	**Red**	**Reprioritisation of service provision ensuring that 'must do' priorities are delivered to 'statutory' levels. Review Corporate regeneration priorities. Adjust the capital spending programme.**	**High**	**Medium**	**Red**	**Organisation Finance HR**	**01/01/20**	**Peter Grace**	**Kit Wheeler**	**TRUE**	**4th option TBC**	**TRUE**	**TRUE**	**TRUE**	**TRUE**	**Yes**	**Yes**		6
Finance - RAID log	**Increasing**	**'Brexit' implications**	**Loss of most/all European Grant Funding Decline in European visitors or workers Lost benefits of those European grant funded projects terminated Medium to long term economic uncertainty Loss of key industries whose trade is with Europe New impacts on small/medium businesses in town that trade with EU Effects on supply chains for capital projects**	**Supply chain increases costs**	**High**	**High**	**Red**	**Government short term guarantee for approved grants Reserves and potential Government funding depending on requirements All project financial assessments need to include sufficient contingency to cover potential up costs once tenders are received and projects operational**	**High**	**High**	**Red**	**Business Organisation Legal Finance**	**01/01/20**	**Tom Davies**	**Kit Wheeler**	**TRUE**		**TRUE**	**TRUE**		**TRUE**	**Yes**	**Yes**		6
Finance - RAID log	**Increasing**	**Corporate Governance - Financial Information, Transparency, Effective Financial Management and controls. Non Compliance with Financial Management Code of Practice as a Council and ensuring proper management of the Council's financial affairs**	**Council not sustainable without a sustainable budget. effective working relations in the leadership (councillors and officers)**	**large budget deficits. Reserves all used within 3 years at current rates if sufficient savings are not identified and actioned in a timely manner.**	**Medium**	**High**	**Red**	**Affordable Plans and realistic expectations Lobbying government for additional resources Seek external funding Identify savings, maximise income, manage efficiently and effectively. Retain key staff**	**Medium**	**High**	**Red**	**Organisation Finance**	**01/01/21**	**Peter Grace**	**Kit Wheeler**						**TRUE**	**Yes**	**Yes**		6
Finance - RAID log	**Increasing**	**ERP contract renewal / Potential change to Working arrangements with Rother DC**	**Council unable to take income, report on HR / Finance, unable to produce statutory Statement of Accounts and therefore qualified Audit opinion.**	**Contract needed and potential increase in costs if RDC decide to go in a different direction with HR as expected. Currently one contract for both authorities.**	**High**	**High**	**Red**	**Agree an extended contract with current provider to give both RDC and HBC the correct amount of time to investigate and analyse what we need to future proof and meet our strategic and operational goals and then go through procurement tender to find the best possible solution. New project team created with SRO identified and working party set up ASAP to look into potential options.**	**High**	**High**	**Red**	**Business Organisation Technical Finance HR**	**26/01/22**	**Kit Wheeler**	**Kit Wheeler**						**TRUE**	**Yes**	**Yes**		6
Housing Options - RAID log	Active	Increased demand for council services (e.g. Housing, Homelessness and associated risks around rough sleeping and Community Safety) because of economic/social deprivation as a consequence of the economic situation, constraints on Public Spending and changes in welfare benefit systems.	Increased pressure on HBC services including benefits and homelessness; increased poverty and deprivation; negative impact on community cohesion. Adverse impact on Council Tax collection rate. Less Housing Benefit paid More pressure on DHP fund Migration from London Boroughs. This will impact on homelessness presentations and acceptances, including temporary accommodation usage.		High	High	Red	Maintain and widen partnership working, e.g. the successful approach to tackling social issues around street community. Seek appropriate external economic development financial opportunities where the business case justifies and capacity allows Community Safety Partnership. Council Tax Our CPF programme directed at advice and support for vulnerable people. Performance targets for homelessness reviewed and agreed. Additional financial support for prevention measures supported through Discretionary HB payments etc. and new Government funding. Review and monitoring of staff capacity to be carried out mid-year. New housing and homelessness strategies being developed. Acquisition programmes for Temporary Accomodation. Further development of social letting agency. Development of new housing on council land Local Plan review. Rough sleepers funding programme Adequate level of reserves to cope with excessive unplanned changes Reduce or end other non-statutory services to be able to address this priority.	High	High	Red	Business Community Organisation Project/Work stream Technical Legal Finance HR	01/01/20	Tom Davies	Andrew Palmer	TRUE		TRUE	TRUE		TRUE	Yes	Yes		1

