

# Audit Committee Agenda

**Thursday, 17 August 2023 at 6.00 pm**

Council Chamber, Muriel Matters House, Breeds Place, Hastings, TN34 3UY.  
Please enter the building through the Contact Centre entrance via the seafront.

For further information, please contact Democratic Services on 01424 451484 or email:  
democraticservices@hastings.gov.uk

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# Agenda Item 3 Public Document Pack

## AUDIT COMMITTEE

6 JULY 2023

Present: Councillors Foster (Chair), Webb (Vice-Chair), Collins, Marlow-Eastwood and Sinden

### 179. APOLOGIES FOR ABSENCE

None received.

### 180. DECLARATIONS OF INTEREST

Councillor	Item	Interest
Cllr Webb	<i>All items</i>	Personal – Is an East Sussex County Councillor
Cllr Marlow-Eastwood	<i>All items</i>	Personal – Is an East Sussex County Councillor

### 181. MINUTES OF THE LAST MEETING 16/03/23

The Chair thanked the outgoing Chair and Vice Chair for their work on the Audit committee.

Councillors asked regarding information being shared with the external auditors. The Chief Finance Officer answered that a member of staff has now been employed and will be able to respond to the external auditors' questions,

Councillors asked if the audit rating has improved after it dropped as covid had an impact on staff. The Chief Finance Officer answered the Finance team are in consultation for a restructure and that training has taken place that should avoid duplicate payments being made.

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**RESOLVED** – that the minutes of the meeting held on 16<sup>th</sup> March 2023 be approved as a true record.

### 182. NOTIFICATION OF ANY ADDITIONAL URGENT ITEMS (IF ANY)

None

### 183. TREASURY MANAGEMENT OUTTURN REPORT FOR 2022/23

The Deputy Chief Finance Officer explained that this report provides the opportunity for the Audit Committee to scrutinise the Treasury Management activities and

## AUDIT COMMITTEE

6 JULY 2023

performance of the last financial year. For the current financial year there will be a quarter one and three monitoring report, ensuring that there's quarterly monitoring of treasury management activities throughout the year for Members.

Capital expenditure of £9.661m occurred, of which £5.884m was financed by grants and £3.777m was financed via capital receipts. No expenditure was financed by borrowing. The Council's capital financing requirement (CFR) has decreased over the year as the money put aside to repay debt (MRP) was greater than the unfinanced capital borrowing, IE capital expenditure, which is 0 and we had forecast that an increase. Capital expenditure was less than budgeted and due to the availability of Capital Receipts. No further borrowing was undertaken.

There is £71.1 m of debt for the year, not all of this was external debt £65.4 million was external debt borrowed from the PWLB at fixed rates, but £5.679 million is what is termed 'internal borrowing', and this is essentially borrowing from our own reserves and cash flow position. The Treasury position at the end of the year shows there is almost £37.5m in investments and this was split between internal and external, and it also details the 22 individual loans we have with the public Works Loans Board making up the £65.4 m of external debt and the average interest rate on that debt is 2.81%. At the end of the year £32.8 million invested with financial institutions at varying different rates, with all the significant investments at a rate of 4.125%. We have divested our investment from Barclays Bank that we did have £5 million there and now we just have £23.00 left in that account, and we'll be soon closing it. The Hastings Housing Company at the housing company is behind on its interest payments. It is one year behind and therefore owes £262,000 and the late payment of this interest will attract additional interest charges.

Councillors asked what are the risks of having to borrow at a higher rate?

The Deputy Chief Finance Officer explained that treasury advisors would advise to borrow short term. Two years or three years and after which hopefully rates will have reduced, and we would then look to lock the borrowing in at a longer rate of say 30 or 40 years.

Councillors asked regarding the payments not received from the Hastings Housing Company. The Chief Finance Officer explained the day-to-day management is by a third party and after covid they come into difficulties have been unable to pay the Council.

Councillors asked regarding rising interest rate. The Chief Finance Officer explained that higher interest rates can be a positive and assist with greater returns on our investments. If the rates continue to rise, then we are advised not to borrow.

Councillors asked is there a case to postpone Capital investments. The Chief Finance officer explained that a Capital program report will be coming forward with some recommendations of what can be delayed.

### **RESOLVED (unanimously)**

**To consider the report – no recommendations are being made to amend the current Treasury Management Strategy as a result of this review.**

## AUDIT COMMITTEE

6 JULY 2023

### Reasons

To ensure that Members are fully aware of the activities undertaken in the last financial year, that Codes of Practice have been complied with and that the Council's strategy has been effective in 2022/23.

Under the Code adopted the Full Council are required to consider the report and any recommendations made. There will be a further report forthcoming on Treasury Management covering a review of the current financial year i.e. the Mid-year review.

### **184. NON-DOMESTIC RATES AUDIT REPORT**

The Chief Finance Officer informed the Audit Committee of the key findings from the recent audit of Non-Domestic Rates. The positive of the report is that there are no red items highlighted. A lot of extra additional has been completed at short notice by the Revenue and Benefits team and The Chief Finance Officer gave thanks to them.

There are several amber items and officers will need to go away and respond to and make sure that they've actioned the recommendations. There are a number of areas that have been identified, from a resourcing point of view in need of support, and staff have highlighted those two that the Revenue and Benefits Manager.

Mark Winton from Orbis (Chief internal Auditor) introduced himself to the committee and explained there will be a briefing with members in the coming weeks.

The Chair highlighted the lack of Policies and Procedures in place. A timescale of the review of the Policies needs to put in place and an update on progress brought to a future meeting. Mark Winton explained he will do some follow up but there maybe some issues with the accuracy of the report. The Policies and Procedures are historical and need updating.

Councillors asked about the staff in the Revenues and Benefits team. The Chief Finance Officer explained extra training will be provided. The restructure has not been completed and a follow up report will be brought to a future meeting.

Councillors asked how many of the recommendations from this audit which completed in March have been actioned. The Chief Finance Officer answered that a follow up report will be bought to a future meeting and will ask for comments from the Revenue and Benefits manager.

Councillors asked why the number of accounts in credit has spiralled from 76k to 164k. The Chief finance Officer explained this is an area that need addressing and will request a response from the Revenues and Benefits Manager. There should be a 2023 figure available by the next meeting.

**Action:** An update report with feedback from the Revenue and Benefits Manager to be brought to future meeting and Internal Auditor to update later in the year.

**RESOLVED (unanimously)**

## AUDIT COMMITTEE

6 JULY 2023

**That the Audit Committee accepts the report.**

### **Reasons**

To monitor levels of control within the organisation.

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### **185. CASH & BANK SUMMARY AUDIT REPORT**

The Chief Finance Officer informed the Audit Committee of the key findings from the recent audit of Cash and Bank. The overall rating is satisfactory but moving forward we shall look to achieve a higher standard.

The Chair noted how there are five high actions, but the report is satisfactory. It was asked if the two high actions will meet their June target. The Deputy Chief Finance Officer explained there has been staff shortages. There has been new member of staff join the team and has a strong background working at a senior level in internal audit. They have reviewed the cash handling policy and the petty cash policy and new revised versions agreed.

Councillors asked regarding the Parking cash collection contract. The Chief Finance Officer explained he will review this and update at the next meeting. It was asked what the level of discrepancy is. The Deputy Chief Finance Officer explained it's in the low thousands.

**Action:** Report in August on High priority recommendations and in September on Medium priority recommendations

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### **RESOLVED (unanimously)**

**That the Audit Committee accepts the report.**

### **Reasons**

To monitor levels of control within the organisation

(The Chair declared the meeting closed at. 7.16 pm)

# Agenda Item 4



**Report to:**           **Audit Committee**

**Date of Meeting:**   **17 August 2023**

**Report Title:**       **Internal Audit Charter 2023/24**

**Report By:**          **Mark Winton, Chief Internal Auditor**

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## **Purpose of Report**

To inform the Audit Committee of the contents of the Audit Charter

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## **Recommendation(s)**

**The Committee is recommended to:**

**1. Approve the Internal Audit Charter**

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## **Reasons for Recommendations**

- i) To comply with the requirements set out in the Public Sector Internal Audit Standards 2013 (amended April 2017).
- ii) The Audit Charter formalises the purpose, authority and scope of internal audit as well as defining the strategic and organisational position, reporting lines and reaffirms the arrangements for ensuring the Internal Audit service's independence and objectivity.

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## Introduction and Background

1. The charter is the first of a number of planned improvements to the Internal Audit service and is an important document in allowing the service to implement further planned development activity.

## Relevant Policy / Professional Standards

2. Internal Audit follows the mandatory standards set out in the Public Sector Internal Audit Standards (PSIAS) published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors.

## Timetable of Next Steps

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

Action	Key milestone	Due date (provisional)	Responsible
-	-	-	-

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## Wards Affected

None.

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## 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

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## Additional Information

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**Officer to Contact**

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# HASTINGS BOROUGH COUNCIL

## Audit Charter

### 1. Introduction

This Charter describes for the Council the purpose, authority, and responsibilities of the Internal Audit function in accordance with the UK Public Sector Internal Audit Standards (PSIAS).

The PSIAS require that the Charter must be reviewed periodically and presented to “senior management” and “the board” for approval. For the purposes of this charter “senior management” will be the Senior Leadership Team (SLT) and the “board” will be the Audit Committee.

The Charter shall be reviewed annually and approved by SLT and the Audit Committee. The Chief Internal Auditor is responsible for applying this Charter and keeping it up to date.

### 2. Internal Audit Purpose

The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight.

Internal Audit is defined in the PSIAS as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

Internal Audit supports the whole Council to deliver economic, efficient, and effective services and achieve the Council’s vision, priorities and values.

### 3. Statutory Requirement

Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2015, which require every local authority to maintain an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal auditing standards or guidance.

These regulations require any officer or Member of the Council to

- make available such documents and records; and
- supply such information and explanations;

as are considered necessary by those conducting the audit.

This statutory role is recognised and endorsed within the Council's Constitution.

In addition, the Council's S151 Officer has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority's financial affairs. To perform that duty the Section 151 Officer relies, amongst other things, upon the work of Internal Audit in reviewing the operation of systems of internal control and financial management.

#### **4. Internal Audit Responsibilities and Scope**

Annually the Chief Internal Auditor is required to provide to the Audit Committee an overall opinion on the Council's internal control environment, risk management arrangements and governance framework to support the Annual Governance Statement.

Internal Audit is not responsible for control systems. Responsibility for effective internal control and risk management rests with the management of the Council.

Internal Audit activity must be free from interference in determining the scope of activity, performing work, and communicating results.

The scope of Internal Audit includes the entire control environment and therefore all of the Council's operations, resources, services and responsibilities in relation to other bodies. In order to identify audit coverage, activities are prioritised based on risk, using a combination of Internal Audit and management risk assessment (as set out within Council risk registers). Extensive consultation also takes place with key stakeholders and horizon scanning is undertaken to ensure audit activity is proactive and future focussed.

Internal audit activity will include an evaluation of the effectiveness of the organisation's risk management arrangements and risk exposures relating to:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Efficiency and effectiveness of operations and activities;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures, and contracts

#### **5. Independence**

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations. Internal auditors should have no operational responsibilities.

Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. The Chief Internal Auditor has direct access to, and freedom to report in their own name and without fear of favour to, all officers and Members and

particularly those charged with governance. This independence is further safeguarded by ensuring that the Chief Internal Auditor's formal appraisal/performance review is not inappropriately influenced by those subject to audit.

All Internal Audit staff are required to make an annual declaration of interest to ensure that objectivity is not impaired and that any potential conflicts of interest are appropriately managed.

## **6. Reporting Lines**

The Chief Internal Auditor reports to the Chief Finance Officer (S151 Officer) although regardless of line management arrangements, the Chief Internal Auditor has free and unfettered access to report to the Monitoring Officer; the Chief Executive; SLT; the Audit Committee Chair; the Leader of the Council and the Council's External Auditor.

The Audit Committee will receive reports on a periodic basis on the results of audit activity and details of Internal Audit performance including progress on delivering the audit plan.

## **7. Fraud & Corruption**

Managing the risk of fraud and corruption is the responsibility of management. Internal Audit will however be alert in all its work to risks and exposures that could allow fraud or corruption and will investigate allegations of fraud and corruption in line with the Council's Counter Fraud and Corruption Strategy and Framework.

The Chief Internal Auditor should be informed of all suspected or detected fraud, corruption, or irregularity in order to consider the adequacy of the relevant controls and evaluate the implication for their opinion on the control environment.

Internal Audit will promote an anti-fraud and corruption culture within the Council to aid the prevention and detection of fraud.

## **8. Consultancy Work**

Internal Audit may also provide consultancy services, generally advisory in nature, at the request of the organisation. In such circumstances, appropriate arrangements will be put in place to safeguard the independence of Internal Audit and, where this work is not already included within the approved audit plan and may affect the level of assurance work undertaken, this will be reported to the Audit Committee.

To help services to develop greater understanding of audit work and have a point of contact in relation to any support they may need, Internal Audit will periodically with management discuss emerging risks and key developments within services that may impact on its work.

## 9. Resources

The work of Internal Audit is driven by the annual Internal Audit Plan (Preliminary programme of work for 2023/24), which is approved each year by the Audit Committee. The Chief Internal Auditor is responsible for ensuring that Internal Audit resources are sufficient to meet its responsibilities and achieve its objectives.

Internal Audit must be appropriately staffed in terms of numbers, grades, qualifications and experience, having regard to its objectives and to professional standards. Internal Auditors need to be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate ongoing development programme.

The Chief Internal Auditor is responsible for appointing Internal Audit staff and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills. The Chief Internal Auditor may engage the use of external resources where it is considered appropriate, including the use of specialist providers.

## 10. Due Professional Care

The work of Internal Audit will be performed with due professional care and in accordance with the UK Public Sector Internal Audit Standards (PSIAS), the Accounts and Audit Regulations (2015) and with any other relevant statutory obligations and regulations.

In carrying out their work, Internal Auditors must exercise due professional care by considering:

- (i) The extent of work needed to achieve the required objectives;
- (ii) The relative complexity, materiality or significance of matters to which assurance procedures should be applied; and
- (iii) The adequacy and effectiveness of governance, risk management and control processes;
- (iv) The probability of significant errors, fraud or non-compliance; and
- (v) The cost of assurance in proportion to the potential benefits.

Internal Auditors will also have due regard to the Seven Principles of Public Life – Selflessness; Integrity, Objectivity; Accountability; Openness; Honesty; and Leadership.

## 11. Quality Assurance

The Chief Internal Auditor will control the work of Internal Audit at each level of operation to ensure that a continuously effective level of performance – compliant with the PSIAS is maintained.

A Quality Assurance Improvement Programme (QAIP) is being put in place which is designed to provide reasonable assurance to its key stakeholders that Internal Audit:

- Performs its work in accordance with its charter;
- Operates in an effective and efficient manner; and,
- Is adding value and continually improving the service that it provides.

The QAIP requires an annual review of the effectiveness of the system of Internal Audit to be conducted. Instances of non-conformance with the PSIAS, including the impact of any such non-conformance, must be disclosed to the Audit Committee. Any significant deviations must be considered for inclusion in the Council's Annual Governance Statement.

August 2023

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# Agenda Item 5



**Report to:**           **Audit Committee**

**Date of Meeting:**   **17 August 2023**

**Report Title:**       **Quality Assurance Improvement Programme**

**Report By:**          **Mark Winton, Chief Internal Auditor**

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## **Purpose of Report**

To inform the Audit Committee of the Quality Assurance Improvement Programme and Quality Assurance arrangements being introduced for the Internal Audit Service.

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## **Recommendation(s)**

**The Committee is recommended to:**

### **1. Note the contents of the Quality Assurance Improvement Programme**

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## **Reasons for Recommendations**

- i) To comply with the requirements set out in the Public Sector Internal Audit Standards 2013 (amended April 2017).
- ii) The Quality Assurance Improvement Programme is crucial in providing assurance to the Audit Committee over the quality control mechanisms in place for the Internal Audit service.

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## Introduction and Background

1. The Quality Assurance Improvement Programme forms part of a number of planned improvements to the Internal Audit service.
2. The Quality Assurance Improvement Programme provides a framework to ensure a quality service is provided.

## Relevant Policy / Professional Standards

3. Internal Audit follows the mandatory standards set out in the Public Sector Internal Audit Standards (PSIAS) published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors.

