Public Document Pack

Audit Committee

Monday, 11th November, 2024
at 5.00 pm

PLEASE NOTE TIME OF MEETING

This meeting is open to the public

Members of the Committee

Councillor Leggett (Chair)
Councillor Chapman (Vice-Chair)
Councillor Evemy
Councillor M Bunday
Councillor Powell-Vaughan

Contacts

Director of Legal and Governance
Richard Ivory
Tel. 023 8083 2794
Email: richard.ivory@southampton.gov.uk

Democratic Support Officer
Maria McKay
Tel. 023 8083 3899
Email: maria.mckay@southampton.gov.uk

PUBLIC INFORMATION

Role of the Audit Committee

Information regarding the role of the Committee's is contained in Part 2 (Articles) of the Council's Constitution.
[02 Part 2 - Articles]
It includes at least one Councillor from each of the political groups represented on the Council, and at least one independent person, without voting rights, who is not a Councillor or an Officer of the Council.

Access – Access is available for disabled people. Please contact the Democratic Support Officer who will help to make any necessary arrangements.

Public Representations At the discretion of the Chair, members of the public may address the meeting on any report included on the agenda in which they have a relevant interest. Any member of the public wishing to address the meeting should advise the Democratic Support Officer (DSO) whose contact details are on the front sheet of the agenda

Southampton: Corporate Plan 2022-2030 sets out the four key outcomes:

- Communities, culture & homes - Celebrating the diversity of cultures within Southampton; enhancing our cultural and historical offer and using these to help transform our communities.
- Green City - Providing a sustainable, clean, healthy and safe environment for everyone. Nurturing green spaces and embracing our waterfront.
- Place shaping - Delivering a city for future generations. Using data, insight and vision to meet the current and future needs of the city.
- Wellbeing - Start well, live well, age well, die well; working with other partners and other services to make sure that customers get the right help at the right time

Smoking policy – The Council operates a no-smoking policy in all civic buildings.

Mobile Telephones:- Please switch your mobile telephones or other IT devices to silent whilst in the meeting

Use of Social Media:- The Council supports the video or audio recording of meetings open to the public, for either live or subsequent broadcast. However, if, in the Chair's opinion, a person filming or recording a meeting or taking photographs is interrupting proceedings or causing a disturbance, under the Council's Standing Orders the person can be ordered to stop their activity, or to leave the meeting.
By entering the meeting room you are consenting to being recorded and to the use of those images and recordings for broadcasting and or/training purposes. The meeting may be recorded by the press or members of the public.
Any person or organisation filming, recording or broadcasting any meeting of the Council is responsible for any claims or other liability resulting from them doing so.
Details of the Council's Guidance on the recording of meetings is available on the Council's website.

Dates of Meetings: Municipal Year:

2024	2025
29 July	27 January
30 September	7 April
11 November	
23 December	

CONDUCT OF MEETING

Terms of Reference

The terms of reference of the Audit Committee are contained in Part 3 of the Council's Constitution.

03 - Part 3 - Responsibility for Functions

Rules of Procedure

The meeting is governed by the Council Procedure Rules as set out in Part 4 of the Constitution.

Business to be discussed

Only those items listed on the attached agenda may be considered at this meeting.

Quorum

The minimum number of appointed Members required to be in attendance to hold the meeting is 3.

DISCLOSURE OF INTERESTS

Members are required to disclose, in accordance with the Members' Code of Conduct, ***both*** the existence ***and*** nature of any "Disclosable Pecuniary Interest" or "Other Interest" they may have in relation to matters for consideration on this Agenda.

DISCLOSABLE PECUNIARY INTERESTS

A Member must regard himself or herself as having a Disclosable Pecuniary Interest in any matter that they or their spouse, partner, a person they are living with as husband or wife, or a person with whom they are living as if they were a civil partner in relation to:

(i) Any employment, office, trade, profession or vocation carried on for profit or gain.

(ii) Sponsorship:

Any payment or provision of any other financial benefit (other than from Southampton City Council) made or provided within the relevant period in respect of any expense incurred by you in carrying out duties as a member, or towards your election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.

(iii) Any contract which is made between you / your spouse etc (or a body in which the you / your spouse etc has a beneficial interest) and Southampton City Council under which goods or services are to be provided or works are to be executed, and which has not been fully discharged.

(iv) Any beneficial interest in land which is within the area of Southampton.

(v) Any license (held alone or jointly with others) to occupy land in the area of Southampton for a month or longer.

(vi) Any tenancy where (to your knowledge) the landlord is Southampton City Council and the tenant is a body in which you / your spouse etc has a beneficial interests.

(vii) Any beneficial interest in securities of a body where that body (to your knowledge) has a place of business or land in the area of Southampton, and either:

a) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body, or
b) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you / your spouse etc has a beneficial interest that exceeds one hundredth of the total issued share capital of that class.

Other Interests

A Member must regard himself or herself as having an, 'Other Interest' in any membership of, or occupation of a position of general control or management in:

Any body to which they have been appointed or nominated by Southampton City Council

Any public authority or body exercising functions of a public nature

Any body directed to charitable purposes

Any body whose principal purpose includes the influence of public opinion or policy

Principles of Decision Making

All decisions of the Council will be made in accordance with the following principles:-

- proportionality (i.e. the action must be proportionate to the desired outcome);
- due consultation and the taking of professional advice from officers;
- respect for human rights;
- a presumption in favour of openness, accountability and transparency;
- setting out what options have been considered;
- setting out reasons for the decision; and
- clarity of aims and desired outcomes.

In exercising discretion, the decision maker must:

- understand the law that regulates the decision making power and gives effect to it. The decision-maker must direct itself properly in law;
- take into account all relevant matters (those matters which the law requires the authority as a matter of legal obligation to take into account);
- leave out of account irrelevant considerations;
- act for a proper purpose, exercising its powers for the public good;
- not reach a decision which no authority acting reasonably could reach, (also known as the "rationality" or "taking leave of your senses" principle);
- comply with the rule that local government finance is to be conducted on an annual basis. Save to the extent authorised by Parliament, 'live now, pay later' and forward funding are unlawful; and
- act with procedural propriety in accordance with the rules of fairness.

AGENDA

1 APOLOGIES

To receive any apologies.

2 DISCLOSURE OF PERSONAL AND PECUNIARY INTERESTS

In accordance with the Localism Act 2011, and the Council's Code of Conduct, Members to disclose any personal or pecuniary interests in any matter included on the agenda for this meeting.

NOTE: Members are reminded that, where applicable, they must complete the appropriate form recording details of any such interests and hand it to the Democratic Support Officer.

3 STATEMENT FROM THE CHAIR

4 MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING) (Pages 1 - 2)

To approve and sign as a correct record the Minutes of the meeting held on 30 September 2024, and to deal with any matters arising, attached.

5 REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT MID-YEAR 2024/25 (Pages 3 - 40)

The report of Executive Director Enabling Services & S151 Officer to inform the Committee of the Treasury Management activities and performance for 2024/25.

6 INTERNAL AUDIT PROGRESS REPORT (Pages 41 - 56)

Report of the Chief Internal Audit reporting on the 2024/25 Audit Plan progress financial year to date.

7 CIPFA RESILIENCE AND FINANCIAL MANAGEMENT REVIEW - PROGRESS ON IMPLEMENTING RECOMMENDATIONS (Pages 57 - 66)

Report of the Executive Director Enabling Services & 151 Officer to note progress and next steps to implement the remainder of the recommendations of the review as part of the Reshaping Financial Management programme.

Friday 1 November 2024 — Director Legal and Governance

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AUDIT COMMITTEE

MINUTES OF THE MEETING HELD ON 30 SEPTEMBER 2024

Present: Councillors M Bunday, Chapman, Evemy and Leggett (Chair)

6. **MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)**

RESOLVED: that the minutes for the Committee meeting on 29 July 2024 be approved and signed as a correct record.

Matters Arising – Minute 3 – It was noted that the detailed training for Members of the Committee on the Statement of Accounts had not yet taken place. The programme had been drafted and would take place prior to signing off the 2023/24 Accounts.

7. **STATEMENT OF ACCOUNTS 2022/23**

The Committee considered the report of the Executive Director Enabling Services and S151 Officer detailing the Statement of Accounts 2022/23. The report detailed changes to the accounts arising from an audit adjustment identified during the audit of the 23/24 accounts that impacted on previous years.

RESOLVED:

(i) That the changes made to the Statement of Accounts 2022/23, and Annual Governance Statement included within, since the draft version presented to the Governance Committee in July 2023 be noted;
(ii) That the updated Statement of Accounts 2022/23 and Annual Governance Statement included within it be approved;
(iii) That the Executive Director Enabling Services & S151 Officer, after consultation with the Chair of this Committee be authorised to make any further changes to the Statement of Accounts 2022/23 and Annual Governance Statement that may arise during the completion of external audit procedures prior to publication; and
(iv) That the template letter of representation provided by external audit attached at Appendix 2 of the report be noted.

8. **EXTERNAL AUDIT PROGRESS UPDATE**

The Committee received and noted the report of the External Auditor detailing the External Audit Progress Report. The Committee noted that there was a delay in the 23/24 audit results which was now requiring additional resources over the next few weeks to support reaching its completion date of the end of February 2025 at the latest. It was noted that the additional resources would come with a financial cost and the Committee requested that the next update report included the financial cost of the additional resources needed to support the audit.

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DECISION-MAKER:		**AUDIT COMMITTEE**		
SUBJECT:		**REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT MID-YEAR 2024/25**		
DATE OF DECISION:		**11 NOVEMBER 2024**		
REPORT OF:		**EXECUTIVE DIRECTOR ENABLING SERVICES & S151 OFFICER**		
CONTACT DETAILS				
Executive Direct	**Title:**	**Executive Director Enabling Services & S151 Officer**		
	Name:	**Mel Creighton**	**Tel:**	**023 80833528**
	E-mail:	**Mel.Creighton@southampton.gov.uk**		
AUTHOR:	Title:	**Director of Finance**		
	Name:	**Richard Williams**	Tel:	**023 8083 2936**
	E-mail:	**Richard.Williams@southampton.gov.uk**		

STATEMENT OF CONFIDENTIALITY		
NOT APPLICABLE		
BRIEF SUMMARY		
The purpose of this report is to inform Audit Committee of the Treasury Management activities and performance for 2024/25 against the approved Prudential Indicators for External Debt and Treasury Management.		
RECOMMENDATIONS:		
It is recommended that Audit committee:		
	(i)	Notes the mid-year position for Treasury Management (TM) activities and Prudential Indicators.
	(ii)	Notes that the continued proactive approach to TM has led to reductions in borrowing costs and safeguarded investment income during the year.
REASONS FOR REPORT RECOMMENDATIONS		
1.	The Treasury Management Code requires public sector authorities to determine an annual TM Strategy and as a minimum, formally report on their treasury activities and arrangements to Audit Committee mid-year and after the year-end. This report fulfils that requirement and enables those tasked with implementing policies and undertaking transactions to demonstrate they have properly fulfilled their responsibilities and enable those with ultimate responsibility/audit of the TM function to scrutinise and assess its effectiveness and compliance with policies and objectives.	
2.	In addition to the formal reports to Audit Committee, from 1st April 2023 the 2021 Code introduced mandatory quarterly reporting of the TM prudential indicators and are included in the Financial Monitoring reports presented to Cabinet. The next update – based on quarter 2 and therefore the mid-year position will be presented in November 2024.	