Housing Options - RAID log	Active	Failure to manage the impact of changes in the law and/or government policy initiatives (e.g. impact of welfare benefit changes on homelessness levels	•Increased Service demand •Additional legal duties increase workloads •Legal challenge •Reputation undermined •Increased expenditure •Quality of service •Public health & wellbeing		Low	Medium	Green	•Maintain/raise corporate awareness through Performance Review/ Scrutiny/Cabinet etc •Regular stakeholder engagement through strategic liaison meetings with main Social Landlords (Optivo & Orbit) Housing and Support Service meetings & Private Landlord forums. •Engagement with the Department for Works and Pensions and Universal Credit colleagues to raise operational barriers and find solutions. •New Housing and Homelessness Strategies introduced. •Policy reviews of Allocations. •Impact & risk assessments •Improvements in cross team /service co-operation (e.g. Housing /Housing Benefit team action Plan) •Annual update of anti-poverty strategy & action plan •Ongoing co-production and development bids with MHCLG * LGA Housing Advisors Programme - review of Housing Options service, scoping of landlord liaison role * Rough Sleepers Accommodation Programme - 10 x 1 bed units	Low	Low	Green	Business Community Legal Finance HR	30/04/21	Andrew Palmer	Alan Sheppard, Andrew Palmer, Dawn Eckersley						TRUE	Yes	Yes		1
Housing Options - RAID log	Active	The Social Lettings Agency unable to offer Landlords a new tenancy management service to replace the Private Sector Leasing (PSL) scheme. Significant increases in costs as a result of rising rents across Hastings.	•Increased risk of homelessness •Impact on regeneration objectives and deprivation increases •Key Corporate priority not met •Standards and management in the Private Rented Sector do not improve	•Increase in spend on B&B	Medium	Medium	Yellow	•3 year business plan agreed by Cabinet in October 2019 to continue council acquisitions and Private Sector Leasing Scheme •Ongoing discussion with DLUHC and Homes England regarding grant funding to expand the leasing scheme	Medium	Medium	Yellow	Business Community Legal Finance	30/04/21	Andrew Palmer	Alan Sheppard, Andrew Palmer, Dawn Eckersley						TRUE	Yes	Yes		1
Housing Options - RAID log	Active	Delivery as lead partner of Sussex-wide Rough Sleeper Prevention Project, funded by the MHCLG.	•Publically stated commitment to project not met •Failure to meet project outputs against payments from the DLUHC	•Loss of DLUHC grant	Low	Medium	Green	•Established governance and performance management arrangements through ESHOG. •Regular contact between DLUHC and Project Team •Funding secured from DLUHC to continue the programme until March 2025. •Additional funding secured to enhance services through Homes England and Public Health	Low	Medium	Green	Business Community Legal Finance	30/04/21	Andrew Palmer	Alan Sheppard, Andrew Palmer, Dawn Eckersley						TRUE	Yes	Yes		1
Housing Options - RAID log	**Increasing**	**Failure to secure affordable housing solutions to prevent rising numbers of homeless households.**	**•Rise in homeless applications •Increased levels of spending on B&B •Increased levels of rough sleeping and associated ASB •Legal challenges •Reputation undermined**	**•Rise in the cost of B&B spend**	**High**	**High**	**Red**	*** Property acquisition programme to deliver council owned TA as a cheaper alternative to nightly paid TA •Regular stakeholder engagement through strategic liaison meetings with main Social Landlords (Optivo & Orbit) Housing and Support Service meetings, Private Landlord forums. •Allocations Policy review •New Housing and Homelessness Strategies introduced •The Housing and Wellbeing Hub reviewed quarterly with Clinical Commissioning Group and associated partners. •Council has adopted a new strategic approach to increasing the supply of affordable housing over the next 5 years •Ongoing work with local and national partners to explore opportunities to reduce demand for emergency accommodation and homelessness services**	**High**	**High**	**Red**	**Business Community Legal Finance**	**30/04/21**	**Andrew Palmer**	**Alan Sheppard, Andrew Palmer, Dawn Eckersley**	**TRUE**		**TRUE**			**TRUE**	**Yes**	**Yes**		1
HR - RAID log	Active	Loss of key staff / skills / knowledge.	Loss of resilience. Loss of capacity to deliver services to a desired or statutory standard. Lack of resources Service delivery impacts missed opportunity to develop and retain talent in- house.	Management Development Programmes are expensive. Could only train one or two potential candidates once a year. Could utilise apprenticeship levy but existing staff not receptive to attending college or university of chosen providers.	High	Medium	Red	Capture of knowledge and working practices through mechanisms including Business Process Mapping. Succession planning and talent management at all levels through the 1-1 conversation performance management toolkit. Business Continuity Planning resilience. Recruitment/Retention Policy. Training support mechanisms utilisation of apprenticeship levy. One-Team working – opportunities to divert skilled resources to higher priority areas for a limited time. Prepare practical management training programme 12 sessions over 1 per month. Identify Management Development Course which can be delivered using the apprenticeship levy and designed using a mix of management theory with additional bespoke modules to cover management in Hastings Council.	Medium	Medium	Yellow	Business Community Organisation Project/Work stream Technical Legal Finance HR	30/04/20	Verna Connolly	Jane Hartnell, Stephen Dodson, Verna Connolly				TRUE		TRUE	Yes	Yes		6