## Timetable of Next Steps

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

Action	Key milestone	Due date (provisional)	Responsible
-	-	-	-

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## Wards Affected

None.

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## 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

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## Additional Information

Report Template v29.0

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## Officer to Contact

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# HASTINGS BOROUGH COUNCIL

## Quality Assurance Improvement Programme

### 1. Purpose:

The Quality Assurance Improvement Programme (QAIP) is designed to provide reasonable assurance to its key stakeholders that Internal Audit:

- Performs its work in accordance with its charter;
- Operates in an effective and efficient manner;
- Is adding value and continually improving the service that it provides.

The Chief Internal Auditor is responsible for maintaining this QAIP which covers all aspects of Internal Audit activity. This QAIP seeks to conform with the requirements of the Public Sector Internal Audit Standards (PSIAS) and as such includes both internal and external assessments.

The Chief Internal Auditor is responsible for maintaining this QAIP which covers all aspects of Internal Audit activity. This QAIP seeks to conform with the requirements of the Public Sector Internal Audit Standards (PSIAS) and as such includes both internal and external assessments.

### 2. Internal Assessments

Internal assessment includes both ongoing and periodic reviews.

#### Ongoing Reviews

Ongoing assessments are conducted through:

- Supervision of individual audit assignments
- Applying relevant audit policies and procedures to ensure applicable audit planning, fieldwork and reporting quality standards are met
- Review of all audit reports proportionate to the level of sensitivity (as determined by the Chief Internal Auditor) prior to formal circulation
- Feedback from auditees on individual audit assignments.

The Chief Internal Auditor will assign audit work giving due regard to their level of skills, experience and competence. The Chief Internal Auditor will have the following responsibilities:

- Review and contribute to the Terms of Reference
- Support to, and liaison with, the Auditor throughout the audit
- Monitoring assignment progress and budget

- Review working papers and draft reports
- Review final report

Feedback from auditees and reviews of working papers and audit reports will form part of the discussion during 1-2-1 meetings and periodic team review sessions in line with the Hastings approach to Performance and Development; and will help inform formal appraisal discussions.

Objectives and priorities will be agreed annually and along with comprehensive performance targets. The Chief Internal Auditor will measure, monitor and report on progress against these targets.

### Periodic Reviews

Periodic assessments are conducted to evaluate conformance with the Definition of Internal Auditing; the Code of Ethics; and, Standards as set out in the PSIAS. These may be conducted through self-assessment or by other persons with sufficient knowledge of Internal Audit practices. The PSIAS Local Government Application Note and Checklist will be used as part of this evaluation.

An annual review of the effectiveness of the system of Internal Audit will also be conducted.

### **3. External Assessments**

An external assessment will be conducted at least once every five years as required by the PSIAS which came into effect on 1 April 2013 (and revised in April 2017).

The Chief Internal Auditor will consider what form of external assessment is most appropriate eg a “full” external assessment or a self-assessment with independent validation. The scope of any external assessment will be discussed with the Section 151 Officer and agreed with the Chairman of the Audit Committee and with the appointed external assessor.

Before appointing an external assessor, the Chief Internal Auditor will confirm that the assessor is competent in the area of professional internal auditing practices and the external assessment process. In determining competence the Chief Internal Auditor will consider the level of experience gained in organisation’s of similar size and if in doubt will seek advice from CIPFA.

For an external assessment to provide a truly independent view, it is important that the appointed assessor has no real or apparent conflict of interest with the Council in general or the Internal Audit team in particular. The Chief Internal Auditor will be alert to this risk when appointing the external assessor.

## REPORTING

The outcome of any external assessment or periodic internal assessment (notably the annual review of the effectiveness of the system of Internal Audit) will be reported to Senior Management and to the Audit Committee on completion. The Chief Internal Auditor will not state that the Internal Audit service conforms with the PSIAS unless the results of the QAIP (including a completed external assessment) confirm this.

The Chief Internal Auditor will take appropriate action to ensure that recommendations for improvement identified as a result of periodic internal or external assessments exercises are implemented as appropriate.

Progress in implementing agreed improvement plans will be included as part of the Chief Internal Auditor annual report to the Audit Committee.

Any significant deviations from the PSIAS will be brought to the attention of the Senior Management and considered for inclusion in the Annual Governance Statement.

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# Agenda Item 6



**Report to:** Audit Committee

**Date of Meeting:** 17 August 2023

**Report Title:** Internal Audit Strategy and Indicative Programme of Work 2023/24

**Report By:** Mark Winton, Chief Internal Auditor

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## Purpose of Report

To present to the Audit Committee the Council's Internal Audit Strategy and Indicative Programme of Work for 2023/24 and to understand the process for producing the Audit Plan for 2024/25.

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## Recommendation(s)

**The Committee is recommended to:**

**1. Approve the Council's Internal Audit Strategy and Indicative Programme of Work 2023/24.**

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## Reasons for Recommendations

- i) To comply with the requirements set out in the Public Sector Internal Audit Standards 2013 (amended April 2017).
- ii) The Audit Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

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## Introduction and Background

1. The Council's Internal Audit Strategy and Indicative Programme of Work 2023/24 (Annexe A) sets out how the Council will meet its statutory requirements for internal audit, as defined within the Accounts and Audit Regulations 2015.

## Relevant Policy / Professional Standards

2. Internal Audit follows the mandatory standards set out in the Public Sector Internal Audit Standards (PSIAS) published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors.
3. The Indicative Programme of Work 2023/24 allows time to develop the service to meet the expectations of these Standards.

## Timetable of Next Steps

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

Action	Key milestone	Due date (provisional)	Responsible
-	-	-	-

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## Wards Affected

None.

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## 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  
Climate Change

No  
No

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**Additional Information**

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**Officer to Contact**

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## Indicative Programme of Work 2023-24



### Audit Reviews

Review Name	Outline Objective
Accounts Receivable	To review the processes and key controls relating to the Accounts Receivable system, including those in place for ensuring the accuracy of customer details, completeness, accuracy and timeliness of invoicing, recording and matching payments to invoices, and debt recovery
Payroll	To review controls in relation to the staff payment system, including those relating to starters, leavers, temporary and permanent payments, variations of pay, and pre-employment checks.
Risk Management	This audit will review the Council's risk management arrangements and obtain assurance that it is operating in accordance with corporate expectations.
Cyber Security & Organisational Resilience	This audit will review the key controls operating for managing the significant risks in relation to Cyber Security, including an assessment of the controls to enable the authority to continue to function in the event of a cyber incident.
Temporary Accommodation (Project Assurance)	We will provide adhoc advice, support and guidance to the Temporary Accommodation programme, including supporting the Programme Board where appropriate.
Business Continuity	The objective of this audit will be to review the arrangements and plans in place for business continuity across the organisation, focussing on the ability of services to continue to function in the event of a significant adverse event.

### Service Development

Review Name	Outline Objective
Service Development	Service development activity, including quality improvement and ensuring compliance with Public Sector Internal Audit Standards.

## Indicative Programme of Work 2023-24



### Internal Audit Service Management and Delivery

Review Name	Outline Objective
Action Tracking	Ongoing action tracking, and reporting of high priority actions.
Annual Internal Audit Report and Opinion	Creation of Annual Report and Opinion.
Audit and Fraud Management	Overall management of all audit and service development activity, including work allocation, work scheduling.
Audit and Fraud Reporting	Production of periodic reports to the Senior Leadership Team and the Audit Committee covering the results of all audit and anti-fraud activity.
Audit Committee and other Member Support	Ongoing liaison with Members on internal audit matters and attending Audit Committee meetings and associated pre-meetings as appropriate.
Client Service Liaison	Liaison with clients and departmental management teams throughout the year.
Client Support and Advice	Ad hoc advice, guidance and support on risk, internal control and governance matters provided to clients and services throughout the year.
External Liaison	Liaison with external auditors and other external bodies, including attendance at regional and national audit groups and counter fraud hubs.
Organisational Management Support	Corporate Governance Group; Risk Management; and Management meetings (e.g. Departmental Team Meetings; Manager's Forums; Conferences).
Strategy and Annual Audit Planning	Development and production of the Internal Audit Strategy and Annual Audit Plan, including consultation with management and Members.

# Internal Audit Strategy and Indicative Programme of Work 2023-2024

## Annexe A

### 1. Role of Internal Audit

1.1 The full role and scope of the Council's Internal Audit Service is set out within the Internal Audit Charter and Terms of Reference, which is presented to the Committee separately.

1.2 The mission of Internal Audit, as defined by the Chartered Institute of Internal Auditors (CIIA), is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. Internal Audit is defined as *"an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."*

1.3 The organisation's response to internal audit activity should lead to a strengthening of the control environment, thus contributing to the overall achievement of organisational objectives.

### 2. Risk Assessment and Audit Planning

2.1 Following the recent retirement of the Council's Chief Internal Auditor, the Senior Leadership Team (SLT) commissioned a service review of the Internal Audit function. The review found a number of areas of non-compliance with the Public Sector Internal Audit Standards.

2.2 In response to an initial report Hastings Borough Council (HBC) Cabinet agreed to Orbis Internal Audit providing resource to fulfil the role of Chief Internal Auditor and to support improvements to the Internal Audit service.

2.3 As this arrangement was established part-way through the financial year, the usual level of audit planning activity, including formal consultation with Senior Officers and Members, has not been possible.

2.4 A formal audit plan has not been produced, instead an indicative programme of audit work has been drafted which is attached as Appendix A. This will be delivered alongside the development and improvement work scheduled for the service.

2.5 Efforts will also be made to identify and, where possible, rely upon other sources of assurance available in order to avoid duplication and to minimise service disruption.

2.6 The following diagram sets out the various sources of information we will use to inform our 2024/25 audit planning process:



## Annexe A



### 3. Key Issues

3.1 In times of significant transformation, organisations must both manage change effectively and ensure that core controls remain in place.

3.2 Internal Audit must therefore be in a position to give an opinion and assurance that covers the control environment in relation to both existing systems and new developments. It is also essential that this work is undertaken in a flexible and supportive manner, in conjunction with management, to ensure that both risks and opportunities are properly considered.

3.3 The indicative programme of audit work does not seek to provide assurance over all high and emerging risks currently faced by the Council. Instead, its aim is to provide assurance over some of the Council's core functions and activities, whilst also allowing new working practices within the Internal Audit service to be established and tested.

3.4 During 2023/24, we will provide support to the following major project:

- Temporary Accommodation (Project Assurance)

3.5 We are introducing new client liaison arrangements so that our planned audit activity for 2024/25 is enhanced by our assessment of risk. Through direct consultation with a range of stakeholders, we will ensure that their views on risks and current issues, both within individual directorates and at corporate level, are identified and considered. This level of audit engagement will provide assurance that the most effective use is made of available resources.

3.6 In recognition that in some cases, sufficient information regarding the full extent of future changes and associated risks may not yet be known, the 2023/24 indicative programme of work includes a proportion of time classified as 'Emerging Risks'. This approach has been adopted to enable Internal Audit to react appropriately throughout the year as new risks materialise and to ensure that expertise in governance, risk and internal control can be utilised early in the change process.

## Annexe A

3.6 In view of the above, Internal Audit will continue to work closely with senior management and Members throughout the year to identify any new risks and to agree how and where audit resources can be utilised to best effect.

3.7 Other areas identified for inclusion within the indicative programme of work include:

- Accounts Receivable
- Payroll
- Risk Management
- Cyber Security & Organisational Resilience
- Temporary Accommodation (Project Assurance)
- Business Continuity

3.8 The results of all audit work undertaken will be summarised within quarterly update reports to the Senior Leadership Team, and the Audit Committee, along with any common themes and findings arising from our work.

## 4. Counter Fraud

4.1 Managing the risk of fraud and corruption is the responsibility of management. Internal Audit will, however, be alert in all its work to risks and exposures that could allow fraud or corruption and will investigate allegations of fraud and corruption in line with the Council's Counter Fraud Strategy and Framework.

4.2 The Chief Internal Auditor should be informed of all suspected or detected fraud, corruption or irregularity in order to consider the adequacy of the relevant controls and evaluate the implication for their opinion on the control environment.

4.3 In addition, Internal Audit will support promotion of an anti-fraud and corruption culture within the Council to aid the prevention and detection of fraud.

## 5. Matching Audit Needs to Resources

5.1 The overall aim of the Internal Audit Strategy is to allocate available internal audit resources so as to focus on the highest risk areas and to enable an annual opinion to be given on the adequacy and effectiveness of the Council's governance, risk and control framework.

5.2 The indicative programme of work, is produced on the basis of providing 400 days for the provision of internal audit and counter fraud services for a full year. For 2023/24 this has been reduced to reflect the time available.

5.3 Internal audit activities will be delivered by staff from Hastings Borough Council with Chief Internal Auditor support provided by Orbis Internal Audit.

## Annexe A

### 6. Audit Approach

6.1 The approach of Internal Audit is to use risk based reviews, supplemented in some areas by the use of compliance audits and themed reviews. All audits have regard to management's arrangements for:

- Achievement of the organisation's objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

6.2 In addition to these audits, and the advice on controls given on specific development areas which are separately identified within the indicative programme of work, there are a number of generic areas where there are increasing demands upon Internal Audit, some of which cannot be planned in advance. For this reason, time is built into the indicative programme of work to cover the following:

- Contingency – an allowance of days to provide capacity for unplanned work, including special audits and management investigations;
- Advice, Management, Liaison and Planning - an allowance to cover provision of ad hoc advice on risk, audit and control issues, audit planning and annual reporting, ongoing liaison with service management and Members, and audit management time in support of the delivery of all audit work, planned and unplanned.
- Service Development – An allowance to support the development of the service to improve overall levels of compliance with the Public Sector Internal Audit Standards (PSIAS).

6.3 In delivering this strategy and indicative programme of work, we will ensure that liaison takes place with the Council's external auditors, to ensure that the use of audit resources is maximised, duplication of work is avoided, and statutory requirements are met.

### 7. Training and Development

7.1 The effectiveness of the Internal Audit Service depends significantly on the quality, training and experience of its staff. Training needs of individual staff members will be identified through a formal performance and development process and are delivered and monitored through on-going management supervision.

7.2 The team is also committed to coaching and mentoring its staff, and to providing opportunities for appropriate professional development.

### 8. Quality and Performance

8.1 With effect from 1 April 2013, all of the relevant internal audit standard setting bodies, including CIPFA, adopted a common set of Public Sector Internal Audit Standards (PSIAS). These are

## Annexe A

based on the Institute of Internal Auditors International Professional Practices Framework and replace the previous Code of Practice for Internal Audit in Local Government.

8.2 Included within the new Standards is the requirement for the organisation to define the terms 'Board' and 'senior management' in the context of audit activity. This has been set out within the Internal Audit Charter, which confirms the Audit Committee's role as the Board.

8.3 The PSIAS require each internal audit service to maintain an ongoing quality assurance and improvement programme based on an annual self-assessment against the Standards, supplemented at least every five years by a full independent external assessment. The outcomes from these assessments, including any improvement actions arising, will be reported to the Audit Committee, usually as part of the annual internal audit report. For clarity, the Standards specify that the following core principles underpin an effective internal audit service:

- Demonstrates integrity;
- Demonstrates competence and due professional care;
- Is objective and free from undue influence (independent);
- Aligns with the strategies, objectives, and risks of the organisation;
- Is appropriately positioned and adequately resourced;
- Demonstrates quality and continuous improvement;
- Communicates effectively;
- Provides risk-based assurance;
- Is insightful, proactive, and future-focused;
- Promotes organisational improvement.

8.4 In addition, the performance of Internal Audit continues to be measured against key service targets focussing on service quality, productivity and efficiency, compliance with professional standards, influence and our staff. These are all underpinned by appropriate key performance indicators as set out in Table 2 below.

8.5 At a detailed level each audit assignment is monitored and customer feedback sought. There is also ongoing performance and development reviews and supervision for all Internal Audit staff during the year to support them in achieving their personal targets.

8.6 In addition to the individual reports to management for each audit assignment, reports on key audit findings and the delivery of the indicative programme of work are made to the Audit Committee on a quarterly basis. An Annual Internal Audit Opinion is also produced each year.

8.7 The development of a joint working arrangement with Orbis IA will help improve resilience and make better use of collective resources.