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED		
3.	No alternative options are relevant to this report.	
DETAIL (Including consultation carried out)		
	CONSULTATION	
4.	Not applicable.	
	BACKGROUND	
5.	The Local Government Act 2003 introduced a system for borrowing based largely on self-regulation by local authorities themselves. The basic principle of the new system is that local authorities will be free to borrow if their capital spending plans are affordable, prudent and sustainable.	
6.	The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice a year (mid-year and at year end). It also requires that monitoring of the TM indicators should be reported quarterly (along with the other prudential indicators) as part of the council's general revenue and capital monitoring.	
7.	The Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The council's Capital Strategy, complying with CIPFA's requirement, along with the TM strategy was approved by full Council on 6 March 2024.	
8.	Overall responsibility for TM remains with the Council. No activity is without risk; the effective identification and management of risk are integral to the Council's TM objectives. The council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.	
9.	This report:	
	a)	is prepared in accordance with the revised CIPFA TM Code and the revised Prudential Code;
	b)	presents details of capital financing, borrowing, debt rescheduling and investment transactions;
	c)	reports on the risk implications of treasury decisions and transactions;
	d)	gives details of the mid-year position on TM in 2024/25; and
	e)	confirms compliance with treasury limits and Prudential Indicators.
10.	The report and appendices highlight that:	
	a)	Borrowing activities have been undertaken within the approved borrowing limits and there has been full compliance with the approved Prudential Indicators.
	b)	Due to the increasing borrowing requirement the overall treasury strategy is to minimise both external borrowing and investments and to only borrow to the level of net borrowing requirement. The reasons for

		this are to reduce credit risk, take pressure off the Council's lending list and avoid the cost of carry existing in the current interest rate environment. Throughout the period, capital expenditure levels, market conditions and interest rate levels were monitored to minimise borrowing costs over the medium to longer term and to maintain stability.
	c)	CIPFA's Treasury Management in the Public Services Code of Practice and associated guidance notes define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business. As reported previously SCC holds £27M in the CCLA property fund which was reviewed following the revised CIPFA guidance, and it still meets our medium term investments objectives. This will remain under review in conjunction with our TM advisors. For further details on the funds' performance see Appendix 2, paragraphs 37 to 43.
	d)	Total TM investment returns for 2024/25 are currently forecast at £2.7M and during the period April to September achieved an average return of 4.78%.
	e)	The differential between debt costs and investment earnings continued to widen, resulting in the continued use of internal resources in lieu of borrowing as the most cost-effective means of financing capital expenditure. The average rate for repayment of debt, (the Consolidated Loans & Investment Account Rate – CLIA), is forecast at 3.11% this is higher than last year (2.98%) but is in line with strategy due to new borrowing being taken at higher rates than maturing debt and previous new borrowing. Borrowing is deferred until it is actually required to minimise costs unless a good opportunity was to present itself. It is the intention to continue to monitor both short term and long term markets during 2024/25 whilst there is so much volatility in markets.
	f)	Since 2012, the Council has pursued a strategy of internal borrowing – minimising external borrowing by running down its own investment balances and only borrowing short term to cover cash flow requirements. This has both reduced the credit risk exposure and saved the Council money in terms of net interest costs. Net interest costs being the difference between interest received on investments and interest payable on borrowing
	g)	In achieving interest rate savings, the Council is exposed to interest rate risk by taking out variable debt. This was and continues to be financially favourable in current markets but does mean that close monitoring of the markets is required to ensure that the Council can act quickly should the situation begin to change, for example, during the last 2 years we have borrowed £60M long term to introduce some certainty into the loan portfolio in a volatile interest environment.
	h)	Forecast net loan debt will increase during 2024/25 from £330M to £468M (£138M) as detailed in Appendix 2, paragraph 1. This increase is largely due to the assumption at this stage that Exceptional Financial Support (EFS) will be used to its maximum and

funded through borrowing. This borrowing requirement will reduce in the event we do not utilise the full EFS allocation or use other capital resources e.g. capital receipts generated by the ADDP programme, to part fund EFS.

Actual debt charges for the year for borrowing (excluding HCC transferred debt and PFI schemes) is forecast at £12.08M at an average interest rate of 3.11%

11. Appendix 1 summarises the economic outlook and events in the context of which the Council operated its treasury function during 2024/25 to date.

12. Appendix 2 summarises treasury activity during the year and covers:

- Borrowing Requirement and Debt Management
- Investment Activity
- Non – Treasury Investments

COMPLIANCE WITH PRUDENTIAL INDICATORS

13. It can be confirmed that the Council has complied with its Prudential Indicators for 2024/25, approved by Council on 6 March 2024.

14. In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of TM activity during 2024/25. None of the Prudential Indicators has been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield. The table below summarises the Key Indicators, further details can be seen in appendix 4.

15. ***Table1: Key Prudential Indicators***

Indicator	Limit	Actual at 30/9/2024
Authorised Limit for external debt	£810M	£370M
Operational Limit for external debt	£690M	£370M
Maximum external borrowing year to date	£750M	£317M
Limit of fixed interest debt	100%	99%
Limit of variable interest debt	50%	1%
Limit for long term investments	£30M	£28M

RESOURCE IMPLICATIONS

<u>Capital/Revenue</u>

16. The capital and revenue implications are considered as part of the quarterly financial monitoring reports and MTFS updates.

17. The interest cost of financing the long term and short term loan debt is charged corporately to the Income and Expenditure account and is forecast to be £12.08M in 2024/25, of which £6.75M relates to the HRA. This is lower than originally budgeted mainly due to no new long term borrowing being taken to date as we continued to make use of internal balances and used short term borrowing as they provided value for money and minimised loan costs as long term debt rates are expected to fall later in year.

18.	In addition, interest earned on temporary balances invested externally is credited to the Income and Expenditure account. Forecast income is now £2.54M, slightly higher (£0.31M) than originally budgeted £2.23M.
19.	The expenses of managing the council's loan debt consist of brokerage and internal administration charges. These are pooled and borne by the HRA and General Fund proportionately to the related loan debt. Debt management expenses for 2024/25 are forecast to be £0.25M.
20.	A sustained favourable variance of £0.94M, due to reduced capital financing costs and higher investment returns has been transferred to the centrally held contingency to help reduce the reliance on Exceptional Financial Support (EFS), as agreed by Cabinet on 29th October 2024.
21.	To cover future risk of any loss on the CCLA pooled property fund due to the expectation that statutory override will cease in 2026/27, £0.80M has transferred to the Investment Risk Reserve, with a further transfer of £0.40M to be made in 2024/25. Further detail can be found in Appendix 2 paragraphs 37 to 43.
22.	On 10th April 2024 amended legislation and revised statutory guidance were published on Minimum Revenue Provision (MRP). The majority of the changes take effect from the 2025/26 financial year, although there is a requirement that for capital loans given on or after 7th May 2024 sufficient MRP must be charged so the outstanding CFR in respect of the loan is no higher than the principal outstanding less the Expected Credit Loss (ECL) charge for the loan. The regulations also require that local authorities cannot exclude any amount of their CFR from their MRP calculation unless by an exception set out in law. Capital receipts cannot be used to directly replace, in whole or part, the prudent charge to revenue for MRP (there are specific exceptions for capital loans and leased assets). The MRP policy is reviewed and updated annually, and our TM advisors have offered to carry out an MRP health check to ensure that the policy complies with the updated guidance, provides a prudent level of MRP and identify any opportunities to recalculate the annual charge.
Property/Other	
23.	There are no specific property implications arising from this report.
LEGAL IMPLICATIONS	
Statutory power to undertake proposals in the report:	
24.	Local Authority borrowing is regulated by Part 1, of the Local Government Act 2003, which introduced the new Prudential Capital Finance System. From 1 April 2004, investments are dealt with, not in secondary legislation, but through guidance. Similarly, there is guidance on prudent investment practice, issued by the Secretary of State under Section 15(1)(a) of the 2003 Act. A local authority has the power to invest for "any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs". The reference to the "prudent management of its financial affairs" is included to cover investments, which are not directly linked to identifiable statutory functions but are simply made in the course of treasury management. This also allows the temporary investment of funds borrowed for the purpose of expenditure in the reasonably near future; however, the speculative procedure of borrowing purely in order to invest and make a return remains unlawful.

Other Legal Implications:	
25.	None.
RISK MANAGEMENT IMPLICATIONS	
26.	Not Applicable
POLICY FRAMEWORK IMPLICATIONS	
27.	Not applicable. It should be note that the Statement of Accounts has been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the UK 2024/25.

KEY DECISION?	~~Yes~~/No
WARDS/COMMUNITIES AFFECTED:	NONE

SUPPORTING DOCUMENTATION

Appendices	
1.	2024/25 Economic Background
2.	Treasury Activity during 2024/25
3.	Southampton Benchmarking 30th September 2024
4.	Compliance with Prudential Indicators
5.	Glossary of Treasury Terms

Documents In Members' Rooms	
1.	None.

Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessments (ESIA) to be carried out.	~~Yes~~/No
Privacy Impact Assessment	
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	~~Yes~~/No

Other Background Documents

Equality Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	The Medium Term Financial Strategy, Budget Capital Programme 2024/25 to 2028/29 – reported to Council 6 March 2024	

External Factors Impacting on Treasury during 2024/25

A summary of the external factors in 2024-25 is provided by the council's treasury advisor, Arlingclose Ltd, and is detailed below. This commentary was provided prior to the Chancellor's Autumn Statement on 30 October, and any relevant updates from that Statement will be provided verbally to the Committee on the day.

Economic background: UK headline consumer price inflation remained around the Bank of England (BoE) target later in the period, falling from an annual rate of 3.2% in March to 2.0% in May and then rebounding marginally to June to 2.2% in July and August, as was expected, due to base effects from energy prices. Core and services price inflation remained higher at 3.6% and 5.6% respectively in August.

The UK economy continued to expand over the period, albeit slowing from the 0.7% gain in the first calendar quarter to 0.5% (downwardly revised from 0.6%) in the second. Of the monthly figures, the economy was estimated to have registered no growth in July.

Labour market data was slightly better from a policymaker perspective, showing an easing in the tightness of the job market, with inactivity rates and vacancies declining. However, a degree of uncertainty remains given ongoing issues around the data collected for the labour force survey by the Office for National Statistics. Figures for the three months to July showed the unemployment rate fell to 4.1% (3mth/year) from 4.4% in the previous three-month period while the employment rate rose to 74.8% from 74.3%.

Over the same period average regular earnings (excluding bonuses) was 5.1%, down from 5.4% in the earlier period, and total earnings (including bonuses) was 4.0% (this figure was impacted by one-off payments made to NHS staff and civil servants in June and July 2023). Adjusting for inflation, real regular pay rose by 2.2% in May to July and total pay by 1.1%.

With headline inflation lower, the BoE cut Bank Rate from 5.25% to 5.00% at the August Monetary Policy Committee (MPC) meeting. The decision was finely balanced, voted by a 5-4 majority with four members preferring to hold at 5.25%. At the September MPC meeting, committee members voted 8-1 for no change at 5.00%, with the lone dissenter preferring Bank Rate to be cut again to 4.75%. The meeting minutes and vote suggested a reasonably hawkish tilt to rates, with sticky inflation remaining a concern among policymakers.

The latest BoE Monetary Policy Report, published in August, showed policymakers expected GDP growth to continue expanding during 2024 before falling back and moderating from 2025 to 2027. Unemployment was forecast to stay around 4.5% while inflation was shown picking up in the latter part of 2024 as the previous years' energy price declines fell out of the figures before slipping below the 2% target in 2025 and remaining there until early 2027.

Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate would steadily fall from the 5.25% peak, with the first cut in August being followed by a series of further cuts, with November 2024 the likely next one, taking Bank Rate down to around 3% by the end of 2025.

The US Federal Reserve (the Fed) also cut interest rates during the period, reducing the Federal Funds Rate by 0.50% to a range of 4.75%-5.00% at its policy meeting in September. The forecasts released at the same time by the central bank suggested a further 1.00% of easing is expected by the end of the calendar year, followed by the same amount in 2025 and then a final 0.50% of cuts during 2026.

Having first reduced interest rates in June, the European Central Bank (ECB) held steady in July before cutting again in September, reducing its main refinancing rate to 3.65% and its deposit rate to 3.50%. Unlike the Fed, the ECB has not outlined a likely future path of rates, but inflation projections remain in line with the central bank's previous forecasts where it will remain above its 2% target until 2026 on an annual basis.