HR - RAID log	Active	Ability to respond to industrial action, changes in Governments initiatives or legal requirements. Changes to staff terms and conditions of employment - lack of flexibility of the workforce. NJC pay negotiations fail - pay award not accepted .	- Impact on service delivery. - reputational damage increased costs to provide cover in some frontline services. impact on service delivery	Increased costs for agency workers	Medium	High	Red	Management/ agreed skeleton cover for specific service areas to cover strike action - Maintain current Employee relations framework which encourages partnership working between management and unions, enabling effective negotiation, consultation and communication. Identify legal options. Appropriate HR policies in place for dealing with industrial action.	Medium	Medium	Yellow	Organisation HR	30/04/21	Verna Connolly	Verna Connolly						**TRUE**	**Yes**	**Yes**		6
HR - RAID log	**Increasing**	**Loss of key staff within the Organisation and People Customer and Business Support service: - Turnover -Redundancy/retirement - Re-structure (failure to take a strategic approach to workforce planning puts key services at risk)**	**- Support for managers / organisation reduced - Processes not followed increase in claims via E.T. - Loss of knowledge - Reduced services - Increased complaints - Increased sickness - Staff over loaded - Reputation of HBC undermined**		**High**	**High**	**Red**	**Agency staff - Senior HR working alongside service managers and developing workforce plan to meet future organisational/service needs. - Workforce plan prepared. - HR briefings on HR policies / procedures, employment legislation - Sickness absence – refresher & mental health training for managers – focus on handling short term absences. -Mental health first aiders in place throughout org - Managers Training apprenticeship scheme rolled out - Posts in specific occupational areas such as planning, environmental health, HR, Finance and legal are career graded to enable organisation to grow from within and improve the talent pipeline.**	**Medium**	**High**	**Red**	**Organisation HR**	**01/01/21**	**Verna Connolly**	**Verna Connolly**	**TRUE**		**TRUE**			**TRUE**	**Yes**	**Yes**		6
ICT - RAID log	Active	Failure of IT equipment	Very serious impact in the short term for all services.		Low	High	Yellow	Alternative and back-up services being provided. Regular back-up off-site of data. Servers now 'virtualised'. Other risks mitigated through improved recovery times.	Low	High	Yellow	Organisation	01/01/20	Mark Bourne	Mark Bourne, Stephen Dodson	TRUE	4th option TBC	TRUE	TRUE	TRUE	TRUE	Yes	Yes		6
ICT - RAID log	Active	Failure of the service would result in significant failure to meet the Council's statutory obligations or a publicised strategic objective, or in some other way damage the reputation of the Council.	ICT Services are utilised in the delivery of all statutory services, and the majority of publicised strategic objectives.		Low	High	Yellow	Hardware has multiple levels of redundancy. Real-time data replication to off-site location. Daily backups of data with off-site storage limit data loss. Critical networks and telephony have main supply and failovers in different buildings with two routes between. All staff are issued with laptops and can work from home, reducing the dependency on our own buildings. Multiple buildings allows for systems to be relocated in the event of building loss. Increasing use of cloud systems reduces the dependency on our own buildings and equipment.	Low	Medium	Green	Business Organisation Technical		Mark Bourne	Mark Bourne						TRUE	Yes	Yes		6
ICT - RAID log	Active	Failure of the service, or issues related to it, may adversely affect the ability of the Council to meet its financial commitments.	ICT services are utilised in all aspects of income collection and expenditure payments.		Low	High	Yellow	Hardware has multiple levels of redundancy. Real-time data replication to off-site location. Daily backups of data with off-site storage limit data loss. Critical networks and telephony have main supply and failovers in different buildings with two routes between. All staff are issued with laptops and can work from home, reducing the dependency on our own buildings. Multiple buildings allows for systems to be relocated in the event of building loss. Increasing use of cloud systems reduces the dependency on our own buildings and equipment.	Low	Medium	Green	Business Organisation Technical		Mark Bourne	Mark Bourne						TRUE	Yes	Yes		6
ICT - RAID log	Active	Ability to deliver the service may be adversely affected by future demographic or socio-economic changes.	Recruitment of specialist staff is difficult as the pool of suitably experienced and qualified staff is very small.		Low	Low	Green	We offer career graded posts that allow us to develop staff from trainee to expert status. Our aim is to allow for succession within our pool of staff.	Low	Low	Green	Business Organisation Technical		Mark Bourne	Mark Bourne						TRUE	Yes	Yes		6
ICT - RAID log	Active	The service may not have the capacity to deal with the pace or scale of change	National agendas and advancements in technology may place significant demands on ICT time.		Low	Medium	Green	Monitoring trends and looking for opportunities to share effort and minimise risk.	Low	Medium	Green	Business Organisation Technical		Mark Bourne	Mark Bourne						TRUE	Yes	Yes		6
ICT - RAID log	Active	Forthcoming changes in legislation may adversely affect the ability to deliver the service.	Legislation changes may necessitate major redesigns in operational IT systems.		Low	Medium	Green	Large systems are procured from external suppliers, with contracts ensuring that legislative commitments are met by the system.	Low	Medium	Green	Business Organisation Technical		Mark Bourne	Mark Bourne						TRUE	Yes	Yes		6