**Table 2: Performance Indicators**

Aspect of Service	Orbis IA Performance Indicators	Target
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## Annexe A

<b>Quality</b>	<ul style="list-style-type: none"> <li>• Annual Audit Plan agreed by Audit Committee (2024/25)</li> <li>• Annual Audit Report and Opinion (2023/24)</li> <li>• Satisfaction levels</li> </ul>	By end March 2024  To inform AGS by June 2023  90% satisfied
<b>Productivity and Process Efficiency</b>	<ul style="list-style-type: none"> <li>• Audit Plan – completion to draft report stage by 31 March 2024</li> </ul>	90%
<b>Compliance with Professional Standards</b>	<ul style="list-style-type: none"> <li>• Public Sector Internal Audit Standards</li> <li>• Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act</li> </ul>	Conforms Conforms
<b>Outcomes and degree of influence</b>	<ul style="list-style-type: none"> <li>• Implementation of management actions agreed in response to audit findings</li> </ul>	95% for high priority actions
<b>Our Staff</b>	<ul style="list-style-type: none"> <li>• Professionally Qualified/Accredited</li> </ul>	80%

Mark Winton  
 Hastings Borough Council - Chief Internal Auditor  
 4/8/2023

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# Agenda Item 7



**Agenda Item No:**

**Report To:**           **Audit Committee**

**Date of Meeting:**   **17 August 2023**

**Report Title:**       **Cash and Bank Audit Report- Recommendation Implementation**

**Report By:**           **Simon Jones**  
**Deputy Chief Finance Officer (DCFO) – Finance**

**Key Decision:**       **N**

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## **Purpose of Report**

This report sets out actions taken by the finance and exchequer team to address the recommendations made in respect of the Cash and Bank Audit Report 2022-23- Final (V2).

---

## **Recommendation**

1. The Audit Committee note the actions taken and progress made to implement recommendations made in the Cash and Bank Audit Report 2022-23- Final (V2).

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## **Reasons for Recommendations**

An internal audit of cash and banking was undertaken with recommendation made.

The report includes agreed timeframes and management comments for implementation of the recommendations.

---

## **Background and Summary**

1. Internal Audit carried out a review in 2022-23 of Cash and Banking (See Appendix 1: Cash and Bank Audit Report 2022-23 - Final (V2)) activities within all areas of the Council.
2. The report made twelve recommendations, five of which were of high importance and seven of medium importance, with an overall audit assessment rating of 'B' Satisfactory.
3. The cash and bank audit report concluded that most controls are in place and work effectively. The report indicated that improvements could be made to ensure that all accounts, controlling cash/cheque transactions are regularly reconciled, with further measures introduced to ensure that car park cash collection discrepancies are reviewed promptly, and that additional controls could be implemented to restrict the possibility of unauthorised amendments to the Unit4BW Finance System.
4. Constructive and continuous action has been taken to address the recommendations made. (See Appendix 2: Cash and Bank Audit Report 2022-23 – Final (V2) Recommendation Implementation Schedule).

## **Implementation Progress**

5. The cash handling and petty cash policies have been issued, made available and communicated to all staff with a program in place for their update and review. (Addressing recommendations '1', '5' and '6').
6. Five of the recommendations made relate to the reconciliation of control and cash collection accounts (Recommendations '2', '3', '4', '7', and '8'). Additional finance resource has been established and effort is being made to automate the reconciliation process fully or partially for all control accounts. A system has also been established to monitor all expected reconciliations to ensure that they remain up to date.
7. Recommendation '9' was in respect of car park collection unit price increases, which have been investigated and found to be in line with the terms of the contract.
8. Recommendation '10' relates to a historical unallocated receipt balance that was brought forward from the old ledger system, this has now been written back to revenue and the account balanced.
9. Recommendation '11' relates to limiting the number of staff with administrator access to Paye.Net and Unit4BW Finance System. This has been implemented in part, with additional administrative access required in some areas due to practical operational need. Administrative user access is continuously reviewed and will be amended to suit practical operational requirements.
10. The last recommendation, '12' relates to the creation of a formal change request log, to record details of proposed Unit4BW system amendment(s). This was not agreed as it was considered onerous as there is already an agreed process in place to manage amendments to the system.



### **Assessment of options and officer recommendation**

11. None required.

### **The way forward**

12. There will be continuous monitoring and review of cash and control account reconciliations, and staff will be routinely reminded of updates to the cash handling policy, which can be accessed on the Council's intranet.

### **Risk Management**

13. The principal risks are that the Council:

- Income systems are not properly monitored.
- Income transactions are not recorded accurately.
- Finance systems are not promptly updated to reflect transactions credited or debited.
- Current and new staff are not aware of their responsibilities in relation to cash handling.

14. These risks are considered best mitigated by regular reconciliations and monitoring, and the documentation of related policies and procedures that are readily available to all staff.

### **Legal implications**

15. None.

### **Financial Implications**

16. There is a risk that income is over or under reported with an increase in the risk of malfeasance deterrence erosion.

### **Timetable of Next Steps**

17. List of key actions and the scheduled dates for these:

<b>Action</b>	<b>Key milestone</b>	<b>Due date (provisional)</b>	<b>Responsible</b>
N/A	N/A	N/A	N/A

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### **Wards Affected**

None

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**Area(s) Affected.**

None

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**Implications**

Relevant project tools applied? Yes

Have you checked this report for plain English and readability? Yes. This has been done as far as possible considering the complex financial issues involved. Flesch-Kincaid grade level 9.8.

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

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**Additional Information**

Appendix 1: Cash and Bank Audit Report 2022-23 - Final (V2)

Appendix 2: Cash and Bank Audit Report 2022-23 – Final (V2) Recommendation Implementation Schedule

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**Officer to Contact**

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01424 451532



Use the keyboard keys Ctrl+Home to return to this page at any time.

**Audit and Investigations**  
**Report on the Audit of**  
**Cash and Bank**  
**March 2023**

To save your time and as our contribution to helping the environment this document is designed to be read on-screen. Please Ctrl+click on one the links below:

[Summary Report to Audit Committee](#)

[Summary of Recommendations](#)

[Full List of Contents](#) From there you can Ctrl+click on any of the items it lists to see the relevant parts of the Detailed Report.

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## Report on the Audit of Cash and Bank

### Summary Reports

#### Report to Audit Committee

#### Audit Conclusion

##### Overall Audit Assessment: B – Satisfactory

Most controls are in place and work effectively. Improvements could be made to ensure all accounts controlling cash/cheque transactions are regularly reconciled. Further measures can also be introduced to ensure that car park cash collection discrepancies are reviewed promptly. Additional controls could be implemented to restrict the possibility of unauthorised amendments to the Unit4BW Finance System.

#### Key Findings

##### Background

- During the period 1<sup>st</sup> April 2021 to 31<sup>st</sup> March 2022, Hastings Borough Council received approximately £169 million from a wide variety of sources including Council Tax, Non-Domestic Rates, government grants, treasury management transactions, external funding, land/property rentals and parking fees.
- In comparison, the Council received approximately £202 million during the 2017/18 financial period. This variance can largely be attributed to reductions in cash flow from:
  - receivable grants;
  - investing activities - such as the proceeds from the sale of property, plant & equipment and the sale of investments;
  - financing activities – including cash receipts from borrowing;
  - the collection of Non-Domestic Rate income.
- Income is received by a number of different service areas and from a variety of payment methods including cash/cheque; card payments at Council offices or via telephone and internet; and deposits directly into the Council's bank account.

##### Findings

- In total, there were 12 recommendations (5 x high importance & 7 x medium).
- The majority of recommendations considered to be of high importance related to the following:

## Report on the Audit of Cash and Bank

- Accounts controlling the receipting and depositing of cash/cheque payments, have yet to be reconciled as at 28<sup>th</sup> February 2023. It is important that control accounts are reconciled regularly, as this provides assurance that all income receipting transactions are matched with an associated payment into the Council's bank account.
- Discrepancies (during period 01/04/22 to 31/12/22) between cash values recorded on audit tickets produced by the Council's car parking machines and the cash collection records provided by the collection company. The discrepancies could be the result of faulty machines, misleading data from the audit tickets or delays in cash bankings appearing in the Council's bank account. Nevertheless, further investigation by the Finance team has been recommended.
- Recommendations considered to be of medium importance were varied but included the following:
  - Reminders to staff regarding the importance of adhering to the cash-handling policy
  - Further investigation into whether the Council were notified of a price increase for cash collections at a number of car parking locations within the Borough

### Management Response

Management accepts the findings of the report and will work to implement the recommendations as detailed below.

## Report on the Audit of Cash and Bank

### Summary of Recommendations

#### Priority Classifications

<b>High</b>	=	<b>Fundamental System Weakness</b> – action is essential
<b>Medium</b>	=	<b>Potential Control Weakness</b> – action required
<b>Low</b>	=	<b>Advised for Best Practice</b> – these recommendations are given in the Detailed Report only

#### Recommendation 1

All staff are reminded of the Council's Cash Handling Policy and arrangements for the security of safe keys and codes.

**Priority: Medium**

**Target date: 30 September 2023**

**Responsible officer: Chief Accountant**

**Management comment: Agreed. The Council's cash handling policy will be reviewed and an email will be sent to staff reminding them of the policy, which details treatment of safe keys. The policy will also be placed on the Council's intranet.**

#### Recommendation 2

That the future use of "Aquila House Cashiers Income Suspense" (Q2329) as a control account for Business Support Services is considered.

**Priority: Medium**

**Target date: 30 September 2023**

**Responsible officer: Chief Accountant**

**Management comment: The use of income control accounts is under review as part of the Capita Pay360 project. This recommendation will be taken into consideration.**

#### Recommendation 3

That a reconciliation of ticket sales as per the Permit-Smarti/Adelante system and actual income received is undertaken on a quarterly basis.

**Priority: High**

**Target date: 30 June 2023**

**Responsible officer: Chief Accountant**

## Report on the Audit of Cash and Bank

**Management comment:** The Corporate Accountant will review the Permit-Smarti/Adelante system and actual income received and attempt a reconciliation of the two. If this can be achieved within a acceptable timeframe quarterly reconciliation will be undertaken.

### Recommendation 4

That all Unit4BW control accounts relating to income receipting are reconciled on a monthly basis.

**Priority:** High

**Target date:** 30 June 2023

**Responsible officer:** Chief Accountant

**Management comment:** The finance team maintain a “Recharge & Reconciliation spreadsheet” that records when control accounts have been reconciled. This file has been reviewed and a number of improvements recommended. It is the aspiration that all control accounts are reconciled monthly and as a minimum on a quarterly basis. The finance team also maintain a “Year End Balance Sheet Reconciliations spreadsheet” which allocates each account to a named officer and requires year end signoff to confirm the account has been reconciled and the balance is identified and understood.

### Recommendation 5

That all staff are reminded of the need to record takings on a daily basis.

**Priority:** Medium

**Target date:** 30 September 2023

**Responsible officer:** Chief Accountant

**Management comment:** Agreed. The Council’s cash handling policy will be reviewed and updated if necessary, and an email will be sent to staff reminding them of the policy. The policy will also be placed on the Council’s intranet.

### Recommendation 6

That the Council’s Cash Handling Policy is displayed on the intranet.

**Priority:** Medium

**Target date:** 30 September 2023

**Responsible officer:** Chief Accountant



## Report on the Audit of Cash and Bank

**Management comment: Agreed. The Council's cash handling policy will be reviewed and updated if necessary, and an email will be sent to staff reminding them of the policy. The policy will also be placed on the Council's intranet.**

### Recommendation 7

**That the Jade under-banking discrepancies during the period 1<sup>st</sup> April 2022 and 31<sup>st</sup> December 2022 are investigated further.**

**Priority: High**

**Target date: 30 June 2023**

**Responsible officer: Chief Accountant**

**Management comment: Agreed. Further investigation will be undertaken by the Corporate Accountant.**

### Recommendation 8

**That the discrepancies between the monthly car park collection fee invoice and the Jade car parking cash collection spreadsheet are investigated further.**

**Priority: High**

**Target date: 30 June 2023**

**Responsible officer: Chief Accountant**

**Management comment: Agreed. Further investigation will be undertaken by the Corporate Accountant.**

### Recommendation 9

**That the car park collection unit price increase in October 2022 is investigated further.**

**Priority: Medium**

**Target date: 30 September 2023**

**Responsible officer: Chief Accountant**

**Management comment: Agreed. Further investigation will be undertaken by the Corporate Accountant.**

### Recommendation 10

**That the unallocated receipt balance transferred from Agresso to the Unit4BW system account Q2376 is investigated and reconciled.**

**Report on the Audit of Cash and Bank****Priority: Medium****Target date: 30 September 2023****Responsible officer: Chief Accountant**

**Management comment: This balance is a historical unidentified balance that has been brought forward from the old ledger system. Five years have now passed and the prospect of identifying the balance is now very slim. The unidentified balance has been written back to revenue and the account is now balanced to zero.**

**Recommendation 11**

**That administrator access is limited to a maximum of three staff for both Paye.Net and Unit4BW Finance System and that privileges are restricted to only essential functions where possible.**

**Priority: High****Target date: 30 June 2023****Responsible officer: Chief Accountant**

**Management comment: We do not want to put an upper limit on the number of administrators but instead go by business necessity.**

**As the Unit4 system is used for both Finance and HR a greater number of admin users are required. Currently there are 2 users in HR and 4 users in Accountancy. The Systems Accountant will review access to see if the creditors supervisors access can be changed from full admin to just the access they require by setting up a new creditors role instead. This would reduce the number of Hastings finance admins down to 3. As the Unit4 system is shared with Rother District Council there are currently 2 Rother users who have access to the system.**

**For Paye.Net / Pay360 users are already down to 3 people – One in IT and Two in Accountancy.**

**Recommendation 12**

**That a formal change request log to record details of the proposed Unit4BW system amendment(s), the date of request, authorisation date and implementation date is introduced.**

**Priority: Medium****Target date: 30 September 2023****Responsible officer: Chief Accountant**

**Management comment: Not agreed. This would be too admin intensive to undertake. Where system wide changes are undertaken, that effect both Hastings and Rother, a**

**Report on the Audit of Cash and Bank**

**change request form is completed and signed-off by senior managers at both authorities. It is not thought necessary to maintain a log of these request forms.**

## Report on the Audit of Cash and Bank

### Detailed Report

#### Acknowledgement

1. The Audit and Investigations Service thank the staff and management of Financial Services and those individuals who monitor income receipting within their service area, for their co-operation and assistance throughout the audit.

#### Introduction and Background

2. The audit was undertaken as part of the agreed audit plan for 2022/23. The last full audit of Income systems was in 2019, when the service was given an overall assessment of B: Satisfactory.
3. During the period 1<sup>st</sup> April 2021 to 31<sup>st</sup> March 2022, Hastings Borough Council received approximately £169 million from a wide variety of sources including Council Tax, Non-Domestic Rates, government grants, treasury management transactions, external funding, land/property rentals and parking fees.
4. In comparison, the Council received approximately £202 million during the 2017/18 financial period. This variance can largely be attributed to reductions in cash flow from:
  - investing activities - such as the proceeds from the sale of property, plant & equipment and the sale of investments;
  - financing activities – including receipts from borrowing;
  - receivable grants;
  - the collection of Non-Domestic Rate income.
5. Income is received by a number of different service areas and from a variety of payment methods including cash/cheque; card payments by telephone and internet; and deposits directly into the Council's bank account.
6. It is therefore imperative that there are systems and procedures in place to ensure income is correctly accounted for within the Council's financial records and accurately reconciled to the Council's bank account.

#### Audit Methodology

7. The audit approach has been primarily to review systems and controls and carry out substantive testing where deemed necessary. Interviews were also conducted with

## Report on the Audit of Cash and Bank

key staff in Finance Services and those individuals responsible for monitoring income receipting within their service area.

### Risk Management

8. The key risks associated with income systems involve the need to ensure that all income transactions are recorded accurately on the Council's finance system and are correctly credited to the Council's bank account. It is therefore vital these systems are regularly monitored to provide assurance that all income has been accounted for and correctly banked. The total income received by the Council was approximately £169 million during the period 1<sup>st</sup> April 2021 to 31<sup>st</sup> March 2022. In view of the large values involved, the risks are proportionately **high**.