Financial markets: Sentiment in financial markets continued to mostly improve over the period, but the ongoing trend of bond yield volatility remained. The general upward trend in yields in the early part of the period was reversed in the later part, and yields ended the half-year not too far from where they started. However, the volatility in response to economic, financial and geopolitical issues meant it was a bumpy ride for bond investors during that time.

Over the period, the 10-year UK benchmark gilt yield started at 3.94% and ended at 4.00% but hit a high of 4.41% in May and a low of 3.76% in mid-September. While the 20-year gilt started at 4.40% and ended at 4.51% but hit a high of 4.82% in May and a low of 4.27% in mid-September. The Sterling Overnight Rate (SONIA) averaged 5.12% over the period to 30th September.

Credit review: Arlingclose maintained its advised recommended maximum unsecured duration limit on all banks on its counterparty list at 100 days.

Having had its outlook increased by Fitch and ratings by S&P earlier in the period, Moody's upgraded Transport for London's rating to A2 from A3 in July.

Moody's also placed National Bank of Canada on Rating Watch for a possible upgrade, revising the outlook on Standard Chartered to Positive, the outlook to Negative on Toronto Dominion Bank, and downgrading the rating on Close Brothers to A1 from Aa3.

S&P upgraded the rating on National Bank of Canada to A+ from A, and together with Fitch, the two rating agencies assigned Lancashire County Council with a rating of AA- and A+ respectively.

Credit default swap prices were generally lower at the end of the period compared to the beginning for the vast majority of the names on UK and non-UK lists. Price volatility over the period was also generally more muted compared to previous periods.

Financial market volatility is expected to remain a feature, at least in the near term and, credit default swap levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remain under constant review.

Forecast interest Rates (September 2024)

The following forecast interest forecast are set against a background of:

- As expected, the MPC held Bank Rate at 5.0% in September. While the "no change" majority of eight to one was unexpectedly strong, the minutes suggested some policy makers believed a gradual approach to loosening policy was warranted given the persistence of services inflation, rather than no loosening at all.
- This is in line with our long-held view that Bank Rate will initially reduce gradually before a more rapid decline in 2025 as services inflation eases.
- CPI inflation remained just above the 2% target in August, the Bank expects this to rise to 2.5% by the end of the year as prior falls in energy prices drop out of the annual comparison and reveal the prevailing persistence of domestic inflationary pressures. Private sector wage growth has eased back but remains elevated and services inflation remains high at 5.6%. However, both will continue to decline over time.
- UK GDP growth has been relatively strong in H1 2024, although this partly reflects a rebound from the H2 2023 technical recession. Underlying growth is weaker, but risks around domestic demand lie to the upside due to recovering consumer demand (although the announcement of higher taxes in the upcoming Budget could damage confidence). Stronger economic activity amid a continued tight, albeit easing, labour market could leave wage growth and inflation persistently higher.
- Official ONS Labour market data continues to be unreliable but wider indicators suggest the market is loosening as labour demand cools. Anecdotal evidence has suggested lower private sector pay growth for some time, and we expect a weaker labour market situation to hasten that outcome.
- We expect that the continuation of restrictive monetary policy and the appreciation in sterling will bear down on activity and will require more substantial loosening in 2025 to boost activity and inflation.

- Global bond yields have reduced in anticipation of US monetary loosening, duly delivered by the Federal Reserve. However, US interest rate expectations seem relatively aggressive compared to policymakers' own expectations, which raises the risk of continued US-policy induced volatility in gilt yields. Moreover, there remains a heightened risk of fiscal policy, credit events and/or geo-political events causing additional volatility in yields

	Current	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	5.00	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Downside risk	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.95	4.80	4.30	3.80	3.30	3.05	3.10	3.10	3.15	3.15	3.15	3.15	3.15
Downside risk	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5yr gilt yield													
Upside risk	0.00	0.75	0.85	0.95	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.75	3.60	3.50	3.45	3.40	3.40	3.40	3.40	3.45	3.50	3.55	3.55	3.55
Downside risk	0.00	-0.45	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65
10yr gilt yield													
Upside risk	0.00	0.75	0.85	0.95	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.91	3.90	3.80	3.75	3.70	3.70	3.70	3.70	3.75	3.80	3.80	3.80	3.80
Downside risk	0.00	-0.45	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65
20yr gilt yield													
Upside risk	0.00	0.75	0.85	0.95	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.40	4.35	4.20	4.20	4.20	4.20	4.20	4.20	4.25	4.30	4.35	4.35	4.35
Downside risk	0.00	-0.45	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65
50yr gilt yield													
Upside risk	0.00	0.75	0.85	0.95	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.01	4.00	3.80	3.80	3.80	3.80	3.80	3.80	3.85	3.90	3.95	3.95	3.95
Downside risk	0.00	-0.45	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%; PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB HRA Rate (Maturity Loans) = Gilt yield + 0.40%; UKIB Rate (Maturity Loans) = Gilt yield + 0.40%

- In line with our forecast, the MPC held Bank Rate at 5.0% in September.
- The MPC will continue to cut rates to stimulate the UK economy but will initially be cautious given lingering domestic inflationary pressure. We see another rate cut in 2024 (Q4), but more significant monetary easing in 2025, with Bank Rate falling to a low of around 3%.
- Upside risks to inflation remain which could limit the extent of monetary easing.
- Long-term gilt yields have fallen alongside US monetary policy expectations. Arlingclose's central case is for yields to be volatile around a relatively narrow range, reflecting the likelihood for monetary policy loosening in the Eurozone, UK and US.

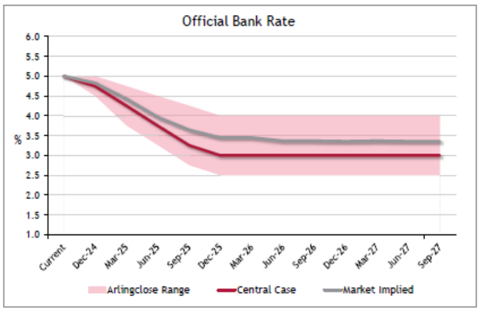
Arlingclose and Market Projections
23rd September 2024

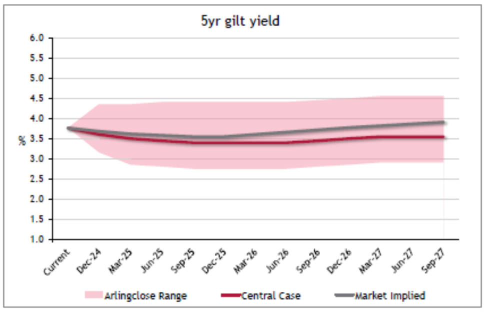
Charts show the Arlingclose central case along with upside and downside risks:
Arlingclose judges that the balance of risks around its Bank Rate and gilt yield forecasts lie to the upside over the medium term.

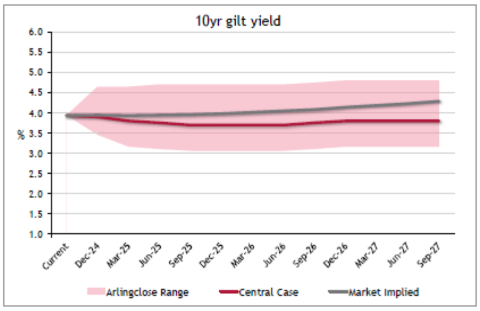
PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB HRA Rate (Maturity Loans) = Gilt yield + 0.40%
UKIB Rate (Maturity Loans) = Gilt yield + 0.40%

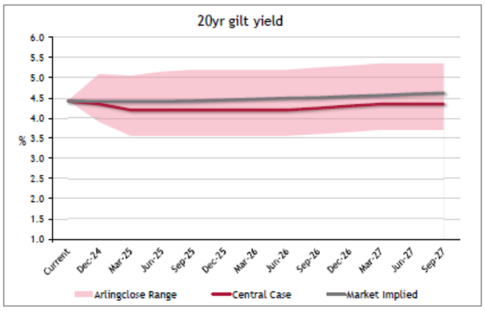
Arlingclose forecast:
23rd September 2024

Market forward curves:
23rd September 2024





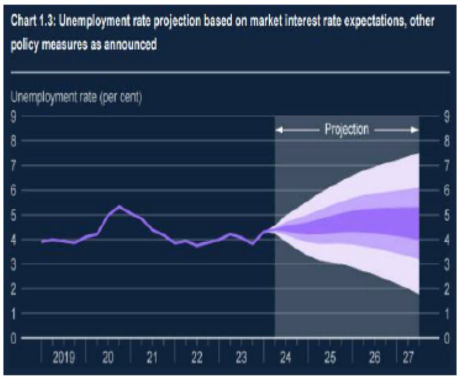




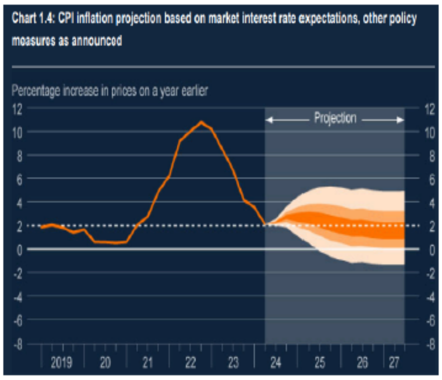
BoE Monetary Policy Report – August 2024

Outlook for UK GDP growth

Outlook for UK Unemployment



Outlook for UK CPI inflation



- Although GDP has picked up quite sharply this year, the underlying momentum appears weaker. Growth is expected to fall back a little next year but then increase over the forecast period, in part reflecting the fading negative impact on growth from past increases in Bank Rate.
- Aggregate demand and supply are judged to be broadly in balance currently, but a margin of economic slack is projected to emerge during 2024 and 2025 and to remain thereafter, in part reflecting the continued restrictive stance of monetary policy. Unemployment is expected to rise somewhat.
- CPI inflation is expected to increase to around 2¾% in the second half of this year as declines in energy prices last year fall out of the annual comparison and revealing more clearly the prevailing persistence of domestic inflationary pressures. The Committee expects second-round effects in domestic prices and wages to take longer to unwind than they did to emerge. There is a range of views on the MPC about the extent to which persistent pressures prove more enduring or continue to unwind as external cost pressures and inflation expectations normalise.

TREASURY MANAGEMENT ACTIVITY DURING 2024/25

Appendix 2

BORROWING REQUIREMENT AND DEBT MANAGEMENT

1. The council has a forecast net borrowing requirement of £190.7M by the 31st March 2025, arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while useable reserves and working capital are the underlying resources available for investments. These are the core drivers of Treasury Management (TM) Activity, and the year-on-year change is summarised in table 1.

   Included within this figure is the total EFS (£121.6M) that is available to the council during 2024/25 to allow the council time to develop savings and transformation plans to reduce the structural budget deficits in future years, this figure is likely change as EFS plans are further developed, including the level of requirement and its funding

2. The current strategy, given the increasing borrowing requirement, is to minimise both external borrowing and investments and to only borrow to the level of the net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and to avoid the cost of carry (i.e. borrowing cash and paying interest on it before it is needed) in the current interest rate environment.

Table 1 – Balance Sheet Summary

	31-Mar-24 Actual £M	31-Mar-25 Outturn £M	31-Mar-25 Forecast £M	31-Mar-25 Forecast Movement in year £M
General Fund CFR	345.36	469.27	464.63	119.27
Housing CFR	182.05	198.25	210.41	28.36
Total CFR	**527.41**	**667.52**	**675.04**	**147.63**
Less Other Debt Liabilities*	(53.45)	(49.12)	(49.12)	4.33
Loans CFR	**473.96**	**618.40**	**625.92**	**151.96**
Less External Borrowing**	(312.59)	(281.99)	(282.00)	30.59
Internal (over) Borrowing	**161.37**	**336.41**	**343.92**	**182.55**
Balance sheet Resources	(197.23)	(193.76)	(193.76)	3.47
Treasury Investments	35.86	48.00	48.00	12.14
New Borrowing or (Investments)	**0.00**	**190.65**	**198.16**	**198.16**

** finance leases, PFI liabilities and Transferred debt that form part of the council 's total debt*
*** See Table 3 below*

3. The forecast movement in coming years is one of the Prudential Indicators (PIs) and measures the cumulative outstanding amount of debt, this increases with new debt-financed capital expenditure and reduces with MRP repayments and capital receipts used to replace debt. Movement since the last reported position is shown below.