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ICT - RAID log	Active	There could be adverse environmental consequences.	Redundant ICT equipment contains hazardous waste that could adversely affect the environment.		Low	Low	Green	Redundant equipment is disposed of to WEEE standards.	Low	Low	Green	Business Organisation Technical		Mark Bourne	Mark Bourne						TRUE	Yes	Yes		6
ICT - RAID log	Active	There are issues that may adversely affect the competitiveness of the service, e.g. quality, cost, efficiency, ability to deliver Best Value.	Too much focus on cost as opposed to overall quality and ability to meet needs may limit the overall effectiveness of solutions.		Low	Medium	Green	Quality of solutions and ability to meet needs is a key component of the value assessment. Indirect costs and benefits are considered in assessing the overall solution.	Low	Medium	Green	Business Organisation Technical		Mark Bourne	Mark Bourne						TRUE	Yes	Yes		6
Legal - RAID log	Active	Risk of a successful legal challenge.	Financial penalty. Reputational damage.		Low	Medium	Green	Access to and provision of timely legal advice at all stages and levels. Legal overview of council activity maintained. Specialist Legal support available if required. Planning Advice appropriately triggered for a response. Maintain high quality Development Control Service	Medium	Medium	Yellow	Legal	01/01/20	Mary Kilner	Mary Kilner	TRUE		TRUE	TRUE		TRUE	Yes	Yes		6
Legal - RAID log	Active	Contractual Partnerships: Breakdown in contractor performance, for example, Waste contract, Building Control, Leisure contract, White Rock Theatre contract and Ground Maintenance etc.	Failure to achieve corporate objectives. Financial and reputational loss. Additional drain on officer's time on dispute resolution.		Medium	High	Red	Regular review and monitoring of Contracts and Service Level Agreements combined with firm contract management. Appropriate Governance arrangements. Development and implementation of Audit Plan. Business Continuity Planning	Low	Medium	Green	Business Community Organisation Project/Work stream Technical Legal Finance	01/01/20	Tom Davies	Andrew Palmer, Cameron Morley, Victoria Conheady				TRUE		TRUE	Yes	Yes		6
Legal - RAID log	Active	Failure to comply with the General Data Protection Regulation (GDPR)	Reputation for safeguarding data. Large financial fines imposed.		Low	High	Yellow	GDPR policies and procedures in place supported by regular training and review	Medium	Medium	Yellow	Business Community Organisation Project/Work stream Technical Legal Finance HR	01/01/20	Mary Kilner	Mark Bourne, Mary Kilner	TRUE		TRUE	TRUE		TRUE	Yes	Yes		6
Legal - RAID log	Active	Litigation either criminal or civil Large Claims brought against the Council	- Reputational -Not being in a position to defend actions brought against the Council	Vulnerability to council including costs orders against the Council	Medium	High	Red	-Use of external specialist Counsel and Chambers that legal services have used previously -Legal compliance and professionally trained staff subject to CPD, training, library and on-line research tools -Capacity built within the team for cover for short term absences -Training and support to client departments	Medium	Medium	Yellow	Organisation Legal	01/01/21	Mary Kilner	Mary Kilner						TRUE	Yes	Yes		6
Legal - RAID log	Active	Property, Planning & Contracts: instructions - lack of full, precise and timely instructions from client departments Failure to follow procurement rules Not enough attention paid to specification of contracts	- Reputational - Time pressures on funding	- failure to achieve best value for authority - legal challenge from unsuccessful tenderers - challenge from contractors where we are in breach of contract – cannot comply with specification	Medium	High	Red	Advice from East Sussex Procurement Hub - Professionally qualified staff providing advice on what is required - Contribution to training of client officers - Use of Iken system clarifies instructions - Project and Programme Management processes require procurement issues to be addresses in a timely manner - Regular updating training on procurement rules - Work with East Sussex Procurement Hub -Clients need to ensure that they know what they want and are ready to comply with contract	High	Medium	Red	Organisation Legal	01/01/21	Mary Kilner	Mary Kilner						TRUE	Yes	Yes		6
Legal - RAID log	**Increasing**	**Corporate Governance non –compliance with Constitution, procedures, financial rules and standing orders, ultra vires, legal challenge standards issues for members**	**- Failure to deliver on Priorities (reputational and financial)**	**legal challenge and associated costs**	**Medium**	**High**	**Red**	**Training to officer client departments -Professional legal advice time/capacity built into project development and forward planning processes -New Iken system in place to coordinate and allocate legal work -Training, advice and support for staff and members -Legal advice available to Member decision-making meetings -Regular monitoring and review of constitution.**	**Medium**	**Medium**	**Yellow**	**Organisation Legal**	**01/01/21**	**Mary Kilner**	**Mary Kilner**						**TRUE**	**Yes**	**Yes**		6