### Previous Recommendations

9. The previous audit made a number of recommendations, some of which remain outstanding. Any recommendations that are still relevant are again included within this audit report.

### Staffing and General Procedures

10. The Finance Service currently has one full-time officer and the assistance of two additional staff who are responsible for processing income data files, bank reconciliation and monitoring the unallocated receipts account.
11. Throughout the Council, additional staff are responsible for the receipting of cash transactions within their respective service area. Senior staff within each team are also responsible for reconciling cash takings with income recorded on the Unit4BW Finance Income Manager system.

### Security of Cash Takings

12. The audit confirmed that there are sufficient free-standing or secured lockable safes within the main service areas responsible for cash & cheque receipting. Insurance cover for the storage of cash in locked safes and the transit of cash by the security company is also currently sufficient.
13. Insurance Services have confirmed the following arrangements for the security of safe / strong-room keys and codes:

## Report on the Audit of Cash and Bank

***“It is a condition precedent to the liability of the insurer that whenever the office, room or area in which the safe or strongroom containing money is situated is unattended:***

- a) such safe or strongroom will be securely locked;**
- b) any key and records of a code to such safe or strongroom will be removed from the premises, or kept on the person of an authorised person, except where a portion of the premises is occupied residentially by the insured or any employee, when any key and record of a code will be removed from the business portion of the premises.”**

14. Audit have examined the spreadsheet produced by Insurance Services as part of their recent ‘Safe’ audit. It is unclear from this document what arrangements are in place for the security of safe keys and codes within every service area.
15. Audit therefore recommend that all staff are reminded of the Council’s Cash Handling Policy and arrangements for the security of safe keys and codes.

### **Recommendation 1**

**Chief Accountant to ensure that all staff are reminded of the Council’s Cash Handling Policy and arrangements for the security of safe keys and codes.**

### **Current Payment/Receipting Systems**

16. There are several external systems currently in operation, that are either used as an interface for making payments or for recording payment transactions. Each system has an associated control account (shown in brackets) in which the transactions are recorded:
  - **Paye.Net** (Q2413)
  - **Touchtone** (Q2466)
  - **Internet** (Q2466)
  - **Allpay** (Q2474)
  - **RingGo** (Q2348)
  - **3C** (Q2477)
17. **Paye.Net** allows Council staff to record payments made over the telephone by debit and credit card via a simple online browser, which interfaces with the existing Income Manager function of the Unit 4BW Finance System. The finance system

## Report on the Audit of Cash and Bank

processes the receipt of payment files and matches the data with bank statement files received from Lloyds Bank before posting the entries to the Unit4BW Finance System's control accounts.

18. **Touchtone** allows 24-hour automatic payments by telephone. The customer will require an account number (Council Tax number, Non-domestic Rates number, debtor's invoice number or Penalty Charge Notice number) and can pay using a debit or credit card.
19. **Internet** payments can currently be made, via the Council's online portal (Firmstep), for the following:
  - Fixed Penalty Notices
  - Council Tax
  - Parking Fines
  - Business Rates
  - Beach Huts
  - Debtors' Invoices
  - Garden Waste Renewals
  - Housing Licence Applications
  - Housing Benefit Overpayments
  - Planning Fees

The control account for Internet payments received via Firmstep is the Touchtone control account (Q2466).

20. **Allpay** provides customers with the means to make Council Tax payments via Paypoint or the Post Office.
21. **RingGo** is a web-based service for the online payment of car parking fees. Customers with an online account can make cashless payments via the RingGo website or mobile app.
22. **3C** have provided Chip & PIN facilities at various car parking terminals throughout the borough since June 2018. In addition to the existing 15 standard terminals, 17 contactless machines have also been installed at six locations.
23. Audit testing was undertaken on a random sample of Council Tax payment receipts recorded in the Paye.Net and Touchtone control accounts. Testing confirmed that all payments posted to these accounts had a corresponding entry in the Northgate Revenues & Benefits system.

## Report on the Audit of Cash and Bank

### Income Paid Directly to the Council

24. The vast majority of payments directly into the Council's bank account are processed automatically by Unit4BW Income Manager, which identifies the relevant reference number in order to credit the appropriate account.
25. Receipts into the bank account that cannot be identified by Income Manager are investigated by the Finance service. If the correct account still cannot be identified, then the payment is transferred to an Unallocated Receipts account (P1094).

### Muriel Matters House Business Support Services

26. The Council's main activities are now based in Muriel Matters House (MMH) and income received is processed by Business Support for a number of services including:
  - Planning Fees
  - Licence Fees
  - Pest Control Fees
  - Garden Waste Fees
  - Active Hastings Income
  - Council Tax Payments
  - Other Miscellaneous Income
27. All cash and cheque payments received directly by Business Support Services are processed via Income Manager on a daily basis. The income data is then automatically associated with the cost centre codes for each respective service area before being entered onto the finance system. A control entry is automatically posted to the Jade Collections Control Account (Q2380).
28. The income is collated, stored securely and collected by the security company each week. The collections are then banked and the amounts received into the Council's bank account are posted via Income Manager to the Jade Collections Control Account (Q2380).
29. Audit have discussed the use of the Jade Collections Control Account, in this scenario, with the Systems Accountant. The Systems Accountant has confirmed that any service team who receipts cash or cheques should be allocated their own control account in order to monitor and reconcile transactions more effectively.
30. Audit have identified an existing control account named as "Aquila House Cashiers Income Suspense" (Q2329) which was previously used by the Revenues and



## Report on the Audit of Cash and Bank

Benefits team and has not been active since April 2020. The account currently has a nil balance and Audit would therefore recommend future use of this control account by Business Support Services.

### Recommendation 2

**Chief Accountant to consider the future use of “Aquila House Cashiers Income Suspense” (Q2329) as a control account for Business Support Services.**

### Income Received For Parking Season Tickets and Penalty Charge Notices

31. Although on-street parking is now administered by East Sussex County Council, Hastings Borough Council are still responsible for the monitoring and collection of income from off-street car parks. This income comprises of season ticket sales, car park Penalty Charge Notice (PCN) income and ticket machine sales within the car parks.
32. Season tickets are now obtained online via the Permit-Smarti system. Payment is received via the system’s hosted provider, Imperial, and their payment service Adelante. Season tickets are now retained ‘electronically’ on the Permit-Smarti system and there is no longer any blank ticket stock. There are a small number of season ticket holders who are awaiting transfer onto the new online system and this will be completed by September 2023.
33. The audit found that there is no reconciliation of season tickets issued, according to the Permit-Smarti/Adelante system, against season ticket actual cash received. The income from season tickets is substantial and a reconciliation will provide assurance that all revenue is received accordingly.

### Recommendation 3

**Chief Accountant to ensure that reconciliation of ticket sales as per the Permit-Smarti/Adelante system and actual income received is undertaken on a quarterly basis.**

34. Penalty Charge Notices (PCN) are now monitored via the 3Sixty system, which is automatically updated whenever a parking fine is issued. This system is also hosted by Imperial and their payment provider, Adelante.
35. PCN fines can either be paid by card through the Community Contact Centre; by the automated Touchtone telephone service; or via the Council’s website.

### Report on the Audit of Cash and Bank

Payments made via the website or Touchtone are only possible where a valid PCN number is present.

36. Debit and credit card payments made via the Community Contact Centre are posted to the Paye.Net Income Control Account (Q2413). Upon receipt of a telephone payment, a spreadsheet with details of the PCN and payee is automatically emailed to Parking Services by the Unit4BW finance system at the end of each day. This process then allows the Parking Services team to update the 3Sixty system accordingly.
37. Automated telephone payments are posted to the TouchTone Income Control Account (Q2466). Again, details of the PCN payment are automatically emailed to Parking Services by the Unit4BW finance system at the end of each day.
38. Payments received via the online portal are also posted to the TouchTone Income Control Account (Q2466), however in these instances the 3Sixty system is updated automatically.
39. The audit has confirmed that, as at 28<sup>th</sup> February 2023, both the Paye.Net Income Control Account (Q2413) and the TouchTone Income Control Account (Q2466) are showing balances that indicate the accounts may not have been reconciled on the Unit 4BW finance system this financial year.
40. Audit have also reviewed all key income control accounts and additional control accounts for those service areas that receipt cash with the assistance of the Systems Account. The findings are detailed in the tables below and confirm that reconciliations are also required in these areas:

Account code	Description	Balance at 28/02/23	Recommendation
Q2329	Aquila House Cashiers Income Susp	Nil	Nil balance b/f for 2022/23. Could be used by Business Support in future?
Q2430	PNAS2 - Regen & Planning Income Susp	-£210,827.31	nil balance b/f for 2022/23 but high receipt balance. Requires reconciling
Q2431	PNASS - Parking Services Income Susp	-£201,835.68	Used by Business Support up to May 2022. Possible mis-posted lodgements - requires reconciling
Q2432	PNCEM - Cemetery & Crem Income Susp	-£19,869.51	Possible mis-posted lodgements - requires reconciling
Q2433	PNCOC - HIC Debtors Income Control	£1,700.59	No postings between Sept '21 & Feb '23 - requires reconciling
Q2435	PNMUS - Museum Income Suspense	-£149.60	Possible mis-posted lodgements - requires reconciling
Q2700	Cash/income Control - Resort Services	£7,104.00	Possible mis-posted bankings - requires reconciling
S1031	White Rock Gardens Income Suspense	-£2,410.00	Possible mis-posted lodgements - requires reconciling

### Report on the Audit of Cash and Bank

Account code	Description	Balance at 28/02/23	Recommendation
S1002	AIM Income Control	-£37,600.96	Account no longer in use - requires reconciling and closing
Q2413	Paye.Net Income Control Account	-£103,005.25	Possible mis-posted lodgements - requires reconciling
Q2466	TouchTone Income Control Account	£100,935.41	Possible mis-posted bankings - requires reconciling
Q2474	Allpay Control Account	£22,761.57	Possible mis-posted bankings - requires reconciling
Q2477	3C Parking Chip and Pin Control Account	£22,465.53	Possible mis-posted bankings - requires reconciling
Q2380	G4S Income Suspense A/C	£364,347.70	Possible mis-posted bankings - requires reconciling
Q2376	FMS Income Unallocated Susp	-£11,554.26	Account no longer in use - requires reconciling and closing
Q8001	U4 <b>Internet payments</b> ecommerce - Merch 505847608 HCWEB control a/c	-£121,164.30	Account no longer in use - requires reconciling and closing
Q8003	<b>Hastings.gov/parking</b> - Merch 505847707 Control A/c	-£44,800.50	Account no longer in use - requires reconciling and closing
Q8004	<b>Chip and Pin</b> Hastings Borough Council – Merch 506146232 Control A/c	-£1,803.66	Account no longer in use - requires reconciling and closing
Q8007	<b>CNP MOTO</b> - Merch 505847665 Control A/c (Customer not present)	£146,650.82	Account no longer in use - requires reconciling and closing
Q8011	<b>Telephone Payments</b> Sybernet - ATP Merch 505847673 Control A/c	-£200.00	Account no longer in use - requires reconciling and closing
Q8014	Imperial <b>Parking Permit Portal</b> (PermitSmarti) - 506203843	-£114,444.52	Possible mis-posted lodgements - requires reconciling

Account code	Description	Balance at 28/02/23	Recommendation
Q8050	Clover POS device Merchant 506158369 Device 1 Asset 041224 <b>Resorts (seafood)</b>	-£33,899.17	Possible mis-posted lodgements - requires reconciling
Q8051	Clover POS device Merchant 506217306 Device 2 Asset 041279 <b>Cliff Railways (backup)</b>	£3,451.44	Possible mis-posted bankings - requires reconciling
Q8052	Clover POS device Merchant 506217314 Device 3 Asset 041280 <b>Contact Centre (backup)</b>	£8,919.66	Possible mis-posted bankings - requires reconciling
Q8053	Clover POS device Merchant 506274455 Device 4 Asset 041297 <b>Museum Pro Till (Seafood)</b>	-£2,988.12	Possible mis-posted lodgements - requires reconciling
Q8054	Clover POS device Merchant 506276559 Device 5 Asset 041298 <b>Contact Centre -- Museum</b>	£21,161.75	Possible mis-posted bankings - requires reconciling
Q8055	Clover POS device Merchant 506280478 Device 6 Asset 041299	£675.00	Possible mis-posted bankings - requires reconciling

41. The reconciliation of these accounts will confirm that the amounts posted and received have been correctly banked and it is therefore considered to be a key control.

#### Recommendation 4

**Chief Accountant to ensure all Unit4BW control accounts relating to income receipting are reconciled on a monthly basis.**

## Report on the Audit of Cash and Bank

42. Cash is no longer accepted by the Community Contact Centre and any cheques received are passed to Business Support, who record the payment on the Unit4BW Income Manager system. As previously stated, the control total for Business Support is currently posted to the Jade Income Control Account (Q2380).

### East & West Hill Lifts

43. The lift attendants use preset electronic cash registers to take income at these amenities. At the end of each day, the daily till reading is taken. The cash in the till is counted and the cashier will declare any overs or shortages. Cash takings are then entered onto the Unit4BW Income Manager module on a daily basis.
44. Once the cash and cheque transactions are input onto Income Manager, an entry is posted to the Cliff & Railway (Q2434) control account. Where payment is made by debit or credit card, the transaction is posted to the Cliff Railways' Clover contactless Chip & PIN Control Account (Q8052). The Cliff & Railway Control Account (Q2434) and Clover contactless Chip & PIN Control Account (Q8052) will then receive the corresponding credit when payment is received into the Council's bank account.
45. The audit has confirmed that the Cliff & Railway Income Control Account (Q2434) and Clover contactless Chip & PIN Control Account (Q8052) may not have been reconciled this financial year. A recommendation has already been made to address this issue.

### Community Contact Centre

46. The Community Contact Centre (CCC) now takes card payments via the telephone, or in person, in respect of waste collection, Council Tax, Non-Domestic Rates, debtors' invoices and other miscellaneous items. The Unit4BW finance system will automatically post transactions either to the relevant ledger code or to the personal account of the Council Tax payer or debtor etc.
47. All card payments taken over the telephone are recorded via the Paye.Net system and a control total is posted to the Paye.Net Income Control Account (Q2413). Card payments made in person, are posted to the Contact Centre's Clover contactless Chip & PIN Control Account (Q8054).
48. Since the Covid-19 pandemic in 2019, the CCC will now only accept cash payments in exceptional circumstances. If a cash payment is made, then the exact amount must be tendered and, consequently, very few cash payments have been received in recent years.

## Report on the Audit of Cash and Bank

49. Any cash payments are recorded via the Unit4BW Income Manager system and a control entry for cash and cheque transactions is automatically posted to the CCC Income Control Account (Q2433). The control accounts will then receive the corresponding credit when payment is received in the Council's bank account.
50. The audit has confirmed that the CCC Income Control Account (Q2433) and the Contact Centre's Clover contactless Chip & PIN Control Account (Q8054) may not have been reconciled this financial year. A recommendation has already been made to address this issue.

### Tourist Information Centre

51. The Tourist Information Centre (TIC) closed during the Covid-19 pandemic and remained this way until it was relocated to the East Sussex College site in 2020. whereupon it was re-named as the 'Visitor Information Centre.'
52. Since then, operation of the Visitor Information Centre has become the responsibility of East Sussex College and Hastings Borough Council no longer have any involvement with the site. The audit has confirmed that the Tourist Information Control Account (Q2436) has been reconciled and therefore presents a nil balance.

### Cemetery and Crematorium

53. The Cemetery and Crematorium receive payments for undertaker's fees, memorial plaques and funerals arranged directly with the Council. Payment is recorded directly onto the Unit4BW Income Manager system.
54. Welfare funeral monies collected during a visit to the property of a deceased resident are also recorded via Income Manager. Welfare funeral monies are stored securely in a different safe to the other general cash takings.
55. Income taken by all staff is reconciled daily and agreed to cash in the till. Cash taken over the counter is placed immediately in the manager's safe as there are no till facilities available. The manager (or deputy) then collates the cash takings on a weekly basis, prior to collection by the independent cash collectors.
56. A control entry for cash and cheque payments is automatically made to the Cemetery and Crematorium Income Suspense Account (Q2432). The control total for debit and credit card payments is posted to the Cemetery and Crematorium Clover contactless Chip & PIN Control Account (Q8051). The control accounts will then receive a corresponding credit when payment is received in the Council's bank account.