Table 2 – Capital Financing Requirement Movement in year

Capital Financing Requirement	31/03/2024 Actual £M	31/03/2024 Last Reported (Outturn) £M	31/03/2025 Forecast £M	Movement since last reported position £M
Balance Brought forward	342.57	345.36	345.36	0.00
New Borrowing	15.14	143.78	133.07	(10.71)
MRP	(8.69)	(15.53)	(9.46)	6.07
Appropriations (to) from HRA	0.00	0.00	0.00	0.00
Movement in Other Liabilities	(3.66)	(4.34)	(4.34)	0.00
Total General Fund Debt	**345.36**	**469.27**	**464.63**	**(4.64)**
HRA	182.05	198.25	210.41	12.16
Total CFR	**527.41**	**667.52**	**675.04**	**7.52**
Estimated Debt (*see below for breakdown*)	366.05	509.62	516.12	6.50
Under / (Over) Borrowed	**161.36**	**157.90**	**158.92**	**1.02**

4. The treasury management position at 30th September and the change over the six months is shown in tables 3 and 4 below together with activity in the year.

5. ***Table 3: Borrowing and Investment Position***

	31-Mar-24 Actual £M	31-Mar-24 Average %	30-Sep-24 Actual £M	30-Sep-24 Average %	31-Mar-25 Forecast £M	31-Mar-25 Forecast %
Long Term Borrowing						
Public Works Loan	288.59	3.47	283.29	3.47	463.00	2.96
LOBO Loans from Banks	4.00	4.86	4.00	4.86	4.00	4.85
	292.59	**3.58**	**287.29**	**3.58**	**467.00**	**3.00**
Short Term Borrowing						
Other Local Authorities	20.00	5.79	29.00	5.29	0.00	5.79
Total External Borrowing	**312.59**	**2.98**	**316.29**	**3.62**	**467.00**	**3.11**
Other Long Term Liabilities						
PFI Schemes	41.08	9.82	41.08	9.56	37.11	9.82
Deferred Debt Charges (HCC)	12.37	4.99	12.37	3.27	12.01	4.99
Total Gross External Debt	**366.04**	**3.97**	**369.74**	**4.08**	**516.12**	**3.97**
Investments:						
Managed In-House						
Cash (Instant access)	(7.83)	5.27	(16.78)	5.01	(20.00)	5.40
Long Term Bonds	(1.03)	5.27	(1.02)	5.27	(1.00)	5.27
Managed Externally						
Pooled Funds (CCLA) & Shares	(27.00)	4.76	(27.00)	4.76	(27.00)	3.00
Total Investments	**(35.86)**	**4.78**	**(44.80)**	**4.78**	**(48.00)**	**4.05**
Net Debt	**330.18**		**324.94**		**468.12**	

6. *Table 4: Movement in Borrowing during the year*

Movement during the year	2023/24 Actual £M	2024/25 Movement in year £M	30-Sep-24 £M	Average Life
Long-term borrowing Carried Forward	298.19		292.59	
Maturities in year	(15.60)		(5.30)	
New borrowing taken in year	10.00		0.00	
Net Long Term Borrowing	**292.59**	**(5.30)**	**287.29**	**24 Years**
Short-term borrowing Carried Forward	5.00		20.00	
Maturities in year	(5.00)		(20.00)	
New borrowing taken in year	20.00		29.00	
Net Short Term Borrowing	**20.00**	**9.00**	**29.00**	**1.4 Months**
Total Borrowing	**312.59**	**3.70**	**316.29**	

Please note that these figures do not reflect the accounting convention of moving loans maturing in the year from long term to short term so will differ from the maturity analysis.

7. The maturity analysis of the Council's long-term debt at 30th September 2024 is further analysed below, in table 5. LOBO loans are shown as uncertain as although they are within the call option, and given the current interest environment there is a possibility they could be called in.

8. *Table 5: Maturity Structure of Long Term Borrowing*

Analysis of Loans by Maturity	Lower Limit	Upper Limit	Compliance with Limit	Outstanding 30/09/2024 £M	% of Debt
Less than 1 Year	0	50	Yes	5.30	2
Between 1 and 2 years	0	50	Yes	10.60	4
Between 2 and 5 years	0	50	Yes	31.80	11
Between 5 and 10 years	0	55	Yes	60.50	21
Between 10 and 20 years	0	60	Yes	30.25	11
Between 20 and 40 years	0	60	Yes	144.84	50
Over 40	0	75	Yes	0.00	0
Uncertain Date**	0	5	Yes	4.00	1
				287.29	**100**

Borrowing Update

9. CIPFA's Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

	Currently £27M is held in commercial investments that were purchased prior to the change in the CIPFA Prudential Code. Before undertaking further additional borrowing the council will review the benefits of retaining these investments against cost of future borrowing.
<u>Borrowing Strategy</u>	
10.	At 30th September the council held £316.29M of loans, (an increase of £3.70M since 31st March 2024), as part of its strategy for funding previous and current years' capital programmes and the need to externalise borrowing as a result of falling reserves. Outstanding loans are summarised in Table 4 and 5 above.
11.	We have remained under our CFR limit and had internal borrowing of £161.37M at the end of 2023/24 compared to £157.14M for 2022/23. This strategy enabled a reduction in net borrowing costs (despite foregone investment income) and reduced overall treasury risk.
12.	As outlined in the treasury strategy, the chief objective when borrowing has been to strike an appropriately risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should long-term plans change being a secondary objective. The borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. At the present time short term interest rates are higher than long term interest rates.
13.	After substantial rises in interest rates since 2021 many central banks have now begun to reduce rates, albeit slowly. Gilt yields were volatile over the 6-month period and have reduced slightly between April and September 2024. Much of the downward pressure from lower inflation figures was counteracted by upward pressure from positive economic data. Data from the US continues to impact global bond markets including UK gilt yields.
14.	The PWLB certainty rate for 10-year maturity loans was 4.80% at the beginning of the half year and 4.79% at the end. The lowest available 10-year maturity rate was 4.52% and the highest was 5.18%. Rates for 20-year maturity loans ranged from 5.01% to 5.57% during the half year, and 50-year maturity loans from 4.88% to 5.40%.
15.	Whilst the cost of short-term borrowing from other local authorities spiked to around 7% in late March 2024, primarily due a dearth of LA-LA lending/borrowing activity during the month, as expected shorter-term rates reverted to a more normal range and were generally around 5.00% - 5.25%. The average rate for short-term loans at 30th September 2024 on £29M was 5.29%. Any borrowing will be done in consultation with our advisors as although short term borrowing is currently higher than 20 year maturity debt at 5.27% (5.47% less 0.20% certainty discount), long term debt is expected to fall in the medium term and the overall costs assessed.
16.	The PWLB HRA rate which is 0.4% below the certainty rate is available to June 2025. The discounted rate is to support local authorities borrowing for the Housing Revenue Account and for refinancing existing HRA loans, providing a window of opportunity for HRA-related borrowing and to replace £12M of loans relating to the HRA maturing during this time frame.

17. During the first 6 month of the year, no long term loans were taken, and short term borrowing is detailed in Table 6 below, of the £39M taken £29M is currently still outstanding.

Table 6: New loans taken in 2024/25

Loans Taken in Year	Date	Amount £M	Rate %	Period
Local Authority Loan 1	17/05/2024	5,000,000	5.350%	6 Months
Local Authority Loan 2	16/05/2024	5,000,000	5.350%	2.5 Months
Local Authority Loan 3	20/05/2024	5,000,000	5.350%	4 Months
Local Authority Loan 4	20/05/2024	2,000,000	5.350%	6 Months
Local Authority Loan 5	20/05/2024	2,000,000	5.350%	6 Months
Local Authority Loan 6	18/06/2024	5,000,000	5.350%	6 Months
Local Authority Loan 7	22/08/2024	5,000,000	5.000%	3 Months
Local Authority Loan 8	20/09/2024	5,000,000	4.950%	3 Months
Local Authority Loan 9	24/09/2024	5,000,000	5.050%	2 Weeks
Total Borrowing		**39,000,000**		

18. This will be kept under review during 2024/25 with the need to resource the capital programme. In addition, given the rising costs of materials and of borrowing, the capital programme will be kept under regular review to ensure ongoing Value for Money and the phasing of capital works reviewed to ensure capital financing budgets accurately reflect the profile of borrowing needed. The council with its advisor Arlingclose will evaluate and pursue options for lower cost solutions and opportunities, together with the ‘cost of carry’ and breakeven analysis.

19. The PWLB remained the Council’s preferred source of long term borrowing in 2024/25, given the transparency and control that its facilities continue to provide. However, PWLB funding margins have lurched quite substantially and there remains a strong argument for diversifying funding sources, particularly for the HRA who are not restricted to borrowing from PWLB, like the general fund, (as a result of the Council being awarded extraordinary financial support), if rates can be achieved on alternatives which are below gilt yields + 0.80%. This is kept under constant review in consultation with our TM advisors.

20. The chart below shows the pattern of the PWLB Certainty Rate 3-month moving average over the last year. Rates fell sharply in both August and September for a few days following market events but have since been on an upward trajectory.

21.	Borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short and long term borrowing was maintained.

Loan Restructuring

22.	The continuing rise in gilt yields since early 2022 resulted in some PWLB loans being in or close to a discount position if repaid early. However, as these would need to be replaced by new loans at higher interest rates, this isn't a cost-effective option.

Lender's Option Borrower's Option Loans (LOBOs)

23.	LOBO (Lender's Option Borrower's Option) loans are where the lender has the option to propose an increase in the interest rate at set dates, which can either be accepted or repay the loan at no additional cost. As reported previously with market interest rates having risen, the probability of LOBOs being called increased. The remaining £4M LOBO loans has call dates within the next 12 months, we will continue to monitor and take appropriate action.

Other Debt Activity

24.	Although not classed as borrowing the Council has previously raised capital finance via Private Finance Initiative (PFI). The forecast balance at the end of the year, after allowing for repayment in year of £3.29M is £37.11M.
25.	In addition, the council holds debt in relation to debt transferred from Hampshire County Council of £12.19M from when we became a unitary authority on the 1 April 1997. This is being repaid over 50 years at £0.36M per annum.

INVESTMENT ACTIVITY

26.	Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The objective when investing money is to strike an appropriate balance between risk and return,

	minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
27.	As demonstrated by the liability benchmark in this report, the council expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different asset classes and boost investment income
28.	The Council maintained its strategy of offsetting investment and borrowing to reduce treasury costs.
29.	Invested funds represent income received in advance of expenditure plus balances and reserves. During the year investment balances have ranged between £90.30M and £35.83M and are currently £44.80M and expected to be £48.00M by year end. Movement in year is summarised in Table 7 below.
30.	***Table 7: Investment activity during the year***

	Balance on 01/04/2023 £M	Investments Repaid £M	New Investments £M	Balance on 30/09/2022 £M	(Increase)/ Decrease in Investment for Year £M	Average Life of Investments Life
Multi- National Bonds (not subject to bail in)	(1.03)	(0.00)	0.00	(1.02)	0.00	6 months
Money Market Funds and Call Account	(7.83)	236.29	(245.23)	(16.78)	(8.95)	on day notice
Government & Local Authority	0.00	89.40	(89.40)	0.00	0.00	0 days
Managed Externally (CCLA Pooled funds)	(27.00)	0.00		(27.00)	0.00	Unspecified
Total Investments	**(35.86)**	**325.68**	**(334.63)**	**(44.80)**	**(8.94)**	

31.	Bank Rate reduced from 5.25% to 5.00% in August 2024 with short term interest rates largely being around these levels. The rates on DMADF deposits in last quarter ranged between 5.19% and 5.20% and money market rates between 4.94% and 5.20%. Forecast income is now £2.54M, slightly higher (£0.31M) than originally budgeted £2.23M.
32.	Security of capital has remained the council's main investment objective. This has been maintained by following the counterparty policy as set out in its TM Strategy Statement. The council has adopted a voluntary measure of its exposure to credit risk, by monitoring the average credit rating of its investment portfolio, which is supplied by our advisors. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

	Target	Actual
Portfolio average credit rating	A	A+

33.	Counterparty credit quality is assessed and monitored with reference to credit ratings across rating agencies Fitch, S&P and Moody's. The council's minimum long-term counterparty rating is A-. For financial institutions analysis is of funding structure and susceptibility to bail-in, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

34. **Benchmarking:** Our advisors produce quarterly benchmarking which shows the breakdown of our investments and how we compare to their other clients and other English Unitary. A summary is shown below, Appendix 3 shows full analysis.