Leisure Development - RAID log	Active	Failures of child protection. Negligence in maintaining assets. Out of date policies. Failure to ensure fully trained and competent staff .	Injury Claims Financial impact Reputation undermined		Low	High	Yellow	All staff who have unsupervised access to children and vulnerable adults have Enhanced DBS checks in place. Events/activities designed to minimise risk. – ensure wording is right – enhanced DBS? Risk assessments & periodic system of inspection in place for all park sites and buildings. Legionella, fire and asbestos risk assessments & controls in place. Regular electrical inspections in place. Programme of asset maintenance work in place to maintain all assets. Policies reviewed regularly. Staff training needs assessed at performance reviews, including Health & Safety updates. Contracts monitored with specific arrangements for H&S reporting via monthly meetings. Risk assessments & periodic system of inspection in place for all park sites and buildings, and activities.	Low	Medium	Green	Business Community Legal Finance	01/01/21	Keith Duly	Keith Duly, Victoria Conheady	**TRUE**		**TRUE**			**TRUE**	**Yes**	**Yes**		6
Managing Director - RAID log	Active	Severe Business Disruption.	Service failure. Reputational damage.		Medium	High	Red	Detailed review of Business Continuity Plans (BCP's) undertaken with external support. Security arrangements have been enhanced and are regularly checked updated. Systems have stood up to real life incidents One Team to be diverted to priority areas. Insurance and reserves	Medium	High	Red	Business Community Organisation Project/Work stream Technical Legal Finance HR	01/01/20	Jane Hartnell	Jane Hartnell, Natasha Tewkesbury				TRUE		TRUE	No	Yes		6
Managing Director - RAID log	Active	Emergency Planning for a Major Emergency in the borough	Statutory duty to have appropriate arrangements in place. Reputational risk if not seen to be managed professionally Financial risk as resources will need to be used		Low	High	Yellow	HBC is an active participant in emergency planning arrangements for Sussex, through membership of the Sussex Resilience Forum, and the East Sussex Resilience and Emergencies Partnership. Use of SRF generic and tailored emergency plans, and access to training through the SRF and ESREP. We operate a 365 days a year emergency on call system, so that operational staff, and tactical and strategic managers can be mobilised to liaise with the emergency services if incidents occur in the borough. Arrangements in place to mobilise emergency assistance centres such as for evacuated residents, and we have recently significantly increased the number of staff volunteers for rest centres, and trained them.	Medium	Medium	Yellow	Business Community Organisation Project/Work stream Technical Legal Finance HR	01/01/20	Jane Hartnell	Natasha Tewkesbury	TRUE		TRUE	TRUE		TRUE	Yes	Yes		6
Managing Director - RAID log	Active	Lack of effective corporate planning – lack of capacity, lack of skills, uncertain direction of travel, organisational resistance to change	- Poorly planned resource allocation - HBC not responsive to emerging issues		Low	High	Yellow	-Managing Director leads work at Strategic Oversight and Planning Board - setting Strategic Direction and developing Operational Blueprint for future of HBC. -PIER programme to identify resources at time priorities are agreed -Staff involvement and engagement processes -Service review programme examining services in detail and assessing customer focus and efficiency (Business process mapping completion and review)	Low	High	Yellow	Organisation	01/01/21	Mark Horan	Jane Hartnell						**TRUE**	**Yes**	**Yes**		6
Managing Director - RAID log	**Increasing**	**Insufficient organisational capacity to deliver existing commitments set out in the corporate plan alongside implementing required changes to meet the challenge of the council's budget deficit. No resilience in the organisation.**	**Reductions in HBC capacity necessitated as a result of reduced government funding and a £1.5m budget deficit for 20/21 and circa 2.5 million for 21/22 exacerbated further by the pandemic. Increased pressure on staff as a result of uncertainty/pandemic. Higher levels of staff sickness impacting on individuals and on teams ability to deliver. Potential staff turnover and loss of key roles. Opportunities to implement more efficient ways of working constrained by limited capacity – and affected by unplanned losses of team members through sickness etc. Council is already significantly less resilient. Financial and reputational. Failure to deliver corporate objectives. Service standards slip. Efficiencies not met. Pressure on individual staff continues to increase.**		**High**	**High**	**Red**	**Budget process to review strategic and operational priorities. Acceptance and communication of limitations on capacity. Political prioritisation. Organisational Blueprint, informed by independent review of management layers (by LGA) to determine ways of working and budget process to prioritise resource allocation. Prioritisation process implemented for assessing new initiatives and opportunities based on agreed criteria. Re-prioritise existing plans to meet available resources. Utilise refreshed performance arrangements and the council's new management centre to better evidence demand to assist in prioritising and decision making as part of the developing corporate standard. Mechanisms in place to address impacts on staff of increasing pressure – to include appropriate workload assessments and mental health support when required.**	**High**	**High**	**Red**	**Business Community Organisation Project/Work stream Technical Legal Finance HR**	**01/01/20**	**Mark Horan**	**Jane Hartnell, Stephen Dodson**				**TRUE**		**TRUE**	**Yes**	**Yes**		6