## Report on the Audit of Cash and Bank

57. The audit has confirmed that the Cemetery and Crematorium Income Suspense Account (Q2432) and the Clover contactless Chip & PIN Control Account (Q8051) may not have been reconciled this financial year. A recommendation has already been made to address this issue.

### Hastings Museum and Art Gallery

58. Income is received at the Museum for events, weddings, picture sales, miscellaneous souvenirs and brochures etc. Payments are recorded daily onto the Unit4BW Income Manager system. Daily cash and cheque payments are securely stored in the office safe.
59. A control entry for cash and cheque payments should automatically be made to the Museum Income Control Account (Q2435), however this does not currently appear to be the case. A reconciliation of this account should identify into which location the control totals are currently being posted.
60. The Museum & Art Gallery are now able to receipt debit and credit card payments via a contactless Chip & PIN till and a control entry for these transactions is posted to the Museum Contactless Chip & PIN Control Account (Q8053). The control accounts will then receive a corresponding credit when payment is received in the Council's bank account.
61. The audit has confirmed that the Museum Income Control Account (Q2435) and the Museum Contactless Chip & PIN Control Account (Q8053) may not have been reconciled this financial year. A recommendation has already been made to address this issue.

### Regeneration & Planning

62. Payment of **Local Land Charges** can be made by debit/credit card via telephone contact with the service team or by cheque through the post. Where payment is made by debit/credit card via the telephone, a control total is posted to the Paye.Net Income Control Account (Q2413). For payments made by cheque, transactions are entered on Income Manager via the Business Support team and the control total is currently posted to the Jade Income Control Account (Q2380).
63. Audit have confirmed that the Regeneration & Planning Control Account (Q2430) is no longer used however there is still a high balance in this account. This account therefore requires reconciling and a recommendation has already been made to address this issue.

## Report on the Audit of Cash and Bank

64. **Planning fees** can be paid by debit/credit card via the telephone (handled at the Contact Centre), internet and also by cheque. Where payment is made by debit/credit card via the telephone, a control total is posted to the Paye.Net Income Control Account (Q2413). For debit/credit card payments received online, a control entry is made to the TouchTone Income Control Account (Q2466). Payments by cheque are received and entered onto Income Manager by Business Support Services. A control entry is posted to the Jade Income Control Account (Q2380).

### Service Areas Without Income Manager Access

65. The audit has confirmed that procedures are in place to ensure cash takings are either collected by the independent cash collectors or passed to Business Support for recording on Income Manager and storage prior to collection.
66. Staff roles, responsibilities and cash handling procedures are clearly outlined in the Council's Cash Handling Policy, which was developed in 2022. The cash handling policy includes a section which states that cash and card receipts should be recorded daily. The audit has confirmed that not all service areas are recording their takings daily and therefore recommend that staff are reminded of this important task.

### Recommendation 5

**Chief Accountant to ensure that all staff are reminded of the need to record takings on a daily basis.**

67. The audit has also identified that this policy is not yet displayed on the intranet and therefore recommend that this document is made available as soon as possible.

### Recommendation 6

**Chief Accountant to ensure that the Council's Cash Handling Policy is displayed on the intranet.**

### Pay and Display Car Parking Machines

68. The Council currently have 32 car parking machines at 15 locations throughout the Borough. Cash from these machines is collected, counted and banked by the independent collection company, who have been contracted since February 2018.

## Report on the Audit of Cash and Bank

69. Details of the cash collections for each machine are sent by the collection company in spreadsheet format to Finance Services. The values are debited to the collection company's Income Control Account (Q2380).
70. Electronic income files are received from the Council's bank on a daily basis. These files contain details of all monies deposited by the collection company from every service area within the Council.
71. Finance Services must then identify which deposits relate to cash collections from car parking sites. Any discrepancies that are then identified from the collection company's spreadsheet, in excess of £25.00, are investigated by Parking Services and the Finance team. Discrepancies can arise as a result of faulty machines, misleading data from the audit tickets or from delays in cash bankings appearing in the Council's bank account.
72. The investigation will also include checking the collections before and after any discrepancy and, if necessary, requesting the maintenance supervisor to inspect the machine. If there is no valid reason for the discrepancy (shortage or over) it will be reported to the Internal Audit service.
73. Audit testing identified 35 cash collection discrepancies in excess of £25.00 between 1<sup>st</sup> April 2022 and 31<sup>st</sup> December 2022. These discrepancies were then investigated by Parking Services, who confirmed that total under-bankings, amounting to £1,043 were still un-resolved.
74. Audit therefore recommend that the cash deposits made by Jade during this period are re-examined by the Finance team in order to identify whether the discrepancies are the result of banking issues.

### Recommendation 7

**Chief Accountant to ensure that the Jade under-banking discrepancies during the period 1<sup>st</sup> April 2022 and 31<sup>st</sup> December 2022 are investigated further.**

75. When Finance Services are satisfied that the bank's income figures match the data provided by the collection company, the value of the cash income received should be posted to the Jade (collection company) Income Control Account (Q2380).
76. However, the audit has confirmed that this does not currently appear to be the case and therefore a reconciliation of this account should identify into which location the bankings are currently being posted. A recommendation has already been made to address this issue.



## Report on the Audit of Cash and Bank

77. An examination of invoices, submitted by the collection company (Jade) during the period 1<sup>st</sup> April 2022 to 31<sup>st</sup> December 2022, was undertaken as part of the audit. This review identified that the number of collections recorded on each monthly invoice differed from the number of collections according to the monthly spreadsheet provided by Jade.
78. Based on the lowest car park location unit price (£6.36), the net difference between collection figures represents a potential overpayment in excess of £1,971. Audit therefore recommend that the discrepancies between the monthly collection fee invoice and the Jade car parking cash collection spreadsheet are investigated further by Finance Services.

### Recommendation 8

**Chief Accountant to ensure that the discrepancies between the monthly car park collection fee invoice and the Jade car parking cash collection spreadsheet are investigated further.**

79. Examination of the invoices submitted by Jade also revealed that there appears to have been a unit price increase in October 2022, at the following locations:
- Rock A Nore & Pelham Place - (£7.15 to £7.94)
  - Castle Hill Car Park - (£7.94 to £9.53)
80. Audit have not identified any documents confirming that the company notified the Council of the unit price increase and it is therefore recommended that this matter is further investigated before the existing contract is renewed.

### Recommendation 9

**Chief Accountant to ensure that the car park collection unit price increase in October 2022 is investigated further.**

81. The majority of car parking locations also have the facility to accept card payments via Chip & PIN machines. The company responsible for car parking Chip & PIN and contactless payments was replaced by the Council in June 2018. There have been no reported issues with the new company (3C) since this date.
82. Electronic files confirming the value of payments made via Chip & PIN and contactless facilities are obtained from the company's website and debited to the Car Parking Chip & PIN Control Account (Q2477).

### **Report on the Audit of Cash and Bank**

83. The audit has confirmed that the 3C (Car Parking Chip & PIN) Control Account (Q2477) may not have been reconciled this financial year. A recommendation has already been made to address this issue.
84. Cashless payments can also be made for parking via mobile telephone and internet services available from the well-established company RingGo. Payments made via RingGo are processed in the same way as Chip & PIN transactions, with an electronic file being obtained from the company's website and debited to the Cashless Parking Income Control Account (Q2348). Again, there have been no reported issues with this service.
85. The audit has confirmed that the Cashless Parking Income Control Account (Q2348) may not have been reconciled this financial year. A recommendation has already been made to address this issue.

#### **Paye.Net, Touchtone, Internet & Allpay Control Accounts**

86. Control accounts are used for the receipting of debit and credit card payments via Paye.Net (Q2413), Touchtone (Q2466) and Allpay (Q2474).
87. The control total for debit and credit card payments is posted to these accounts and then a corresponding credit is entered when payment is received in the Council's bank account.
88. However, credit and debit card payments arrive in the Council's bank account as a daily lump sum without any additional details. Finance Services have confirmed that it is therefore not currently possible to directly associate these payments with the specific totals showing in the control accounts. Finance Services are therefore reliant upon using daily totals to reconcile bank deposits with the associated daily control entry totals.
89. The audit has confirmed that the Paye.Net (Q2413), Touchtone (Q2466) and Allpay (Q2474) control accounts may not have been reconciled this financial year. A recommendation has already been made to address this.

#### **Bank Reconciliation To General Ledger**

90. Reconciliation between the General Ledger and the Council's bank account is a fundamental accounting process. Performing a regular reconciliation ensures that potential accounting errors and fraudulent activity is identified promptly.

## Report on the Audit of Cash and Bank

91. The audit has confirmed that, for the period 01/04/22 to 28/03/23, the bank reconciliation spreadsheet for all non-investment accounts was completed monthly and signed off by a senior member of the Finance team.

### Jade Cash Collection Company

92. In February 2018, the Council entered into a new cash collection contract with Jade Security Services Ltd. In October 2019 the company was transferred to a new owner, RMS Group Services, but there was no change in the management and policies of the existing company (Jade Security Services Ltd). In July 2020, RMS Group Service changed their trading name to Pivotal, however all invoices and bank account details remain in the name of Jade Security Services Ltd.
93. Audit have obtained documentary evidence confirming that the cash collection contract has been extended with Jade Security Services Ltd t/a Pivotal until 31<sup>st</sup> August 2023.

### Unallocated Receipts Account

94. A large proportion of income received is automatically allocated to the appropriate account by the Unit4BW Income Manager system. Income that cannot be immediately identified is investigated further by Finance Services staff. If it is still unclear as to where the income should be posted, the amount is transferred to the Unallocated Receipts Account (P1094).
95. The Unit4BW system has the facility to identify payment reference numbers which are regularly recorded incorrectly using an 'auto-match' function. In order for Unit4BW to do this, Finance Services staff must add the incorrect version of the reference number to a list within the system, so that it is then able to associate it with the correct account.
96. The value of unallocated receipts, as at 28<sup>th</sup> February 2023, was £101.00. Audit testing has confirmed that this figure comprises of two deposits, one of which was received the day before (£73.00) and the other (£28.00) dated back to 2021. Efforts have been made by Finance Services to identify the payee or the correct location for this payment but, to date, this payment remains unallocated.
97. Audit have identified that the outstanding balance of unallocated receipts (£11,924) carried over from the old Agresso finance system onto the Unit4BW system in 2018, has been placed into a separate Unallocated Receipts Account (Q2376).

## Report on the Audit of Cash and Bank

98. Audit recommend that this amount is investigated further in order to gain assurance that the unallocated receipt balance from Agresso has since been reconciled.

### Recommendation 10

**Chief Accountant to ensure that the unallocated receipt balance transferred from Agresso to the Unit4BW system account Q2376 is investigated and reconciled.**

### Finance Systems Control

99. At the time of the previous audit in 2019, there were a total of nine staff within the Council have the highest level of system access to the Paye.Net system. Consequently, these staff are able to change passwords and also create, amend and delete profiles for other users.
100. There were also five staff with the highest level of access to the Unit4BW Finance System. Once again, these staff are able to change passwords, create, amend and delete profiles for other users. Additionally, staff with this level of access are also able to make changes to all areas of the finance system, including setting up creditor accounts and amending payment details.
101. Audit have not received confirmation of the current list of Council staff with system administrator access for both systems, at the time of writing this report. The recommendation that administrator access is restricted to a maximum of three staff for both Paye.Net and Unit4BW Finance System is therefore made within this report. Additionally, Audit also recommend that the privileges of all staff with administrator status are restricted to allow access to only essential functions where possible.

### Recommendation 11

**Chief Accountant to ensure administrator access is limited to a maximum of three staff for both Paye.Net and Unit4BW Finance System and that privileges are restricted to only essential functions where possible.**

102. It is important to ensure that any changes to income management computer systems are fully reviewed, documented and signed off by the Chief Accountant. Since the introduction of the Unit4BW Finance System, there have been a several major system amendments.
103. As changes to the Unit4BW system can affect the functionality of the system at Rother District Council, major system amendments must be approved by the Chief

## Report on the Audit of Cash and Bank

Accountant (or authorised representative) for both Councils. Audit have confirmed that any proposed changes are documented and supported by a standard "Change Request" form and signed off by the respective Chief Accountants prior to implementation.

104. Additionally, the Systems Accountant confirmed that all lower-level system change requests are raised via the Unit4BW online portal and reviewed/authorised by their staff.
105. However, Audit feel that a change request log could also be developed to provide a consolidated record of all major system changes. The introduction of this control document could be used to collate useful information such as a description of the proposed change; the date of change request; authorisation details; and implementation date. In turn, the change request log would then be supported by individual change request forms for each entry on the document.

### **Recommendation 12**

**Chief Accountant to introduce a formal change request log to record details of the proposed Unit4BW system amendment(s), the date of request, authorisation date and implementation date.**

106. Overall, Audit are encouraged that a cash handling policy has been developed since the previous audit in 2019 and would now like to see the policy made easily accessible to staff via the intranet.
107. Audit are mindful of the challenges currently facing the Finance team, however it is our opinion that implementing the recommendations, detailed within this report, will strengthen existing controls and further reduce the risk of potential fraud or error.

## Report on the Audit of Cash and Bank

### Appendix A: Terms of Reference

#### **Audit Objectives**

To review the internal controls governing Income, processes and systems  
To ensure the adequacy and propriety of operational arrangements

#### **Audit Scope**

The audit will review systems and processes from the receipt of the income to the reconciliation of income received to control accounts within the council and to the Main Accounting System.

The audit will examine:

- Income receipt
- Income monitoring
- Bank Reconciliation processes
- Procedures
- Clearance of suspense accounts

#### **Approach**

- Discussions will be held with relevant officers
- Progress in implementing the recommendations of previous audit reports will be ascertained
- Testing will be based on the CIPFA System Based Auditing Control checklist for the assessment of key controls.
- Records will be examined
- Substantive testing will be targeted on any areas of apparent weakness
- The results will be discussed with the Chief Accountant prior to the issue of the draft report

#### **Staffing and Supervision**

The audit team will consist of

Auditor	Matt Hoad	Group Auditor
Review and Report	Tom Davies	Chief Auditor

#### **Reporting**

- A consultation draft of the report will be issued to the Chief Accountant and Chief Finance Officer.
- The final report will be issued to all of the above, the Chief Executive and Grant Thornton LLP.
- A Summary Report will be issued to the Audit Committee.

## Appendix 2: Cash and Bank Audit Report 2022-23 – Final (V2) Recommendation Implementation Schedule

Ref	Recommendation	Priority	Target date	Responsible officer	Management comment	Management Action to date	Further Management Considerations
1	All staff are reminded of the Council's Cash Handling Policy and arrangements for the security of safe keys and codes.	Medium	<b>30-Sep-23</b>	Chief Accountant	Agreed. The Council's cash handling policy will be reviewed, and an email will be sent to staff reminding them of the policy, which details treatment of safe keys. The policy will also be placed on the Council's intranet.	The policy has been issued to all staff and is readily accessible on the HBC intranet.	Cash Handling Policy and procedure to be reviewed on a cyclical basis and staff made aware of any changes.
2	That the future use of "Aquila House Cashiers Income Suspense" (Q2329) as a control account for Business Support Services is considered.	Medium	<b>30-Sep-23</b>	Chief Accountant	The use of income control accounts is under review as part of the Capita Pay360 project. This recommendation will be taken into consideration.	This relates to Muriel Matter House - Capita Pay360 project is on-going.	To be included and reviewed as part of the reconciliation and monitoring process.
3	That a reconciliation of ticket sales as per the Permit-Smarti/Adelante system and actual income received is undertaken on a quarterly basis.	High	<b>30-Jun-23</b>	Chief Accountant	The Corporate Accountant will review the Permit Smarti/Adelante system and actual income received and attempt a reconciliation of the two. If this can be achieved within an acceptable timeframe quarterly reconciliation will be undertaken.	Consideration being given to the automation of the reconciliation process between Unit 4 and Permit-Smarti/Adelante system will need more time to understand the system and design the reconciliation process. Will commence review in Q2, with the aim to complete within the same period.	Reconciliation schedules as updated will be continuously monitored.