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity	Rate of Return %
31.03.2024	4.52	A+	89%	44	5.06
30.09.2024	4.53	A+	94%	12	5.12
Similar LAs	4.65	A+	60%	100	5.09
All LAs	4.60	A+	61%	11	4.90

35. Investments managed internally are currently averaging a return of 5.03% (which is slightly higher than both the average unitary authority at 5.01% and other LA's at 4.91%), whilst maintaining the same credit rating of A+.

Total income returns at 5.12% is also slightly higher than other unitary (5.09%) and above LA's (4.90%).

Due to operating on a cash flow basis for investments to avoid higher borrowing costs and maintained lower cash balances, £17.8M compared to £55.7M for other Unitaries and £60.1M for other Local Authority, which accounts for our higher than average funds exposed to bail in but as these are available on 1 day notice, there are no concerns with this.

Cash is performing well in the current financial environment which accounts for our total return (after allowing for loss on our strategic funds) is lower 3.39% compared to 5.50% for other Unitaries and 5.42% for other Local Authority but has performed better over the last the medium term, see paragraph 42 below.

We hold 58% of our investments in historic strategic funds which offer higher return over the long term, as detailed in paragraphs 23 to 28. The capital value of our external strategic funds has increased slightly, £0.04M in the quarter. The income return over the longer term was and remains the driver to invest, although this is kept under review for opportunities to divest.

Liquidity Management

36. In keeping with the DLUHC's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds and call accounts. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. The Council also has to manage the risk that it will be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates. The Council would only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

Externally Managed Funds

37. The council has invested £27M in pooled property funds as an alternative to buying property directly. As previously reported these funds offer the potential for enhanced returns over the longer term but may be more volatile in the shorter term. They are managed by professional fund managers which allows diversification into asset classes other than cash without the need to own and manage the underlying investments.

38. These funds have no defined maturity date but are usually available for withdrawal after a notice period (180 days). The performance and continued suitability in meeting the investment objectives is regularly reviewed.

	Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates.
39.	UK commercial property values started to stabilise, then improve slightly towards the end of the period, with interest rates being cut from their peak and investor attention turning to the timing of further interest rate cuts. Transaction activity remains somewhat subdued but signs of recovery in the occupier and rental markets as well as moderate economic growth and further falling interest rates are hoped to be favourable for an improving property sector outlook over the medium term. Capital growth is expected to be gradual while income levels remain strong for many sub-sectors.
40.	Considering the performance over the long-term and the latest cash flow forecasts, these funds have been maintained but will be monitored carefully especially as the statutory override on accounting for gains and losses on pooled investment funds is likely to end on 31st March 2025, when any difference between initial investment and the current value will be a cost/gain. The Investment Risk reserve was created to mitigate the impact of the statutory override not being extended and unrealised losses being recognised. Tables 9 below shows current value and income due in year, together with the performance of the fund since we invested compared to cash. We have ongoing discussions with Arlingclose about the implications for the investment strategy and what action may need to be taken, current advice is to give notice on part of the fund once we have seen two consecutive increases in the value of fund.
41.	The change in the funds' capital values and income earned in 2024/25 is shown below.

Table 9 – Property Fund Performance 2024/25

Quarter Ending	Valuation £M	Movement since Reported in SOA	Dividends £M
1st April	24.79		
30th June	24.67	(0.12)	0.34
30th September	24.71	(0.09)	0.32 *
Total			0.66
**Forecast*			

42. Although there is currently an unrealised capital loss of £2.29M at 30 September 2024, since investing £9.76M of dividends have been earned, a net return of £7.47M which equates to an annualised income return of 3.86% compared to the average bank rate of 1.27% for the same period. This also compares favourably to the investments that were made directly in property, which gave a net return of 2.13% in 2023/24 after financing costs as detailed below.

STRATEGIC POOLED FUND PORTFOLIO	SOUTHAMPTON CITY	From:	01/05/2014	To:	30/09/2024

FUND NAME	ASSET CLASS	No of Units Held in Period	Current Value £	Capital Growth £	Dividends Earned £	Holding Period (yrs)	Capital Return	Income Return	Total Return	Volatility
CCLA - LAMIT PROPERTY FUND	PROPERTY	9,091,173	24,706,172	-2,293,833	9,755,501	8.1	-8.50%	36.13%	27.64%	5.2%
GRAND TOTAL			24,706,172	-2,293,833	9,755,501	8.1	-8.50%	36.13%	27.64%	5.2%
		Unrealised capital loss since purchase:		-2,293,833	Annualised income return:			3.86%		
							Average Bank Rate:	1.27%		

43. To cover future risk of any loss on the CCLA pooled property fund due to the expectation that statutory override will cease in 2026/27, £0.80M has transferred to the Investment Risk Reserve, with a further transfer of £0.40M to be made in 2024/25 and a further £0.40M earmarked for 2025/26.

Non – Treasury Investments

44. The definition of investments in CIPFA's TM Code covers all the financial assets, as well as other non-financial assets which are held primarily for financial return. Investments that do not meet the definition of TM investments (i.e., management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

45. Investment guidance issued by the DLUHC also broadens the definition of investments to include all such assets held partially or wholly for financial return.

46. Between 2016 and 2017, SCC implemented a strategy to invest in commercial properties with the expected return on investment being used to fund council services, known as the Property Investment Fund (PIF). To date the council has purchased 3 properties.

47. The rate of return on investment in 2024/25 before borrowing costs and other on-costs was 6.03%. Borrowing costs of 3.90% were incurred giving a net rate of return of 2.13%.

48. All of the properties remain fully let and the tenants are meeting their financial obligations under the leases (although one tenant has vacated the premises but continues to honour the lease).

A full review of all assets is underway and may result in disposals in year.

49. Investment properties are required to be revalued every year. The current valuation for those within the PIF is £25.19M, an increase in value compared with last year of £1.37M. Under current accounting rules changes in the value of investment properties do not impact on the General Fund.

50. **Table 10: Property Investment Fund**

Property	Actual	31.03.2023 Actual		31.03.2024 Actual		Outstanding Debt 31.03.2024	Outstanding Debt 31.03.2025
	Purchase Cost £M	Value in Accounts	Gain or (Loss) in Year	Value in Accounts	Gain or (Loss) in Year	£M	£M
Property 1	6.47	4.79	(0.09)	5.43	0.64	5.75	5.68
Property 2	14.69	10.61	(1.03)	11.52	0.91	13.05	12.91
Property 3	8.53	8.42	(0.74)	8.24	(0.18)	7.57	7.49
	29.69	23.82	(1.86)	25.19	1.37	26.37	26.08

MRP Regulations

51. On 10th April 2024 amended legislation and revised statutory guidance were published on Minimum Revenue Provision (MRP). The majority of the changes take effect from 2025/26, although there is a requirement that for capital loans given on or after 7th May 2024 sufficient MRP must be charged so that the outstanding CFR in

	respect of the loan is no higher than the principal outstanding less the Expected Credit Loss (ECL) charge for that loan. The regulations also require that local authorities cannot exclude any amount of their CFR from their MRP calculation unless by an exception set out in law. Capital receipts cannot be used to directly replace, in whole or part, the prudent charge to revenue for MRP (there are specific exceptions for capital loans and leased assets). The MRP policy is reviewed and updated annually, and our TM advisors have offered to carry out an MRP health check to ensure that the policy complies with the updated guidance, provides a prudent level of MRP and identify any opportunities to recalculate the annual charge.
Compliance	
52.	The Chief Finance Officer reports that all TM activities undertaken during the year complied fully with the principles in the TM Code and the approved TM Strategy.

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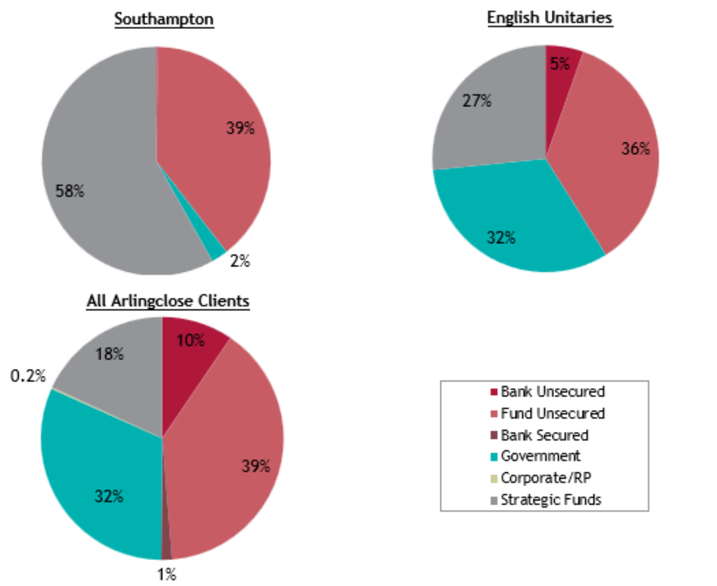
Appendix 3

Southampton Benchmarking Scores 30th September 2024

arlingclose

Investment Benchmarking 30 September 2024

	Southampton	19 English Unitaries Average	124 LAs Average
Internal Investments	£17.8m	£55.7m	£60.1m
Cash Plus & Short Bond Funds	£0.0m	£0.1m	£0.8m
Strategic Pooled Funds	£24.7m	£16.7m	£10.7m
TOTAL INVESTMENTS	**£42.5m**	**£72.4m**	**£71.6m**
Security			
Average Credit Score	4.53	4.65	4.60
Average Credit Rating	A+	A+	A+
Average Credit Score (time-weighted)	1.29	4.36	4.39
Average Credit Rating (time-weighted)	AAA	AA-	AA-
Number of Counterparties / Funds	12	14	12
Proportion Exposed to Bail-in	94%	60%	61%
Liquidity			
Proportion Available within 7 days	39%	44%	50%
Proportion Available within 100 days	39%	61%	71%
Average Days to Maturity	12	100	11
Market Risks			
Average Days to Next Rate Reset	52	116	51
Strategic Fund Volatility	1.3%	2.5%	3.3%
Yield			
Internal Investment Return	5.03%	5.01%	4.91%
Cash Plus Funds - Income Return	-	4.63%	3.86%
Strategic Funds - Income Return	5.19%	5.37%	5.10%
Total Investments - Income Return	**5.12%**	**5.09%**	**4.90%**
Cash Plus Funds - Capital Gain/Loss	-	2.39%	2.32%
Strategic Funds - Capital Gain/Loss	-2.97%	0.43%	1.66%
Total Investments - Total Return	**3.39%**	**5.50%**	**5.42%**



Notes

• Unless otherwise stated, all measures relate to internally managed investments only, i.e. excluding external pooled funds.

• Averages within a portfolio are weighted by size of investment, but averages across authorities are not weighted.

• Pooled fund returns are 1-year to the end of the quarter.