Managing Director - RAID log	Reducing	Ineffective Project/ProgrammeControl.	Projects overrun in time/budget or do not achieve objectives. Reputational damage.		Low	Medium	Green	Use of Corporate project management methodology and Council Management Centre (CMC) Specialist resources available to support delivery and skills development from Programmes Team. Programme and Project Boards to monitor delivery of key projects. Effective project assessment andmonitoring by PAG & COG. Regular Risk Reviews by Audit team and COG. Further project management expertise to be developed at all levels to ensure all project team members are suitably skilled, and gain best practice experience. Adequate reserves and contingency built into business cases	Medium	Low	Green	Organisation Project/Work stream Technical	01/01/20	Stephen Dodson	Stephen Dodson				**TRUE**		**TRUE**	**Yes**	**Yes**		6
Managing Director - RAID log	Reducing	**Political will trumping evidence base and or business cases**	The council ends up taking on work to make political aspirations that the evidence suggests is too risky or difficult/ undeliverable.				Green	1. Establishment of PAG and COG processes to ensure internal due diligence. 2. Strengthen the evidence base for the impact on other areas of service delivery if politicians are insistent on particular delivery. 3. Consider the introduction of a decisions log at CAP and other appropriate meetings to track impact.			Green	Business Community Organisation Project/Work stream Technical Legal Finance HR	**01/09/21**	**Mark Horan**	Jane Hartnell						**TRUE**	**Yes**	**Yes**		6
RAID Log - Establish Climate Change Programme Board	**Active**	**Political leadership change**	**Political change could affect progress**		**Medium**	**High**	**Red**	**ensure cross party support among all councillors**	**Medium**	**Low**	**Green**	**Organisation**	**25/08/21**		**Stephen Dodson**						**TRUE**	**Yes**	**Yes**		4
Regeneration - RAID log	Active	Deterioration of the Council's assets i.e. those that create tourism public safety issues e.g. cliffs & sea front	Financial Loss. Reputational Loss. 3rd Party Public Liability Adequate level of reserves mitigating Insurance.		High	High	Red	Appropriate maintenance schedules and investment programmes informed by expert advice. Ensuring tenancy obligations are met. Adequate level of reserves mitigating Insurance.	High	High	Red	Business Community Organisation Project/Work stream Technical Legal Finance	01/01/20	Victoria Conheady	Andrew Palmer, Cameron Morley, Kit Wheeler, Victoria Conheady				TRUE		TRUE	Yes	Yes		5
Regeneration - RAID log	Active	Deterioration of the Town's image and culture.	Town assets include history, culture etc. If a town asset fails then it is a reputational risk for HBC but not strictly within the Council's remit. Additional demands on financial reserves. Adverse impact on tourism. Adverse impact on the local economy.		Medium	High	Red	Planning and Conservation. Enforcement. Attract inward investment through regeneration programme and external funding opportunities to enhance our USP's. Effective Marketing resources directed to attract new and maintain existing markets. Work with Police and community safety partners to promote a safe, secure image. 1066 Country Campaign management New Local Plan process External Funding opportunities from stronger towns	Medium	Medium	Yellow	Business Community	01/01/20	Victoria Conheady	Andrew Palmer, Kevin Boorman, Cameron Morley, Victoria Conheady	TRUE		TRUE	TRUE		TRUE	Yes	Yes		5
Regeneration - RAID log	Active	Marketing & Major Projects. Major project fails	Impact upon town's regeneration; potential financial and reputational risk		Low	High	Yellow	Robust project management, including community/stakeholder/investor engagement, and controls in place to identify/mitigate foreseeable risks Expand project management team	Low	High	Yellow	Business Finance	06/05/21	Kevin Boorman	Kevin Boorman, Victoria Conheady						TRUE	Yes	Yes		5
Regeneration - RAID log	Active	Impact of Covid on the local economy and lack of investment in local business and/or relocation of businesses out of UK because of BREXIT	Loss of jobs Closure of key businesses	Impact of COVID assessed in Hastings Town Investemnt Plan, East Sussex Economic Recovery Plan and other documnets.	Medium	Medium	Yellow	Full risk mitigation difficult at current time Hopeful that markets will settle and Bank of England supports the economy for businesses. Economic uncertainty continues with regard impact of Brexit when the economy starts opening. Grants/Loans to stimulate business investment/retention	Medium	Medium	Yellow	Business Community Project/Work stream	27/04/21	Pranesh Datta	Pranesh Datta, Victoria Conheady	TRUE		TRUE			TRUE	Yes	Yes		5
Regeneration - RAID log	Active	Downturn in inwards travel from overseas, including language students, post Covid and EU exit	Reduced tourism spend Tourism business job losses/closures	Inwards overseas business worth c£75m to Hastings, so significant	High	Medium	Red	We continue to keep the visitor economy under review, including our strategic position as a destination for overseas visitors and language students. We have been lobbying the government and others to relax some of the Brexit measures required for young language students, and we featured in a Tourism Alliance case study on this. Some student business has started to return, and we belive we will reach around 5% of our pre-covid and pre-Brexit levels in 2022. 2023 is now looking better, and we hope to achieve c50% of our 2019 levels then. The prospects for the visitor economy remain unclear in December 2022, in respect of both domestic and international travel, with consumer confidence uncertain given forecast inflation issues, and also the impact of the Ukraine war on long haul business. Local tourism businesses reported a very strong first half year, but a much poorer summer, with fewer visitors spending less money. We expect it will take some time to regain our previous international business, which in 2019 supported 23% of our visitor economy.	Medium	Medium	Yellow	Community Finance	06/05/21	Kevin Boorman	Kevin Boorman, Victoria Conheady	TRUE		TRUE			TRUE	Yes	Yes		5