Appendix 2 (Cont.): Cash and Bank Audit Report 2022-23 – Final (V2) Recommendation Implementation Schedule

Ref	Recommendation	Priority	Target date	Responsible officer	Management comment	Management Action to date	Further Management Considerations
4	That all Unit4BW control accounts relating to income receipting are reconciled on a monthly basis.	High	30-Jun-23	Chief Accountant	The finance team maintain a “Recharge & Reconciliation spreadsheet” that records when control accounts have been reconciled. This file has been reviewed and a number of improvements recommended. It is the aspiration that all control accounts are reconciled monthly and as a minimum on a quarterly basis. The finance team also maintain a “Year End Balance Sheet Reconciliations spreadsheet” which allocates each account to a named officer and requires year end signoff to confirm the account has been reconciled and the balance is identified and understood.	Consideration being given to automation of the control account reconciliation. Will commence review in Q2, with the aim to complete within the same period.  Additional resource is in place.	Reconciliation schedules as updated will be continuously monitored.
5	That all staff are reminded of the Council’s Cash Handling Policy and the need to record takings on a daily basis.	Medium	30-Sep-23	Chief Accountant	Agreed. The Council’s cash handling policy will be reviewed and updated if necessary, and an email will be sent to staff reminding them of the policy. The policy will also be placed on the Council’s intranet.	The policy has been issued to all staff and is readily accessible on the HBC intranet.	Cash Handling Policy and procedure will be reviewed on a cyclical basis and staff made aware of any changes.
6	That the Council’s Cash Handling Policy is displayed on the intranet.	Medium	30-Sep-23	Chief Accountant	Agreed. The Council’s cash handling policy will be reviewed and updated if necessary, and an email will be sent to staff reminding them of the policy. The policy will also be placed on the Council’s intranet.	The policy has been issued to all staff and is readily accessible on the HBC intranet.	Cash Handling Policy and procedure will be reviewed on a cyclical basis and staff made aware of any changes.
7	That the Jade under-banking discrepancies during the period 1st April 2022 and 31st December 2022 are investigated further.	High	30-Jun-23	Chief Accountant	Agreed. Further investigation will be undertaken by the Corporate Accountant.	This has been progressed, with additional finance resource in place to ensure that all reconciliations are up to date, with effort being made to part automate the reconciliation process.	Reconciliation schedules as updated will be continuously monitored.



Appendix 2 (Cont.): Cash and Bank Audit Report 2022-23 – Final (V2) Recommendation Implementation Schedule

Ref	Recommendation	Priority	Target date	Responsible officer	Management comment	Management Action to date	Further Management Considerations
8	That the discrepancies between the monthly car park collection fee invoice and the Jade car parking cash collection spreadsheet are investigated further.	High	30-Jun-23	Chief Accountant	Agreed. Further investigation will be undertaken by the Corporate Accountant.	This has been progressed, with additional finance resource in place to ensure that all reconciliations are up to date, with effort being made to part automate the reconciliation process.	Reconciliation schedules as updated will be continuously monitored.
9	That the car park collection unit price increase in October 2022 is investigated further.	Medium	30-Sep-23	Chief Accountant	Agreed. Further investigation will be undertaken by the Corporate Accountant.	It has been confirmed that the rate increases are permissible and in accordance with the terms of the contract. (Contract with Jade paragraph 3.2.)	Details of any future rate changes to be sent to the finance team.
10	That the unallocated receipt balance transferred from Agresso to the Unit4BW system account Q2376 is investigated and reconciled.	Medium	30-Jun-23	Chief Accountant	This balance is a historical unidentified balance that has been brought forward from the old ledger system. Five years have now passed and the prospect of identifying the balance is now very slim. The unidentified balance has been written back to revenue and the account is now balanced to zero.	No further action.	No further action.

Appendix 2 (Cont.): Cash and Bank Audit Report 2022-23 – Final (V2) Recommendation Implementation Schedule

Ref	Recommendation	Priority	Target date	Responsible officer	Management comment	Management Action to date	Further Management Considerations
11	That administrator access is limited to a maximum of three staff for both Paye.Net and Unit4BW Finance System and that privileges are restricted to only essential functions where possible.	High	30-Jun-23	Chief Accountant	We do not want to put an upper limit on the number of administrators but instead go by business necessity. As the Unit4 system is used for both Finance and HR a greater number of admin users are required. Currently there are 2 users in HR and 4 users in Accountancy. The Systems Accountant will review access to see if the creditors supervisors' access can be changed from full admin to just the access, they require by setting up a new creditors' role instead. This would reduce the number of Hastings finance admins down to 3. As the Unit4 system is shared with Rother District Council there are currently 2 Rother users who have access to the system. For Paye.Net / Pay360 users are already down to 3 people – One in IT and Two in Accountancy.	Continuously reviewed by the systems Accountant.	Will continue to review user access.
12	That a formal change request log to record details of the proposed Unit4BW system amendment(s), the date of request, authorisation date and implementation date is introduced.	Medium	30-Jun-23	Chief Accountant	Not agreed. This would be too admin intensive to undertake. Where system wide changes are undertaken, that effect both Hastings and Rother, a change request form is completed and signed-off by senior managers at both authorities. It is not thought necessary to maintain a log of these request forms.	No further action.	No further action.

# Agenda Item 8



**Report to:** Audit Committee

**Date of Meeting:** 17 August 2023

**Report Title:** Treasury Management Update – 2023/24 Quarter 1

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

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## Purpose of Report

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management 2021 recommends that Members be updated on treasury management activities at least quarterly. This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

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## Recommendation(s)

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

1. Note the report, the treasury activity and recommend approval of any changes to the prudential indicators.

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## Reasons for Recommendations

To ensure that Members are fully aware of the activities undertaken in the last quarter, that Codes of Practice have been complied with and that the Council's strategy is effective and doesn't currently need revising.

Under the Code adopted the Full Council are required to consider the report and any recommendations made. There will be a further report forthcoming on Treasury Management for 2023/24 including the Mid-year Review, Quarter 3 Treasury Management Update Report and Outturn Report.

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## Introduction

1. The following economic update and interest rate forecasts have been provided by the Council's Treasury Management Advisors, Link Group.

## Economics update

2. The first quarter of 2023/24 saw:
  - A 0.2% m/m rise in real GDP in April, partly due to fewer strikes;
  - CPI inflation falling from 10.1% to 8.7% in April, before remaining at 8.7% in May. This was the highest reading in the G7;
  - Core CPI inflation rise in both April and May, reaching a new 31-year high of 7.1%;
  - A tighter labour market in April, as the 3myy growth of average earnings rose from 6.1% to 6.5%;
  - Interest rates rise by a further 75bps over the quarter, taking Bank Rate from 4.25% to 5.00%;
  - 10-year gilt yields nearing the "mini-Budget" peaks, as inflation surprised to the upside.
3. The economy has weathered the drag from higher inflation better than was widely expected. The 0.2% m/m rise in real GDP in April, following March's 0.3% m/m contraction will further raise hopes that the economy will escape a recession this year. Some of the strength in April was due to fewer strikes by train workers and teachers in that month. Moreover, some of the falls in activity in other areas in April were probably temporary too. Strikes by junior doctors and civil servants contributed to the fall in health output (0.9% m/m) and the meagre 0.1% m/m increase in public administration.
4. The fall in the composite Purchasing Managers Index (PMI) from 54.0 in May to a three-month low of 52.8 in June (>50 points to expansion in the economy, <50 points to contraction) was worse than the consensus forecast of 53.6. Both the services and manufacturing PMIs fell. The decline in the services PMI was bigger (from 55.2 to 53.7), but it remains consistent with services activity expanding by an annualised 2%. The fall in the manufacturing PMI was smaller (from 47.1 to 46.2), but it is consistent with the annual rate of manufacturing output falling from -0.8% in April to around -5.0%. At face value, the composite PMI points to the 0.1% q/q rise in GDP in Q1 2023 being followed by a 0.2% q/q gain in Q2 2023.
5. Meanwhile, the 0.3% m/m rise in retail sales volumes in May was far better than the consensus forecast of a 0.2% m/m decline and followed the robust 0.5% m/m rise in April. Some of the rise was due to the warmer weather. Indeed, the largest move was a 2.7% m/m jump in non-store sales, due to people stocking up on outdoor-related goods. But department stores also managed to squeeze out a 0.6% m/m rise in sales and the household goods sub-sector enjoyed a reasonable performance too. Overall, the figures were far better than analysts had expected.

In addition, the GfK measure of consumer confidence rebounded from -27 to a 17-month high of -24 in June.

6. The recent resilience of the economy has been due to a confluence of factors including the continued rebound in activity after the pandemic, households spending some of their pandemic savings, and the tight labour market and government handouts both supporting household incomes. That said, as government support fades, real household incomes are unlikely to grow rapidly. Furthermore, higher interest rates will mean GDP is likely to contract later this year. Our central assumption is that inflation will drop to the 2.0% target only if the Bank triggers a recession by raising rates from 5.00% now to at least 5.5% and keeps rates there until at least mid-2024. Our colleagues at Capital Economics estimate that around 60% of the drag on real activity from the rise in rates has yet to bite, and the drag on the quarterly rate of real GDP growth over the next year may be about 0.2ppts bigger than over the past year.
7. The labour market became tighter over the quarter and wage growth reaccelerated. Labour demand was stronger than the consensus had expected. The three-month change in employment rose from +182,000 in March to +250,000 in April. Meanwhile, labour supply continued to recover as the size of the labour force grew by 303,000 in the three months to April. That was supported by a further 140,000 decline in inactivity as people returned to work from retirement and caring responsibilities (while inactivity due to long-term sick continued to rise). But it was not enough to offset the big rise in employment, which meant the unemployment rate fell from 3.9% to 3.8%
8. The tighter labour market supported wage growth in April, although the 9.7% rise in the National Living Wage on 1st April (compared to the 6.6% increase in April last year) probably had a lot to do with it too. The 3myy rate of average earnings growth reaccelerated from 6.1% to 6.5% (consensus 6.1%) and UK wage growth remains much faster than in the US and the Euro-zone. In addition, regular private sector wage growth increased from 7.1% 3myy to 7.6%, which left it well above the Bank's forecast for it to fall below 7.0%. Overall, the loosening in the labour market appears to have stalled in April and regular private sector wage growth was well above the Bank's forecast.
9. CPI inflation stayed at 8.7% in May (consensus 8.4%) and, perhaps more worryingly, core CPI inflation rose again, from 6.8% to a new 31-year high of 7.1%. The rise in core inflation built on the leap from 6.2% in March to 6.8% and means it is accelerating in the UK while it is slowing in the US and the Euro-zone (both fell to 5.3%). A further decline in fuel inflation, from -8.9% to -13.1%, and the second fall in food inflation in as many months, from 19.3% to 18.7%, explained why overall CPI inflation didn't rise. And the scheduled fall in the average annual utility price from £2,500 to £2,074 on 1st July means overall CPI inflation will probably ease in the coming months. But the problem is that the recent surge in core inflation and the reacceleration in wage growth shows that domestic inflationary pressures are still strengthening.
10. This suggests the Bank may have more work to do than the Fed or ECB. Indeed, the Bank of England sounded somewhat hawkish in the June meeting. This came through most in the MPC's decision to step up the pace of hiking from the 25bps at the previous two meetings. The 7-2 vote, with only two members voting to leave

rates unchanged at 4.50%, revealed support for stepping up the fight against high inflation.

11. That said, the Bank has not committed to raising rates again or suggested that 50bps rises are now the norm. What it did say was that “the scale of the recent upside surprises in official estimates of wage growth and services CPI inflation suggested a 0.5 percentage point increase in interest rates was required at this particular meeting”. Moreover, the Committee did not strengthen its forward guidance that any further rate hikes would be conditional on the data. However, it looks highly probable, given the on-going strength of inflation and employment data, that the Bank will need to raise rates to at least 5.5% and to keep rates at their peak until the mid-point of 2024. We still think it is only a matter of time before the rise in rates weakens the economy sufficiently to push it into recession. That is why instead of rising to between 6.00%-6.25%, as is currently priced in by markets, we think rates are more likely to peak between 5.50-6.00%. Our forecast is also for rates to be cut in the second half of 2024, and we expect rates to then fall further than markets are pricing in.
12. Growing evidence that UK price pressures are becoming increasingly domestically generated has driven up market interest rate expectations and at one point pushed the 10-year gilt yield up to 4.49% in late June, very close to its peak seen after the “mini-budget”. Yields have since fallen slightly back to 4.38%. But growing expectations that rates in the UK will remain higher for longer than in the US mean they are still more than 70 bps above US yields. While higher interest rates are priced into the markets, the likely dent to the real economy from the high level of interest rates is not. That’s why we think there is scope for market rate expectations to fall back in 2024 and why we expect the 10-year PWLB Certainty Rate to drop back from c5.20% to 5.00% by the end of this year and to 4.20% by the end of 2024.
13. The pound strengthened from \$1.24 at the start of April to a one-year high at \$1.26 in early May, which was partly due to the risks from the global banking issues being seen as a bigger problem for the US than the UK. The pound then fell back to \$1.23 at the end of May, before rising again to \$1.28 in the middle of June as the strong core CPI inflation data released in June suggested the Bank of England was going to have to raise rates more than the Fed or ECB in order to tame domestic inflation. However, sterling’s strong run may falter because more hikes in the near term to combat high inflation are likely to weaken growth (and, hopefully, at some point inflation too) to such a degree that the policy rate will probably be brought back down, potentially quite quickly, as the economic cycle trends downwards decisively. This suggests that additional rate hikes are unlikely to do much to boost the pound.
14. In early April, investors turned more optimistic about global GDP growth, pushing up UK equity prices. But this period of optimism appears to have been short-lived. The FTSE 100 has fallen by 4.8% since 21st April, from around 7,914 to 7,553, reversing part of the 7.9% rise since 17th March. Despite the recent resilience of economic activity, expectations for equity earnings have become a bit more downbeat. Nonetheless, further down the track, more rate cuts than markets anticipate should help the FTSE 100 rally.

## MPC meetings 11th May and 22nd June 2023

15. On 11th May, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 25 basis points to 4.50%, and on 22nd June moved rates up a further 50 basis points to 5.00%. Both increases reflected a split vote – seven members voting for an increase and two for none.
16. Nonetheless, with UK inflation significantly higher than in other G7 countries, the MPC will have a difficult task in convincing investors that they will be able to dampen inflation pressures anytime soon. Talk of the Bank's inflation models being "broken" is perhaps another reason why gilt investors are demanding a premium relative to US and Euro-zone bonds, for example.
17. Of course, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has already hiked short-term rates to a range of 5.00%-5.25%, but a further increase is pencilled in for July, whilst the ECB looks likely to raise its Deposit rate at least once more to a peak of 3.75%, with upside risk of higher to come.

## Interest rate forecasts

18. 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.
19. The latest forecast, made on 26th June, 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, against a backdrop of a stubbornly robust economy and a tight labour market.
20. You will note that the Link forecasts have steadily increased during the quarter as the data continued to spring upside surprises, and the Bank of England continued to under-estimate how prevalent inflation is, and how tight the labour market is. The Government has also noted that despite immigration increasing markedly, high levels of ill-health amongst the workforce has led to wage demands remaining strong until such time as there is a loosening in demand for business services.
21. The current and previous PWLB rate forecasts below are based on the Certainty Rate.