• Credit scores are calculated as AAA = 1, AA+ = 2, etc.

The above highlights:

- Our internal investment balances have fallen to offset the need for borrowing and are about 1/3rd of the average LA's £17.8M as opposed to £60.1M.
- Internal investments average yield at 5.03% is slightly above average,
- We have maintained an average credit rating of A+ in line with average other Local Authorities and higher than English Unitary, whilst achieving a higher income return at 5.12% compared to 5.09% and 4.90%.
- We hold 58% of our investments in strategic funds which offer higher return over the long term, which is higher than the average but not unexpected as our cash flows have reduced. The capital value of our external strategic funds has fallen increased slightly by £0.04M in the last quarter, which is consistent across all local authorities that hold funds in pooled property funds. The income return over the longer term was and remains the driver to invest, although this is kept under review.

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PRUDENTIAL INDICATORS AS AT END OF SEPTEMBER 2024

Appendix 4

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate the objectives have been fulfilled, the Prudential Code sets out several indicators.

It is now a requirement of the CIPFA Prudential Code that these are reported quarterly.

1. Capital Financing Requirement

The cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP repayments and capital receipts used to replace debt.

Capital Financing Requirement	31-Mar-24 Actual £M	31-Mar-25 Forecast £M	31-Mar-26 Forecast £M	31-Mar-27 Forecast £M	31-Mar-28 Forecast £M
Balance Brought forward	342.57	345.36	464.63	473.80	488.93
New Borrowing	15.14	133.07	29.37	34.95	6.41
MRP	(8.69)	(9.46)	(16.35)	(16.25)	(17.35)
Movement in Other Liabilities	(3.66)	(4.34)	(3.85)	(3.57)	(4.12)
Total General Fund Debt	**345.36**	**464.63**	**473.80**	**488.93**	**473.87**
HRA	182.05	210.41	248.09	260.88	272.82
Total CFR	**527.41**	**675.04**	**721.89**	**749.81**	**746.69**
Estimated Debt	366.05	516.12	560.07	582.72	577.72
Under / (Over) Borrowed	**161.36**	**158.92**	**161.82**	**167.09**	**168.97**

2. Gross Debt and the Capital Financing Requirement

This is a key indicator of prudence. In order to ensure that over the medium-term debt will only be for a capital purpose, the local authority should ensure that debt (including PFI, leases and HCC Transferred debt) does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years.

There is a significant difference between the gross external borrowing requirement and the net external borrowing requirement represented by the Council's level of balances, reserves, provisions and working capital. The current strategy is only to borrow to the level of its net borrowing requirement.

This has complied and expects to continue to comply with this requirement in the medium term as is shown below.

Gross Debt	31/03/2024 Actual £M	31/03/2025 Forecast £M	31/03/2026 Forecast £M	31/03/2027 Forecast £M	31/03/2028 Forecast £M
Total Debt	**366.05**	**516.12**	**560.07**	**582.72**	**577.72**
Capital Financing Requirement	**527.41**	**675.04**	**721.89**	**749.81**	**746.69**
Under / (Over) Borrowed	**161.36**	**158.92**	**161.82**	**167.09**	**168.97**

3. Debt and the Authorised Limit and Operational Boundary

The Operational Boundary for External Debt is based on the estimate of most likely, i.e. prudent, but not worst-case scenario for external debt. It links directly to the estimates of capital expenditure, the capital financing requirement and cash flow requirements and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of debt.

The Authorised Limit for External Debt is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

The S151 Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2024/25 to date; borrowing at its peak was £316.60M plus other deferred liabilities of £53.45M.

4. Net Income from Commercial Investment to Net Revenue Stream (NRS)

The income from commercial investments as a proportion of net revenue stream has been and is expected to be as indicated below, showing there is not an over dependence on income from investments.

Ratio of Net Income from Commercial Investment to NRS	2023/24 Actual £M	2024/25 Forecast £M	2025/26 Forecast £M	2026/27 Forecast £M	2027/28 Forecast £M
Total net income from commercial investments	6.84	7.03	7.28	7.28	7.28
Net Revenue Stream GF	203.73	239.17	290.03	305.84	317.76
Proportion of NRS	**3.36%**	**2.94%**	**2.51%**	**2.38%**	**2.29%**

5. Proportion of Financing Costs to Net Revenue Stream

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs.

The ratio is based on the forecast of net revenue expenditure in the medium term financial model. The upper limit for this ratio was updated, as part of the MTFS report to Council in July 2023 and is currently set at 11% for the General Fund to allow for known borrowing decision in the next two years and to allow for additional borrowing affecting major schemes, it includes the cost of long term liabilities but now excludes investment income in line with the revised code.

Due to a potential increase in borrowing costs to fund EFS, this indicator needs to be monitored as likely to exceed the 11% from 2025/26, depending on the amount of EFS actually taken. The net revenue stream has also reduced as a result of the Social Care Grant being reclassified as a ring-fenced grant and the budget now shown within directorate income, thus increasing in the percentage. The table below shows the likely position, based on the approved capital programme for the General Fund and the assumption that the full EFS of £121.6M will be taken at the end of 2024/25.

This indicator is not so relevant for the HRA, as financing costs have been built into their 30 year business plan, including the voluntary payment of MRP. No problem is seen with the affordability but if problems were to arise then the HRA would have the option not to make principal repayments in the early years.

Ratio of Financing Costs to Net Revenue Stream	**2023/24 Actual £000**	**2024/25 Forecast £000**	**2025/26 Forecast £000**	**2026/27 Forecast £000**	**2027/28 Forecast £000**
Financing Costs Exc Interest Received	26,636	29,137	44,197	45,930	48,503
Net Revenue Stream Total	279,032	324,432	330,445	334,914	341,614
Total	**9.55%**	**8.98%**	**13.38%**	**13.71%**	**14.20%**

Ratio of Financing Costs to Net Revenue Stream	**2023/24 Actual**	**2024/25 Forecast %**	**2025/26 Forecast %**	**2026/27 Forecast %**	**2026/27 Forecast %**
General Fund	10.29	9.35	14.66	14.84	15.35
HRA	7.55	7.95	9.86	10.72	11.19
Total	**9.55**	**8.98**	**13.38**	**13.71**	**14.20**

6. Liability Benchmark

This indicator compares the actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing.

The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing required to fund its current capital and revenue plans while keeping treasury investments at the preferred minimum level of £48M, to manage day-to-day cash flow.

	31-Mar-24 Actual £M	**31-Mar-25 Forecast £M**	**31-Mar-26 Forecast £M**	**31-Mar-27 Forecast £M**	**31-Mar-28 Forecast £M**
Loans CFR	**473.96**	**625.92**	**676.63**	**708.13**	**709.13**
Less Balance sheet Resources	(186.69)	(183.22)	(186.08)	(191.37)	(191.37)
Plus Minimum Investments	35.86	48.00	48.00	48.00	48.00
Liability Benchmark	**323.13**	**490.70**	**538.55**	**564.76**	**565.76**
Less Committed External Borrowing	(312.60)	(282.00)	(265.32)	(248.64)	(231.96)
Minimum Borrowing Need	**10.53**	**208.70**	**273.23**	**316.11**	**333.79**
Less HRA Borrowing Liability	(0.71)	0.00	(78.07)	(94.76)	(110.59)
GF Minimum Borrowing Need / (Investment)	**9.82**	**208.70**	**195.16**	**221.35**	**223.20**

7. Maturity Structure of Borrowing

This indicator is set to control exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	Upper Limit %	Lower Limit %	30.09.24 Actual £M	30.09.24 Actual %	Complied?
Under 12 months	0	50	5.30	2	Yes
12 months and within 24 months	0	50	10.60	4	Yes
24 months and within 5 years	0	50	31.80	11	Yes
5 years and within 10 years	0	55	60.50	21	Yes
10 years and within 20 years	0	60	30.25	11	Yes
20 years and within 40 years	0	60	144.84	50	Yes
Over 40 years	0	75	0.00	0	Yes
Uncertain Date**	0	5	4.00	1	Yes
Total			**287.29**	**100**	

8. Long-term Treasury Management Investments

This indicator allows the Council to manage the risk inherent in investments longer than a year and the limit is set at £30M. The actual principal sum currently invested is £28.02M and consists of £27M in CCLA property funds (see Appendix 3 paragraphs 21 - 24 for more details) and £1M EIB bond which will mature on 15th April 2025.

9. Security

A voluntary measure of exposure to credit risk, has been adopted, by monitoring the value-weighted average credit rating of the investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	2023/24 Target	Q1 Actual	Complied?
Portfolio average credit Rating	A	A+	Yes

10. Liquidity

A voluntary measure of exposure to liquidity risk, has been adopted, by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing or can borrow without giving prior notice.

At the end of Q2, £16.78M of liquid cash was held and although this is below the target level we have been able to borrow to meet expected cash flows. Based on current cash flow, in order to maintain minimum balance and meet outgoing commitments we expect to take further borrowing before year end.

	2024/25 Target	Q2 Actual	Complied?
Total cash available within 3 months	£20M	£16.78M	Yes
Total sum borrowed in past 6 months without prior notice		£39M	Yes

11. Interest Rate Exposures

This is a voluntary indicator which is set to control exposure to interest rate risk.

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at new market rates.

For context, the changes in interest rates during the quarter were:

	01/04/24	30/09/24
Bank Rate	5.25%	5.00%
1-year PWLB certainty rate, maturity loans	5.36%	4.95%
5-year PWLB certainty rate, maturity loans	4.68%	4.55%
10-year PWLB certainty rate, maturity loans	4.74%	4.79%
20-year PWLB certainty rate, maturity loans	5.18%	5.27%
50-year PWLB certainty rate, maturity loans	5.01%	5.13%

No new long loans were taken during the period and budgeted new long-term borrowing is at 5.00%. The benchmark was based on a 1% increase of forecast borrowing as of 31st March 2025.

Borrowing need has increased since the indicator was approved, as a result of being awarded EFS in the form of a capitalisation direction, of up to £121.58M, and will need to be reset prior to any associated borrowing being undertaken.

The forecast reflects the current borrowing need for the year, prior to any borrowing taken in year, of £199.16M, as detailed in Appendix 2, table 1.

Interest rate risk indicator	2024/25 Benchmark £M	2024/25 Forecast £M
Upper limit on one-year revenue impact of a 1% rise in interest rates	1.5M	1.98M
Upper limit on one-year revenue impact of a 1% fall in interest rates	(1.5M)	(1.98M)

12. Summary

As indicated in this report the Council has operated within the limits set by the Prudential Indicators during this quarter.

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GLOSSARY OF TREASURY TERMS

Authorised Limit (Also known as the Affordable Limit): A statutory limit that sets the maximum level of external borrowing on a gross basis (i.e., not net of investments) for the Council. It is measured on a daily basis, against all external borrowing items on the Balance Sheet (i.e., long, and short-term borrowing, overdrawn bank balances and long term liabilities).
Balances and Reserves: Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.
Bail - in (Risk): Following the financial crisis of 2008 when governments in various jurisdictions injected billions of dollars into banks as part of bail-out packages, it was recognised that bondholders, who largely remained untouched through this period, should share the burden in future by making them forfeit part of their investment to "bail in" a bank before taxpayers are called upon. A bail-in takes place before a bankruptcy and under current proposals, regulators would have the power to impose losses on bondholders while leaving untouched other creditors of similar stature, such as derivatives counterparties. A corollary to this is that bondholders will require more interest if they are to risk losing money to a bail-in.
Bank Rate: The official interest rate set by the Bank of England’s Monetary Policy Committee and what is generally termed at the “base rate”. This rate is also referred to as the ‘repo rate’.
Bond: A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The repayment date is also set at the onset but can be traded during its life, but this will affect the price of a bond which may vary during its life.
Capital Expenditure: Expenditure on the acquisition, creation, or enhancement of capital assets.
Capital Financing Requirement (CFR): The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council’s underlying borrowing need.
CD’s: Certificates of Deposits with banks and building societies
Capital Receipts: Money obtained on the sale of a capital asset.