Resort Services - RAID log	Active	Bathing Water Quality Bathing water fails to meet annual European Union standard	Beach closes Loss of tourism income Reputational damage		Medium	High	Red	A multi-agency approach is being taken to mitigate this risk.	Medium	High	Red	Business Finance	01/01/21	Mike Hepworth	Aaron Woods						TRUE	Yes	Yes		3
Resort Services - RAID log	Active	Flood Risk Management Impact of severe weather. Loss of Government Funding	Loss of life Loss of amenity Financial impact		Medium	Medium	Yellow	Enhanced / cost effective revenue based maintenance programme to increase timeframe for replacement of flood defences. Alternate funding streams identified via Department for the Environment, Food and Rural Affairs and Environment Agency. Medium Term Plan used effectively and in close liaison with Environment Agency Flood Risk Management Team. The Hastings Flood Plan was reviewed and updated during 2022.	Medium	Medium	Yellow	Business Community Legal Finance	01/01/21	Aaron Woods	Aaron Woods, Cameron Morley	TRUE		TRUE			TRUE	Yes	Yes		3
Resort Services - RAID log	Active	Seafront Concrete Structures. Extensive deterioration or collapse.	Financial impact. Danger to public safety. Loss of amenity. Reputation undermined.		Low	High	Yellow	Increased investment in repairs programme. Annual concrete inspections in place with programme of minor repairs. Explore options for longer term refurbishment and investment.	Low	High	Yellow	Business Community Finance	01/01/21	Aaron Woods	Aaron Woods, Victoria Conheady						TRUE	Yes	Yes		3
Resort Services - RAID log	Active	Flood Risk Management & Coastal Protection Impact of severe weather. Failure of defences. Loss of Government Funding.	Loss of life Loss of amenity Financial impact		Medium	High	Red	Enhanced / cost effective revenue based maintenance programme to increase time frame for replacement of flood defences. Alternate funding streams identified via DEFRA and Environment Agency. Medium Term Plan used effectively and in close liaison with EA Flood Risk Management Team. Funding for MTP secured Hastings Multi Agency Flood Plan Implemented Externally funded (c£3m) flood defence scheme completed, strengthening the harbour arm and seafront defences There is a routine repair/refurbishment/replacement of 37 timber groynes between Pier and Cinque Ports Way No other effective avoidance measures identified	Medium	High	Red	Business Community Finance	01/01/21	Aaron Woods	Aaron Woods, Victoria Conheady						TRUE	Yes	Yes		3
Resort Services - RAID log	Active	Risk of landslide, landslip, rock falls and other natural hazards on both coastal cliffs and those inland.	Loss of life / serious injury Damage to property Loss of access / amenity Financial impact Reputation undermined		Low	High	Yellow	Enhanced inspection regime, but complete risk avoidance almost impossible Bi annual inspection programme and remedial action Maintain existing controls in place (catch fences, signage, barriers) Reporting system in place with other relevant stakeholders	Low	High	Yellow	Business Community Legal Finance	01/01/21	Aaron Woods	Aaron Woods, Victoria Conheady						TRUE	Yes	Yes		3
Resort Services - RAID log	Active	Blue Flag and Seaside Award Status - Insufficient resource to meet award criteria resulting in loss of status	Reduced tourism spend Tourism business closures Reputational damage Financial losses (parking etc)		Low	High	Yellow	Align operation and resources to deliver service in line with award criteria Seek external funding for projects in line with award criteria – cycle hire/play hut etc. Coordination of public activity to support status Link to internal projects – DSO, Marine Litter, FLAG etc	Low	High	Yellow	Community Finance	01/01/21	Aaron Woods	Aaron Woods, Victoria Conheady	TRUE		TRUE			TRUE	Yes	Yes		3
Revenues & Benefits - RAID log	Active	Failure to meet collection targets in respect of council tax & business rates	- Collection fund - budget setting	£55m Council Tax collected annually £22m Business rates collected annually	Medium	High	Red	- Ensure a robust recovery strategy - Adequate resources - Promote CTR	Medium	High	Red	Business Finance	11/05/21	Peter Grace	Buki Adekoya, Kit Wheeler						TRUE	Yes	Yes		6
Waste - RAID log	Active	Government's Environment Bill proposing mandatory service changes that could result in significant loss of income and/or additional expense for waste collection authorities such as this council. For example free garden waste collections, weekly food waste collections, and kerbside separated recycling collections rather than our existing popular co-mingled service.	Unless the government reimburses all the council's lost income and additional costs associated with such changes, on an ongoing basis, waste services will require significant additional revenue and capital funding.	Not known. Although the government says any changes will be funded as 'new burdens', LAs are generally sceptical about this.	Medium	High	Red	Responding to government consultations making it clear we are extremely concerned about the proposals. Working with the East Sussex Joint Waste Partnership considering how we might implement any new mandatory measures arising from the Bill.	Medium	Medium	Yellow	Technical Finance	20/05/21	Mike Hepworth	Cameron Morley						TRUE	Yes	Yes		2