Link Group Interest Rate View	26.06.23												
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
<b>BANK RATE</b>	5.00	5.50	5.50	5.50	5.25	4.75	4.25	3.75	3.25	2.75	2.75	2.50	2.50
3 month ave earnings	5.30	5.60	5.50	5.30	5.00	4.50	4.00	3.50	3.00	2.70	2.60	2.50	2.50
6 month ave earnings	5.80	5.90	5.70	5.50	5.10	4.60	4.00	3.50	3.00	2.70	2.60	2.60	2.60
12 month ave earnings	6.30	6.20	6.00	5.70	5.30	4.80	4.10	3.60	3.10	2.80	2.70	2.70	2.70
5 yr PWLB	5.50	5.60	5.30	5.10	4.80	4.50	4.20	3.90	3.60	3.40	3.30	3.30	3.20
10 yr PWLB	5.10	5.20	5.00	4.90	4.70	4.40	4.20	3.90	3.70	3.50	3.50	3.50	3.40
25 yr PWLB	5.30	5.40	5.20	5.10	4.90	4.70	4.50	4.20	4.00	3.90	3.80	3.80	3.70
50 yr PWLB	5.00	5.10	5.00	4.90	4.70	4.50	4.30	4.00	3.80	3.60	3.60	3.50	3.50

Link Group Interest Rate View		24.05.23											
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
<b>BANK RATE</b>	4.75	5.00	5.00	4.75	4.50	4.00	3.50	3.25	2.75	2.50	2.50	2.50	2.50
3 month ave earnings	4.80	5.00	5.00	4.80	4.50	4.00	3.50	3.30	2.80	2.50	2.50	2.50	2.50
6 month ave earnings	5.10	5.20	5.10	4.90	4.50	3.90	3.40	3.20	2.90	2.60	2.60	2.60	2.60
12 month ave earnings	5.40	5.40	5.30	5.00	4.50	3.90	3.40	3.20	2.90	2.70	2.70	2.70	2.70
5 yr PWLB	5.00	5.00	5.00	4.80	4.50	4.10	3.70	3.50	3.30	3.20	3.20	3.10	3.10
10 yr PWLB	5.00	5.00	5.00	4.80	4.40	4.10	3.80	3.60	3.50	3.40	3.30	3.30	3.30
25 yr PWLB	5.30	5.30	5.20	5.10	4.80	4.50	4.20	4.00	3.80	3.70	3.60	3.60	3.60
50 yr PWLB	5.10	5.10	5.00	4.90	4.60	4.30	4.00	3.80	3.60	3.50	3.40	3.40	3.40

Link Group Interest Rate View		27.03.23											
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	
<b>BANK RATE</b>	4.50	4.50	4.25	4.00	3.50	3.25	3.00	2.75	2.75	2.50	2.50	2.50	
3 month ave earnings	4.50	4.50	4.30	4.00	3.50	3.30	3.00	2.80	2.80	2.50	2.50	2.50	
6 month ave earnings	4.50	4.40	4.20	3.90	3.40	3.20	2.90	2.80	2.80	2.60	2.60	2.60	
12 month ave earnings	4.50	4.40	4.20	3.80	3.30	3.10	2.70	2.70	2.70	2.70	2.70	2.70	
5 yr PWLB	4.10	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.20	3.10	
10 yr PWLB	4.20	4.20	4.00	3.90	3.80	3.70	3.50	3.50	3.40	3.30	3.30	3.20	
25 yr PWLB	4.60	4.50	4.40	4.20	4.10	4.00	3.80	3.70	3.60	3.50	3.50	3.40	
50 yr PWLB	4.30	4.20	4.10	3.90	3.80	3.70	3.50	3.50	3.30	3.20	3.20	3.10	

22. LIBOR and LIBID rates ceased at the end of 2021. In a continuation of previous views, money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.
23. The Link forecast for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

## A summary overview of the future path of bank rate

24. Link's central forecast for interest rates was previously updated on 25th May and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened to a degree, especially as it moved to a more aggressive 0.5% hike in June but, with inflation remaining elevated, we anticipate that Bank Rate will need to increase to at least 5.5%, if not higher, to sufficiently slow the UK economy and loosen the labour market.
25. Moreover, Link also still anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but timing on this will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged. Link's current judgment is that rates will have to increase and stay at their peak until the second quarter of 2024 as a minimum.
26. In the upcoming months, Link's forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine and whether there are any further implications for Russia itself following the recent aborted mutiny by the Wagner group.



27. On the positive side, consumers are still estimated to be sitting on excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing somewhat better at this stage of the economic cycle than may have been expected. However, most of those excess savings 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

## PWLB RATES

28. Gilt yield curve movements have shifted upwards, especially at the shorter end of the yield curve since our previous forecast but remain relatively volatile. PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.90% to 5.60%.
29. Link view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.

## The balance of risks to the UK economy

30. The overall balance of risks to economic growth in the UK is to the downside.
31. 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, the rising gilt yields we have seen of late).
  - **The Bank of England** increases Bank Rate too fast and too far over the coming months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.
  - **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
  - **Geopolitical risks**, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.
  - **A broadening of banking sector fragilities**, which have been successfully addressed in the near-term by central banks and the market generally, but which may require further intervention if short-term interest rates stay elevated for longer than is anticipated.
32. Upside risks to current forecasts for UK gilt yields and PWLB rates: -
- Despite the recent tightening by 0.5%, the **Bank of England proves too timid** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.
  - **The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Longer-term **US treasury yields** rise strongly if inflation remains more stubborn than the market currently anticipates, pulling gilt yields up higher consequently.
- Projected **gilt issuance, inclusive of natural maturities and QT**, could be too much for the markets to comfortably digest without higher yields compensating.

## Annual Investment Strategy

33. The Treasury Management Strategy Statement (TMSS) for 2023/24, which includes the Annual Investment Strategy, was approved by the Full Council on 8 February 2023. 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
34. The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, aligned with the Council's risk appetite. In the current economic climate, over and above keeping investments short-term to cover cash flow needs, there is a benefit 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.
35. As shown by the charts below and the interest rate forecasts above, investment rates have improved dramatically during the first quarter of 2023/24 and are expected to improve further as Bank Rate continues to increase over the next few months.

## Creditworthiness.

36. There have been few changes to credit ratings over the quarter under review. However, Officers continue to closely monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

## Investment counterparty criteria

37. The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

## CDS prices

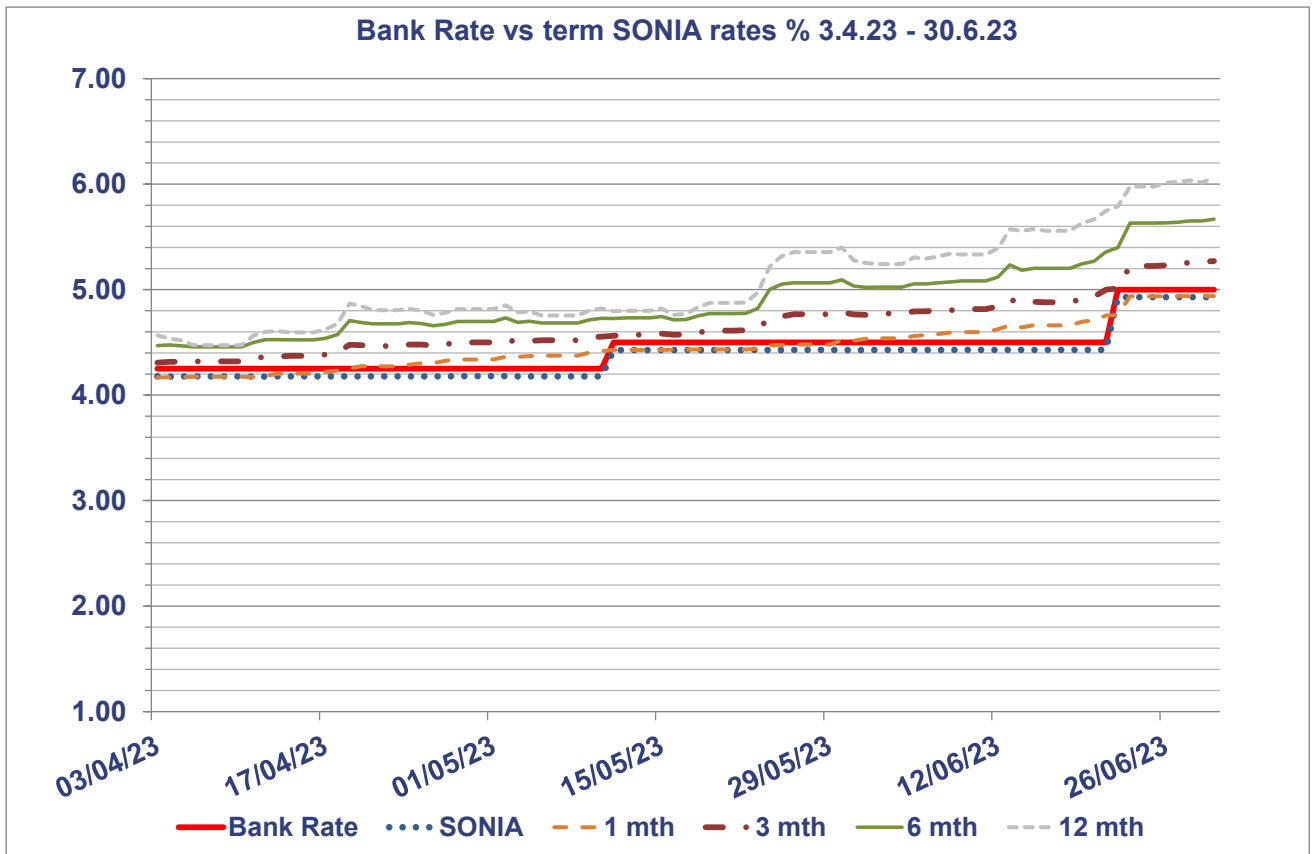
38. For UK banks, these have retreated from the spikes caused by the Truss / Kwarteng policy approach in September. Prices are not misaligned with other creditworthiness indicators, such as credit ratings. Nevertheless, it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

## Investment balances

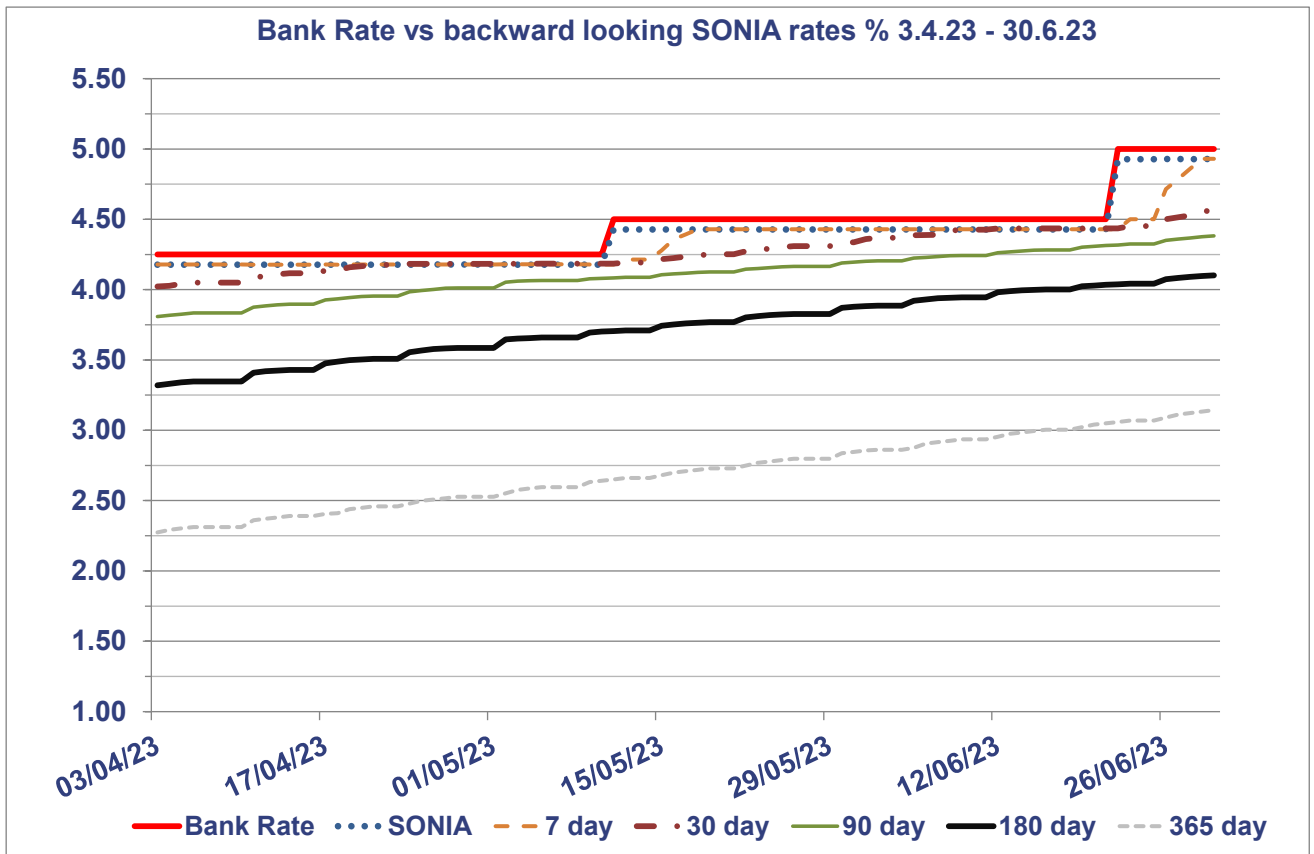
39. The average level of funds available for investment purposes during the quarter was £32.6m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme. The Council holds £3.8m core cash balances for investment purposes (i.e., funds available for more than one year).
40. The table below provides a snapshot of the investments/deposits held at 30 June 2023 (excluding those with CCLA).

Counterparty	Yield (%)	Start Date	End Date	Principal (£)	Term
Australia & NZ BCG Ltd	4.75	17/05/2023	17/08/2023	5,000,000	Fixed
DBS Bank Ltd, London	4.97	17/05/2023	17/11/2023	5,000,000	Fixed
Goldman Scahs	5.24	01/06/2023	01/12/2023	5,000,000	Fixed
Helaba Landesbank Hessen	4.56	06/06/2023	06/07/2023	5,000,000	Fixed
Northern Trust	4.08	13/02/2023	-	4,000,000	Call
Morgan Stanley	4.12	20/03/2023	-	5,000,000	Call
Lloyds Bank - Call Account	4.40	-	-	1,500,000	Call
Barclays	1.00	-	-	23	Call
Natwest	1.00	-	-	6,147	Call
Lloyds Gen	1.31	-	-	1,901,796	Call
			<b>Total</b>	<b>32,407,966</b>	

41. The weighted average return of the portfolio at 30 June 2023 was 4.43%.
42. Investment performance can be compared against the Sterling Overnight Index Averages to evaluate performance. There is a choice of using the forward looking (term) benchmarks and the backward-looking benchmarks.
43. The forward-looking benchmark reflects where the market has moved to over time, whereas the backward-looking benchmark reflects where the market was positioned when investments were placed.



FINANCIAL YEAR TO QUARTER ENDED 30/6/2023						
	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
<b>High</b>	5.00	4.93	4.94	5.27	5.67	6.06
<b>High Date</b>	22/06/2023	30/06/2023	29/06/2023	30/06/2023	30/06/2023	30/06/2023
<b>Low</b>	4.25	4.18	4.17	4.31	4.46	4.47
<b>Low Date</b>	03/04/2023	04/04/2023	03/04/2023	03/04/2023	06/04/2023	06/04/2023
<b>Average</b>	4.44	4.37	4.46	4.66	4.90	5.08
<b>Spread</b>	0.75	0.75	0.77	0.96	1.21	1.59



FINANCIAL YEAR TO QUARTER ENDED 30/06/2023							
	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
<b>High</b>	5.00	4.93	4.93	4.57	4.38	4.10	3.14
<b>High Date</b>	22/06/2023	30/06/2023	30/06/2023	30/06/2023	30/06/2023	30/06/2023	30/06/2023
<b>Low</b>	4.25	4.18	4.18	4.02	3.81	3.32	2.27
<b>Low Date</b>	03/04/2023	04/04/2023	11/04/2023	03/04/2023	03/04/2023	03/04/2023	03/04/2023
<b>Average</b>	4.44	4.37	4.34	4.27	4.11	3.74	2.70
<b>Spread</b>	0.75	0.75	0.75	0.55	0.57	0.78	0.87

44. The Council has outperformed the benchmark backward looking SONIA rate of 4.37% by 6 bps. The Council's budgeted investment return for 2023/24 is £899,000, and performance for the year to date is in line with the budget.
45. The 2023/24 budget for interest receivable is £899,000 and at 30<sup>th</sup> June we were on target for achieving £900,000. The interest receivable budget for 2022/23 was £503,000 actual interest received was £1,141,000. We are unlikely to achieve this level of income this year as cash available for investing decreases as work on the capital programme progresses.

### **CCLA Investments: Property Fund & Diversified Income Fund (DIF)**

46. The Council also had longer term investments with CCLA in a Property Fund and Diversified Income Fund.
47. The value of the Property Fund as 30 June 2023 was £1,845,178. This is £154,822 (7.7%) below the initial investment amount of £2,000,000. The dividend yield on the net asset value is 4.45%.