Constant Net Asset Value (CNAV)

These are Money Market Funds which maintain a stable price of £1 per share when investors redeem or purchase shares which mean that that any investment will not fluctuate in value.

Corporate Bonds:

Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations, and government agencies.

Cost of Carry:

The “cost of carry” is the difference between what is paid to borrow compared to the interest which could be earned. For example, if one takes out borrowing at 5% and invests the money at 1.5%, there is a cost of carry of 3.5%.

Counterparty List:

List of approved financial institutions with which the Council can place investments with.

Covered Bond:

Covered bonds are debt securities backed by cash flows from mortgages or public sector loans. They are similar in many ways to asset-backed securities created in securitisation, but covered bond assets remain on the issuer’s consolidated balance sheet (usually with an appropriate capital charge). The covered bonds continue as obligations of the issuer (often a bank); in essence, the investor has recourse against the issuer and the collateral, sometimes known as "dual recourse."

CPI:

Consumer Price Index – the UK’s main measure of inflation.

Credit Rating:

Formal opinion by a registered rating agency of a counterparty’s future ability to meet its financial liabilities; these are opinions only and not guarantees.

Diversify /diversified exposure:

The spreading of investments among different types of assets or between markets in order to reduce risk.

DMADF:

Debt Management Agency Deposit Facility is the lowest risk form of investment available to local authorities as it is operated by the Debt Management Office which is part of H.M. Treasury.

DLUHC:

The Department for Levelling Up, Housing and Communities (DLUHC), formerly the Ministry for Housing, Communities and Local Government (MHCLG), is the UK Government department for housing, communities, local government in England and the levelling up policy.

Exceptional Final Support (EFS):

Since 2020, the government has agreed to provide a number of local authorities with support via the Exceptional Financial Support framework, following requests from these councils for assistance to manage financial pressures that they considered unmanageable.

Support provided via this framework is usually provided in the form of a capitalisation direction. Capitalisation directions permit a local authority to meet revenue costs through

capital resources. All support provided through the Exceptional Financial Support framework has been in the form of capitalisation directions unless stated otherwise. In all cases, the government has set a clear expectation that the authorities continue to manage and mitigate their financial pressures, as well as respond effectively to the individual challenges they are facing and provide regular updates to the government on progress. The support is provided on an exceptional basis, and on the condition that each local authority is subject to an external assurance review.
Federal Reserve: The US central bank. (Often referred to as “the Fed”).
FTSE 100 Index: The FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalisation. It is one of the most widely used stock indices and is seen as a gauge of business prosperity for business regulated by UK company law. The index is maintained by the FTSE Group, a subsidiary of the London Stock Exchange Group.
General Fund: This includes most of the day-to-day spending and income.
Gilts: Gilts are bonds issued by the UK Government. They take their name from ‘gilt-edged’: being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.
Gross Domestic Product (GDP): Gross Domestic Product measures the value of goods and services produced with in a country. GDP is the most comprehensive overall measure of economic output and provides key insight as to the driving forces of the economy.
The G7: The G7, is a group consisting of the finance ministers of seven industrialised nations: namely the US, UK, France, Germany, Italy, Canada and Japan. They are seven of the eight (China excluded) wealthiest nations on Earth, not by GDP but by global net wealth. The G7 represents more than the 66% of net global wealth ($223 trillion), according to Credit Suisse Global Wealth Report September 2012.
IFRS: International Financial Reporting Standards.
LIBID: The London Interbank Bid Rate (LIBID) is the rate bid by banks on Eurocurrency deposits (i.e. the rate at which a bank is willing to borrow from other banks). It is "the opposite" of the LIBOR (an offered, hence "ask" rate, the rate at which a bank will lend). Whilst the British Bankers' Association set LIBOR rates, there is no correspondent official LIBID fixing.
LOBO: Stands for Lender Option Borrower Option. The underlying loan facility is typically very long-term - for example 40 to 60 years - and the interest rate is fixed. However, in the LOBO facility the lender has the option to call on the facilities at pre-determined future dates. On these call dates, the lender can propose or impose a new fixed rate for the remaining term of the facility and the borrower has the ‘option’ to either accept the new imposed fixed rate or repay the loan facility. The upshot of this is that on the option

exercise date, the lender could propose an extreme fixed rate, say 20 per cent, which would effectively force the repayment of the underlying facility. The borrower's so called 'option' is only the inalienable right to accept or refuse a new deal such as a fixed rate of 20 per cent.

Maturity:

The date when an investment or borrowing is repaid.

LUHC - Department for Levelling Up, Housing and Communities

Formally Ministry for Housing, Communities and Local Government (MHCLG) and the Department for Communities and Local Government (DCLG) which was created on 5 May 2006, replacing the Office of the Deputy Prime Minister (ODPM), with a remit to promote community cohesion and equality, as well as responsibility for housing, urban regeneration, planning and local government.

Maturity Structure / Profile:

A table or graph showing the amount (or percentage) of debt or investments maturing over a time period. The amount or percent maturing could be shown on a year-by-year or quarter-by quarter or month-by-month basis.

Minimum Revenue Provision (MRP):

An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets.

Ministry for Housing, Communities and Local Government (MHCLG):

The Department for Communities and Local Government (DCLG) was created on 5 May 2006, replacing the Office of the Deputy Prime Minister (ODPM), with a remit to promote community cohesion and equality, as well as responsibility for housing, urban regeneration, planning and local government.

On 8 January 2018, the government announced that the Department for Communities and Local Government will be renamed as the Ministry for Housing, Communities and Local Government (MHCLG).

On the 20 September 2021 this has subsequently been rebranded to Department for Levelling Up, Housing and Communities (LUHC)

Money Market Funds (MMF):

An open-end mutual fund which invests only in money markets. These funds invest in short term debt obligations such as short-dated government debt, certificates of deposit and commercial paper. The main goal is the preservation of principal, accompanied by modest dividends. The fund's net asset value remains constant (e.g. £1 per unit) but the interest rate does fluctuate. These are liquid investments, and therefore, are often used by financial institutions to store money that is not currently invested. Risk is extremely low due to the high rating of the MMFs; many have achieved AAA credit status from the rating agencies:

- **Constant net asset value (CNAV)** refers to funds which use amortised cost accounting to value all of their assets. They aim to maintain a net asset value (NAV), or value of a share of the fund, at €1/£1/$1 and calculate their price to two decimal places known as "penny rounding". Most CNAV funds distribute income to investors on a regular basis (distributing share classes), though some may choose to accumulate the income, or add it on to the NAV (accumulating share classes). The NAV of accumulating CNAV funds will vary by the income received.
- **Variable net asset value (VNAV)** refers to funds which use mark-to-market accounting to value some of their assets. The NAV of these funds will vary by a

slight amount, due to the changing value of the assets and, in the case of an accumulating fund, by the amount of income received.

This means that a fund with an unchanging NAV is, by definition, CNAV, but a fund with a NAV that varies may be accumulating CNAV or distributing or accumulating VNAV.

Non Specified Investment:

Investments which fall outside the CLG Guidance for **Specified investments** (below).

Operational Boundary:

This linked directly to the Council's estimates of the CFR and estimates of other day to day cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

Premiums and Discounts:

In the context of local authority borrowing,

(a) the premium is the penalty arising when a loan is redeemed prior to its maturity date and

(b) the discount is the gain arising when a loan is redeemed prior to its maturity date.

If on a £1 million loan, it is calculated that a £150,000 premium is payable on premature redemption, then the amount paid by the borrower to redeem the loan is £1,150,000 plus accrued interest. If on a £1 million loan, it is calculated* that a £50,000 discount receivable on premature redemption, then the amount paid by the borrower to redeem the loan is £950,000 plus accrued interest. PWLB premium/discount rates are calculated according to the length of time to maturity, current market rates (plus a margin), and the existing loan rate which then produces a premium/discount dependent on whether the discount rate is lower/higher than the coupon rate.

*****_The calculation of the total amount payable to redeem a loan borrowed from the Public Works Loans Board (PWLB) is the present value of the remaining payments of principal and interest due in respect of the loan being repaid prematurely, calculated on normal actuarial principles. More details are contained in the PWLB's lending arrangements circular._

Property:

Investment property is property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.

Prudential Code:

Developed by CIPFA and introduced on 01/4/2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.

Prudential Indicators:

Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators

Public Works Loans Board (PWLB):

This is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

Quantitative Easing (QE):

In relation to the UK, it is the process used by the Bank of England to directly increase the quantity of money in the economy. It *"does not involve printing more banknotes. Instead, the Bank buys assets from private sector institutions – that could be insurance companies, pension funds, banks or non-financial firms – and credits the seller's bank account. So the seller has more money in their bank account, while their bank holds a corresponding claim against the Bank of England (known as reserves). The end result is more money out in the wider economy"*. Source: Bank of England.

Regularity Method - MRP:

As detailed under MRP, this is a charge to revenue to repay capital expenditure financed by borrowing. There are a number of options for a prudent provision and this is for debt prior to 2008 which is supported by the Government through the RSG system. Although regulation 28 is revoked by regulation 4(1) of the 2008 Regulations, authorities are able to calculate MRP as if it were still in force.

Revenue Expenditure:

Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges.

RPI:

Retail Prices Index is a monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent. Pensions and index-linked gilts are uprated using the RPI index.

Section 114 notices (**S114):**

S114 are reports issued by the chief financial officer (or Section 151 officer) of a British public body to prevent certain types of expenditure. The notices take their name from Section 114 of the Local Government Finance Act 1988.

The most common type of notice is made under Section 114(3) which restricts all spending except for that which funds statutory services. Despite the fact that local authorities in the United Kingdom cannot go bankrupt, issuing a Section 114 notice is often described in the media as a council effectively declaring bankruptcy. Most councils under a Section 114 notice will then pass a new budget to introduce cuts and reduce spending.

(Short) Term Deposits:

Deposits of cash with terms attached relating to maturity and rate of return (Interest).

Specified Investments:

Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than one year. UK government, local authorities and bodies that have a high credit rating.

Supported Borrowing:

Borrowing for which the costs are supported by the government or third party.

Temporary Borrowing:

Borrowing to cover peaks and troughs of cash flow, not to fund capital spending.

Treasury Management Code:

CIPFA's Code of Practice for Treasury Management in the Public Services, initially brought in 2003, subsequently updated in 2009 and 2011.

Treasury Management Practices (TMP): Treasury Management Practices set out the manner in which the Council will seek to achieve its policies and objectives and prescribe how it will manage and control these activities.
Unsupported Borrowing: Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.
Variable Net Asset Value (VNAV): Redemptions and investments in Money Market Funds (MMF's) are on the basis of the fund's Net Asset Value (NAV) per share. The NAV of any money market fund is the market value of the fund's assets minus its liabilities and is stated on a per share basis. The net value of the assets held by an MMF can fluctuate, and the market value of a share may not always be exactly the amount that has been invested.
Yield: The measure of the return on an investment instrument.

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DECISION-MAKER:	**AUDIT COMMITTEE**
SUBJECT:	**INTERNAL AUDIT PROGRESS REPORT 2024-25**
DATE OF DECISION:	**11th NOVEMBER 2024**
REPORT OF:	**CHIEF INTERNAL AUDITOR**

CONTACT DETAILS				
Executive Director	**Title**	**ENABLING SERVICES**		
	Name:	**Mel Creighton**	Tel:	**023 8083 3528**
	E-mail	**Mel.Creighton@southampton.gov.uk**		
Author:	**Title**	**CHIEF INTERNAL AUDITOR**		
	Name:	**Elizabeth Goodwin**	Tel:	**023 8083 4616**
	E-mail	**Elizabeth.Goodwin@southampton.gov.uk**		

STATEMENT OF CONFIDENTIALITY

N/A

BRIEF SUMMARY

The Public Sector Internal Audit Standards 2017 (PSIAS), requires the Chief Internal Auditor (CIA) to provide periodical updates to the Governance Committee on:

- Progress made against the agreed annual audit plan.
- Results of audit activities and
- Management's response to risk that in the CIA's judgement maybe unacceptable to the Authority

All other PSIAS requirements are communicated in either the charter or annual audit opinion, which are reported separately to this committee at various times throughout the year.