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Report To:	**Audit Committee**
Date of Meeting:	**12 January 2023**
Report Title:	**Continuous Qualification: Investment Partner Qualification, Affordable Homes Programme 2021-26**
Report By:	**Tom Davies** **Chief Auditor**
Key Decision:	**No**
Classification:	**Open**

Purpose of Report

To inform the Audit Committee of the recent Homes England assessment.

Recommendation

That the Audit Committee:

- **Notes the report.**

Reasons for Recommendations

For monitoring independent third party assurance over the organisation.

Introduction and Conclusion

1. Homes England recently conducted their Continued Qualification process for existing Homes England Investment Partners for 2021-26.

2. The result of their assessment confirmed our organisation of Good Standing. Hastings Borough Council will continue to be qualified as a Homes England Investment Partner for the Affordable Homes Programme (AHP) 2021-26.

Timetable of Next Steps

Please include a list of key actions and the scheduled dates for these:

Action	Key milestone	Due date (provisional)	Responsible
Not applicable			

Wards Affected

None

Policy Implications

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	No
Environmental Issues & Climate Change	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No
Anti-Poverty	No
Legal	No

Additional Information

Decision letter received from Homes England 20 December 2022

Officer to Contact

Tom Davies
tdavies@hastings.gov.uk

Report to: **Audit Committee**

Date of Meeting: **12 January 2023**

Report Title: **Chief Auditor's Summary Audit and Risk Report**

Report By: **Tom Davies**
Chief Auditor

Purpose of Report

To inform the Audit Committee of the key findings from the recent audit of Creditors.

Recommendation(s)

1. That the Audit Committee accepts the report..

Reasons for Recommendations

To monitor levels of control within the organisation.

Summary Report to Audit Committee

Creditors

Background Information

This review was undertaken as part of the 2022/2023 agreed audit plan.

During the year 1st April 2021 to 31st March 2022, the Creditors service processed more than 11,000 payments with a cumulative value amounting to £32.5 million.

It is therefore imperative that the service is carried out effectively and efficiently in order to ensure creditor payments are made accurately and promptly.

This aspect of the Council's activities was last audited in 2018. The Service was then graded as **A: Good** and a number of minor improvement recommendations were made.

Overall Audit Assessment: B – Satisfactory

Most controls are in place and working effectively, although some improvements are recommended to reduce the potential for fraud and error and also ensure best practice and efficiency.

Key Findings

- For the year 1 April 2021 to 31 March 2022, 11,262 creditor payments were made with a cumulative value amounting to £32.5 million. At the time of the previous audit report 14,957 creditor payments were made, totalling £26.8 million for the financial year 2017/18.
- The Medium-Term Financial Position update (presented to Cabinet in September 2022) reported an adverse outturn for the purchase of supplies and services, with actual spending (£20.1 million) exceeding the original budget by £7.2 million during the period 2021-22. However, it should be noted that some of the costs for supplies and services are often met by grants and other income. Nevertheless, the adverse variance is indicative of increased spending on supplies and services when compared to the original budgeted expenditure.
- In order to ensure that the Creditors payment process remains robust, this audit has made recommendations that will further strengthen the controls for requisitioning and approving the purchase of goods / services.

- Audit have also conducted testing, on all supplier payments over £500 for the period 01/04/22 to 30/09/22, in order to highlight any potential duplicates. In total, six duplicate payments were identified.

- The cumulative value of all duplicate payments amounted to £7,901 but this figure contained four duplicate payments amounting to £6,490, which were sent to the same supplier. To date, the four duplicate payments made to the same supplier have already been recovered and the Creditors team have contacted the remaining suppliers to request a refund.

- Audit have therefore made a recommendation to reissue a briefing to all staff, regarding the importance of ensuring purchase orders are raised correctly and that invoices are checked thoroughly prior to referral for payment.

- Additionally, a "Potential Duplicate Payment" report was developed during the course of this audit. The report can be generated to highlight instances where an identical payment value is recorded for the same supplier. The report also displays the invoice date and reference number, so that the Creditors team can check for any potential duplicate payments to the same supplier prior to each payment run.

- Overall, Audit are satisfied that the Creditors system is administered effectively and efficiently. Whilst further recommendations have been made to ensure that duplicate payments are minimised as much as possible, Audit are encouraged by the introduction of an additional reporting tool to highlight potential errors.

Management Response

We accept the report and will be implementing its recommendations.

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Timetable of Next Steps

1. Please include a list of key actions and the scheduled dates for these:

Action	Key milestone	Due date (provisional)	Responsible
-	-	-	-

Wards Affected

None.

Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No
Anti-Poverty	No
Climate Change	No

Additional Information

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Officer to Contact

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