48. The value of the Diversified Income Fund as 30 June 2023 was £2,694,154. This is £305,846 (10.2%) below the initial investment amount of £3,000,000. The dividend yield is 3.17%.

## Loans to Other Organisations

49. As at 30 June 2023 the following longer term loans made to other organisations were outstanding:

3rd Party Organisations	Rate/ Return (%)	Start Date	End Date	Principal Outstanding as at 30/06/2023 £	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
			<b>Sub-Total</b>	<b>£1,891,641</b>	
<b>Hastings Housing Company</b>					
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
			<b>Sub-Total</b>	<b>£5,489,398</b>	
			<b>Total</b>	<b>£7,381,039</b>	

## Approved limits

50. Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30th June 2023.

## Borrowing

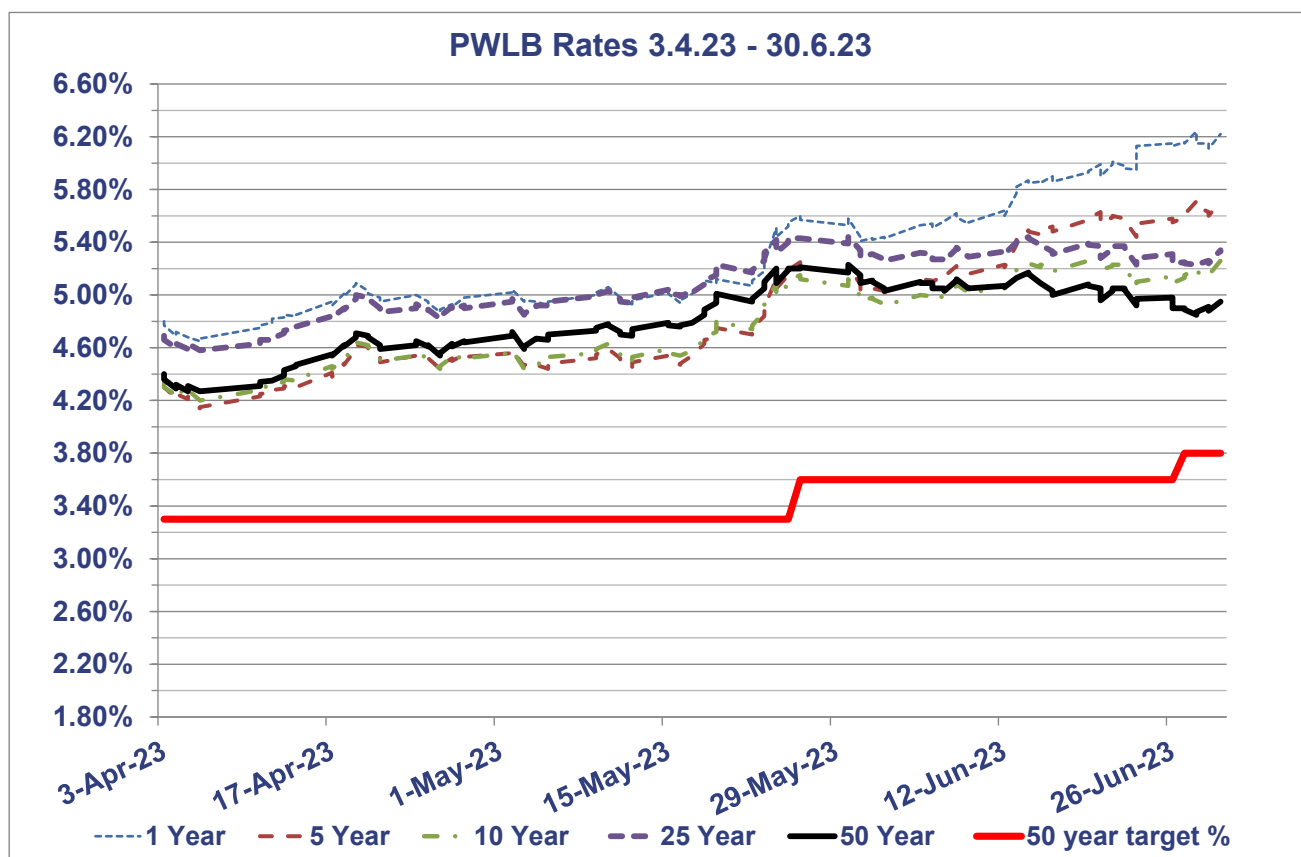
51. No borrowing was undertaken during the quarter ended 30th June 2023.
52. The Council has outstanding external debt of £65.4m comprising of 22 individual loans from the PWLB with an average rate of interest of 2.81%.
53. It is anticipated that borrowing of £24.8m will be required this financial year to fund expenditure on the capital programme. This figure is however dependant on progress made on the capital programme, any capital receipts received within the year from asset sales and the availability of cashflows and reserve balances to facilitate internal borrowing.

## PWLB maturity Certainty Rates 1st April to 30th June 2023

54. Gilt yields and PWLB rates were on a rising trend between 1st April and 30th June.
55. The 50-year PWLB Certainty Rate target for new long-term borrowing started 2023/24 at 3.30% before increasing to a peak of 3.80% in June. As can be seen, with rates elevated across the whole of the curve, it is advised to not borrow long-

term unless the Council wants certainty of rate and judges the cost to be affordable.

PWLB RATES 03.04.23 - 30.06.23 (note: the 1<sup>st</sup>/2<sup>nd</sup> April was a weekend)



HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.23 – 30.06.23

	1 Year	5 Year	10 Year	25 Year	50 Year
<b>Low</b>	4.65%	4.14%	4.20%	4.58%	4.27%
<b>Date</b>	06/04/2023	06/04/2023	06/04/2023	06/04/2023	05/04/2023
<b>High</b>	6.24%	5.71%	5.28%	5.44%	5.23%
<b>Date</b>	28/06/2023	28/06/2023	20/06/2023	30/05/2023	30/05/2023
<b>Average</b>	5.32%	4.87%	4.78%	5.09%	4.82%
<b>Spread</b>	1.59%	1.57%	1.08%	0.86%	0.96%

### Debt rescheduling

56. Debt rescheduling opportunities have increased significantly in the current quarter where gilt yields, which underpin PWLB rates and market loans, have risen materially. Members will be advised if there is value to be had by rescheduling or repaying a part of the debt portfolio however given the need to borrow to fund the capital programme this is unlikely without receiving significant capital receipts.

### Compliance with Treasury and Prudential Limits

57. The prudential and treasury Indicators are shown in Appendix 1.

58. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the quarter ended 30th June 2023, the Council has operated within the treasury and prudential indicators set out in the Council's



Treasury Management Strategy Statement for 2023/24. The Chief Finance Officer reports that no difficulties are envisaged for the current or future years in complying with these indicators.

59. All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

## Timetable of Next Steps

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

Action	Key milestone	Due date (provisional)	Responsible
Treasury Management Mid-Year Report	Report	November 2023	Chief Finance Officer
Treasury Management Update Q3	Report	February 2023	Chief Finance Officer
Treasury Management Outturn Report	Report	June 2023	Chief Finance Officer

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### Wards Affected

None.

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### 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

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### Additional Information

Treasury Management and Annual Investment Strategy 2023/24  
 CIPFA - Treasury Management Code of Practice  
 CIPFA - The Prudential Code

Appendix 1 – Prudential Indicators

Appendix 2 – Approved countries for investments as of 30th June 2023

**Officer to Contact**

Officer Name: Simon Jones, Deputy Chief Finance Officer  
Officer Email Address; [simon.jones@hastings.gov.uk](mailto:simon.jones@hastings.gov.uk)



## 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 but updated with the latest forecasts) 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
<b>Authorised Limit for external debt</b>					
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
<b>TOTAL</b>	<b>115,000</b>	<b>115,000</b>	<b>140,000</b>	<b>140,000</b>	<b>140,000</b>
<b>Operational Boundary for external debt</b>					
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
<b>TOTAL</b>	<b>110,000</b>	<b>110,000</b>	<b>135,000</b>	<b>135,000</b>	<b>135,000</b>

The Council's external borrowing at 30 June 2023 amounted to £65,421,204 which is well within approved borrowing limits.

It is however worth noting that although the Council has the ability to borrow up to £135m it is very important to consider affordability. Borrowing to this level would only be possible if the capital schemes invested in were to generate a sufficient level of income to cover the MRP and interest costs at a level within the Council's risk appetite. To reduce pressure on the revenue budget it would be preferable for the Council to look to fund the capital programme via capital receipts from asset disposals rather than additional borrowing.

<b>Interest Rate Exposures</b>	<b>2022/23 Upper</b>	<b>2023/24 Upper</b>	<b>2024/25 Upper</b>
Limits on fixed interest rates based on <b>net</b> debt	100%	100%	100%
Limits on variable interest rates based on <b>net</b> 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%
<b>Maturity Structure of fixed interest rate borrowing 2023/24</b>			
	<b>Lower</b>	<b>Upper</b>	
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%	
<b>Maturity Structure of variable interest rate borrowing 2023/24</b>			
	<b>Lower</b>	<b>Upper</b>	
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%	

Based on the current budget position and the forecast outturn there is no need to increase the Authorised Limit or the Operational Boundary at the current time. Likewise there is no need to make any amendments to the Council's interest rate exposures or debt maturity structures at the current time.

### **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.

<b>Prudential Indicator: Financing Cost to Net Revenue Stream</b>	<b>2021/22 Actual</b>	<b>2022/23 Actual</b>	<b>2023/24 Budget</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>
<b>Financing Costs</b>	£'000	£'000	£'000	£'000	£'000	£'000
1. Interest Charged to General Fund	1,825	1,862	2,811	2,435	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)	(1,141)	(824)	(900)	(618)	(618)
5. Amounts payable or receivable in respect of financial derivatives	-	-	-	-	-	-
6. Minimum Revenue Provision (MRP) / Voluntary Revenue Provision (VRP)	1,668	870	1,950	904	939	976
7. Depreciation/Impairment that are charged to the amount to be met from government grants and local taxpayers	-	-	-	-	-	-
<b>Total</b>	<b>2,953</b>	<b>1,591</b>	<b>3,937</b>	<b>2,439</b>	<b>4,002</b>	<b>4,023</b>
<b>Net Revenue Stream</b>						
Amount to be met from government grants and local taxpayers	14,253	13,370	14,821	13,637	13,910	14,188
<b>Ratio</b>						
<b>Financing Cost to Net Revenue Stream</b>	<b>21%</b>	<b>12%</b>	<b>27%</b>	<b>18%</b>	<b>29%</b>	<b>28%</b>

Note: Outturn figures for 2021/22 and 2022/23 are unaudited

This prudential indicator shows that the ratio of financing costs to the net revenue stream is increasing over time. 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.

It should be noted that due to lower than budgeted interest and MRP charges and greater than budgeted investment income the ratio of financing costs to the net revenue stream for 2023/24 has reduced from 27% at the time of setting the budget (and included in the Treasury Management strategy) to 18% now.

## Other Prudential Indicators

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

Gearing Calculation	Actual 2020-21 £'000	Actual 2021-22 £'000	Actual 2022-23 £'000	Budget 2023-24 £'000	Estimate 2023-24 £'000	Estimate 2024-25 £'000	Estimate 2025-26 £'000	Operational Boundary £'000
Capital Expenditure			9,661	29,322	29,322	15,324	2,591	
New Borrowing			-	24,837	24,837	11,471	485	
Net Assets	88,861	108,409	118,070	156,610	147,392	162,715	165,306	211,291
Long Term Assets	182,088	185,420	195,081	233,621	224,403	239,726	242,317	288,302
Capital Financing Requirement	72,683	71,970	71,100	97,524	95,033	105,337	104,535	135,000
<b>RATIOS:</b>								
<b>Debt: Net Assets</b>	<b>82%</b>	<b>66%</b>	<b>60%</b>	<b>62%</b>	<b>64%</b>	<b>65%</b>	<b>63%</b>	<b>64%</b>
<b>Debt: Long Term Assets</b>	<b>40%</b>	<b>39%</b>	<b>36%</b>	<b>42%</b>	<b>42%</b>	<b>44%</b>	<b>43%</b>	<b>47%</b>

The forecast ratio of debt to net assets for 2023/24 has increased from 62% at the time of setting the budget to a forecast of 64% now. This is due to a lower level of assets being used in the calculation as not all the capital expenditure plans of the 2022/23 budget were achieved in the year.

## Appendix 2 - Approved countries for investments as of 30th June 2023

### *Based on lowest available rating*

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)

AA-

- Belgium
- France (downgraded by Fitch on 9<sup>th</sup> May 2023)
- Qatar
- **U.K.**

## Appendix 3 – COMMON ABBREVIATIONS USED FINANCE REPORTS

**CE:** Capital Economics - is the economics consultancy that provides Link Group, Treasury solutions, with independent economic forecasts, briefings and research.

**CFR:** Capital Financing Requirement - the council's annual underlying borrowing need to finance capital expenditure and a measure of the council's total outstanding indebtedness.

**CIPFA:** Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.

**CPI:** consumer price index – the official measure of inflation adopted as a common standard by countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

**DLUHC:** the Department for Levelling Up, Housing and Communities - the Government department that directs local authorities in England.

**ECB:** European Central Bank - the central bank for the Eurozone

**EU:** European Union

**EZ:** Eurozone -those countries in the EU which use the euro as their currency

**Fed:** the Federal Reserve System, often referred to simply as "the Fed," is the central bank of the United States. It was created by the Congress to provide the nation with a stable monetary and financial system.

**FOMC:** the Federal Open Market Committee – this is the branch of the Federal Reserve Board which determines monetary policy in the USA by setting interest rates and determining quantitative easing policy. It is composed of 12 members--the seven members of the Board of Governors and five of the 12 Reserve Bank presidents.

**GDP:** gross domestic product – a measure of the growth and total size of the economy.

**G7:** the group of seven countries that form an informal bloc of industrialised democracies--the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom--that meets annually to discuss issues such as global economic governance, international security, and energy policy.

**Gilts:** gilts are bonds issued by the UK Government to borrow money on the financial markets. Interest paid by the Government on gilts is called a coupon and is at a rate that is fixed for the duration until maturity of the gilt, (unless a gilt is index linked to inflation); while the coupon rate is fixed, the yields will change inversely to the price of gilts i.e., a rise in the price of a gilt will mean that its yield will fall.

**HRA:** housing revenue account.

**IMF:** International Monetary Fund - the lender of last resort for national governments which get into financial difficulties.

**MPC:** the Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the



United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing.

**MRP:** minimum revenue provision - a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).

**PFI:** Private Finance Initiative – capital expenditure financed by the private sector i.e., not by direct borrowing by a local authority.

**PWLB:** Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

**QE/QT:** quantitative easing – is an unconventional form of monetary policy where a central bank creates new money electronically to buy financial assets, such as government bonds, (but may also include corporate bonds). This process aims to stimulate economic growth through increased private sector spending in the economy and also aims to return inflation to target. These purchases increase the supply of liquidity to the economy; this policy is employed when lowering interest rates has failed to stimulate economic growth to an acceptable level and to lift inflation to target. Once QE has achieved its objectives of stimulating growth and inflation, QE will be reversed by selling the bonds the central bank had previously purchased, or by not replacing debt that it held which matures. This is called quantitative tightening. The aim of this reversal is to ensure that inflation does not exceed its target once the economy recovers from a sustained period of depressed growth and inflation. Economic growth, and increases in inflation, may threaten to gather too much momentum if action is not taken to ‘cool’ the economy.

**RPI:** the Retail Price Index is a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. It was the UK standard for measurement of inflation until the UK changed to using the EU standard measure of inflation – Consumer Price Index. The main differences between RPI and CPI is in the way that housing costs are treated and that the former is an arithmetical mean whereas the latter is a geometric mean. RPI is often higher than CPI for these reasons.

**SONIA:** the Sterling Overnight Index Average. Generally, a replacement set of indices (for LIBID) for those benchmarking their investments. The benchmarking options include using a forward-looking (term) set of reference rates and/or a backward-looking set of reference rates that reflect the investment yield curve at the time an investment decision was taken.

**TMSS:** the annual treasury management strategy statement reports that all local authorities are required to submit for approval by the full council before the start of each financial year.

**VRP:** a voluntary revenue provision to repay debt, in the annual budget, which is additional to the annual MRP charge, (see above definition).

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