There are a total of 54 audit reviews in the revised plan for 2024/25. To date, 55% of audits have been completed or are in progress as of 25th October 2024. This represents 13 (24%) audits where the report has been finalised, 5 (9%) where the report is in draft and 12 (22%) audits currently in progress.

There are currently no 'no assurance' reports or critical exceptions contained in this report for this reporting period.

Internal Audit progress for the period 1st April 2024 to 25th October 2024 is covered in the report attached as Appendix 1.

RECOMMENDATIONS:

	(i)	That the Audit Committee notes the Internal Audit Progress report for the period 1st April to 25th October 2024.

REASONS FOR REPORT RECOMMENDATIONS	
1.	In accordance with the Public Sector Internal Audit Standards the Chief Internal Auditor is required to provide an update on progress against the annual audit plan to the Governance Committee for information.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
	None
DETAIL (Including consultation carried out)	
	As above
RESOURCE IMPLICATIONS	
Capital/Revenue	
	None
Property/Other	
	None
LEGAL IMPLICATIONS	
Statutory power to undertake proposals in the report:	
	The Accounts and Audit (England) Regulations 2015 state 'a relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards.
Other Legal Implications:	
	None
RISK MANAGEMENT IMPLICATIONS	
	The report is for note only, there is no decision to be made.
POLICY FRAMEWORK IMPLICATIONS	
	None

KEY DECISION?	**No**
WARDS/COMMUNITIES AFFECTED:	None
SUPPORTING DOCUMENTATION	
Appendices	
1.	Internal Audit Progress Report for the period 1st April to 25th October 2024.

Documents In Members' Rooms

1.	None
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	**No**

Data Protection Impact Assessment		
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.		**No**
Other Background Documents **Other Background documents available for inspection at: N/A**		
Title of Background Paper(s): N/A	**Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)**	

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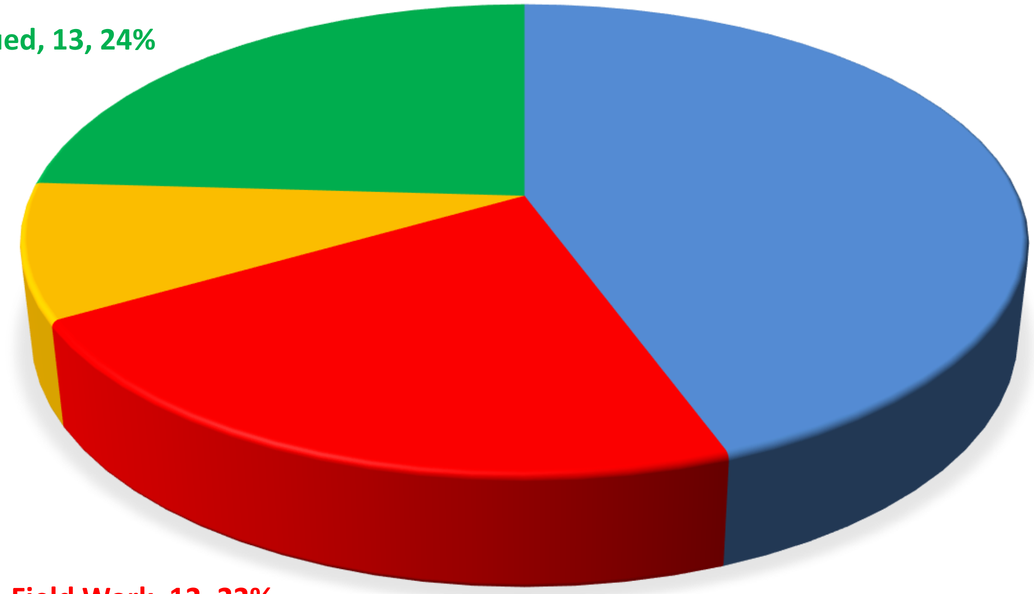
SOUTHAMPTON CITY COUNCIL

Internal Audit Progress Report

11th November 2024

Elizabeth Goodwin, Chief Internal Auditor

1. Audit Plan Progress as of 25th October 2024



There are a total of 54 reviews in the 2024/25 Audit Plan as of 25th October 2024.

To date, 55% of reviews have been completed or are in progress. This represents 13 (24%) items where the report has been finalised, 5 (9%) where the report is in draft and 12 (22%) audits currently in progress.

Status	Current Position
Identified	24
Fieldwork	12
Draft Report	5
Final Report	13
Total	54

Portsmouth City Council Internal Audit Service is performed in compliance with the Public Sector Internal Audit Standards (PSIAS). Compliance to the standard was externally assessed during 2022/23.

2. Audit Plan Status/Changes

The Audit Plan has remained flexible to take into account emerging or escalating risk exposure. Since the last reporting period the following changes to the 2024/25 Audit Plan should be noted:

Added	Canberra Towers Decarbonisation	New request for audit to complete grant verification of spend	Grant
	Control & Outbreak Management Fund (COMF)	New request for audit to complete grant verification of spend	Grant
	Direct Payment (Outstanding Cases)	Need to follow up on outstanding cases from 2023-24 work	Consultancy
	Food Waste Collection	New request for audit to complete grant verification of spend	Grant
	Homelessness and Rough Sleeping	New request for audit to complete grant verification of spend	Grant
	Landlord Controlled Heating Charges	At the request of senior management	Full
	Payroll IDEA Analytics	At the request of senior management	Analytics
	School Centred Initial Teacher Training (SCITT)	New request for audit to complete grant verification of spend	Grant
	Traffic Signal Obsolescence	New request for audit to complete grant verification of spend	Grant

Removed	Asbestos	Deferred to 2025/26 as implementation dates are Sept-25	Follow Up
	Care Act Eligibility	Removed to accommodate additional work	Full
	Children’s Homes	Deferred as project has been delayed until 2025/26	Full
	Continuing Healthcare	Removed to accommodate additional work	Full
	Direct Contact and Levels of Supervision	Removed to accommodate additional work	Full
	Independent Family Safeguarding	Removed to accommodate additional work	Full
	Prevention (Rough Sleeping)	Removed to accommodate additional work	Full

Any audits removed as noted above will now be considered as part of the 2025/26 audit plan.

Portsmouth City Council Internal Audit Service is performed in compliance with the Public Sector Internal Audit Standards (PSIAS). Compliance to the standard was externally assessed during 2022/23.

3. 2024/25 Audits completed since the last reporting period

Asbestos – 2023/24 Audit

Exceptions Raised

Critical	High	Medium	Low
0	3	1	0

Overall Assurance Level

Limited

Actions should be implemented by December 2025

Assurance Level by Scope Area

Achievement of Strategic Objectives	**Limited**
Compliance with Policies, Laws & Regulations	**Limited**
Safeguarding of Assets	**No Areas Tested**
Effectiveness and Efficiency of Operations	**Limited**
Reliability and Integrity of Data	**Limited**

The first high risk was raised in relation to a review of the implementation of the Strategic Management Plan (SMP) identifying that while there had been some key areas of improvement, since previous audits, full implementation was in a 'holding pattern' with the decision to wait until the procurement of a new asbestos frameworks had been completed to further embed procedures outlined in the SMP. As of September 2024, the planned implementation of a new framework is anticipated to be in place by September 2025.

The second high risk was raised in relation to embedding asbestos training with relevant members of staff, as while task sheet training had been rolled out across approximately 260 trades, the number of trades people accessing the asbestos register was less than anticipated when reviewed against the number of jobs carried out. Furthermore, the number of asbestos incidents in 2023 was almost double the 10 year average. The third high risk was raised in relation to a lack of centralised asbestos oversight over jobs, due to the fragmented use of contractors as well as a lack of quality assurance processes in place. The medium risk exception was raised in relation to the new asbestos register as some of the corporate reporting did not go live at the same time as the register was rolled out across the organisation.

Portsmouth City Council Internal Audit Service is performed in compliance with the Public Sector Internal Audit Standards (PSIAS). Compliance to the standard was externally assessed during 2022/23.

Data Management

Exceptions Raised

Critical	High	Medium	Low
0	0	1	1

Overall Assurance Level

Reasonable

Actions should be implemented by December 2024

Assurance Level by Scope Area

Achievement of Strategic Objectives	No Areas Tested
Compliance with Policies, Laws & Regulations	Reasonable
Safeguarding of Assets	Reasonable
Effectiveness and Efficiency of Operations	No Areas Tested
Reliability and Integrity of Data	No Areas Tested

A medium risk exception was raised in relation to the migration to Office 365 Data Storage. While emails and personal cloud storage have migrated over, shared drivers remain locally hosted. This arrangement meets current needs, but it was highlighted that a medium term plan for migration should be documented as cloud storage would support both better resilience and potentially improved security for SCC data. The low risk exception was raised in relation to the Internet and Networked Communications Policy which was not yet been approved by the Information Governance Board.

Portsmouth City Council Internal Audit Service is performed in compliance with the Public Sector Internal Audit Standards (PSIAS). Compliance to the standard was externally assessed during 2022/23.

Expenses, Travel & Subsistence

Exceptions Raised

Critical	High	Medium	Low
0	1	2	0

Overall Assurance Level

Reasonable

Actions should be implemented by March 2025

Assurance Level by Scope Area

Achievement of Strategic Objectives	No Areas Tested
Compliance with Policies, Laws & Regulations	Limited
Safeguarding of Assets	Assurance
Effectiveness and Efficiency of Operations	Reasonable
Reliability and Integrity of Data	No Areas Tested

A high risk exception was raised in relation to mileage claims with employees submitting claims not certifying in Business World, specifically that they have a valid driver's licence, insurance for business/work journeys, valid road tax and MOT. Further concerns were noted with 2/15 claims tested which did not include sufficient description of the journey the mileage was claimed for. The first medium risk was raised in relation to the HR Conditions of Service requiring a review to better reflect current practices and remote working. The second medium risk was raised in relation to expense claims as 2/20 sampled claims did not attach a valid receipt and 1/20 could not be justified as a valid expense claim (work polo shirt).

Portsmouth City Council Internal Audit Service is performed in compliance with the Public Sector Internal Audit Standards (PSIAS). Compliance to the standard was externally assessed during 2022/23.

IT Application and Operating Systems

Exceptions Raised

Critical	High	Medium	Low
0	2	3	0

Overall Assurance Level

Reasonable

Actions should be implemented by October 2024

Assurance Level by Scope Area	
Achievement of Strategic Objectives	**Reasonable**
Compliance with Policies, Laws & Regulations	**No Areas Tested**
Safeguarding of Assets	**Reasonable**
Effectiveness and Efficiency of Operations	**Reasonable**
Reliability and Integrity of Data	**No Areas Tested**

The first high risk was raised in relation to available funding which is based on current known costs, most significantly the replacement for CareDirector and new hardware and infrastructure replacements. Further work needed to be undertaken to quantify the 'enabling' costs of implementing the Digital Strategy, target operating model and associated Transformation Business Cases. The second high risk relates to the report undertaken by the Society for Innovation Technology and Modernisation (Soctim) which identified 10 'quick wins' as it related to the target operating model, while evidence was provided showing progress made against quick wins they needed further prioritisation. The first medium risk was raised in relation to Soctim actions and ensuring they had assigned ownership and delivery dates. The second medium risk was raised in relation to some potential system duplication in the number of IT applications in the portfolio. The final medium risk was raised in relation to 69 devices have been identified as not compatible with Windows 11.

Portsmouth City Council Internal Audit Service is performed in compliance with the Public Sector Internal Audit Standards (PSIAS). Compliance to the standard was externally assessed during 2022/23.

Parking Permits and Penalty Charge Notices (PCNs)

Exceptions Raised

Critical	High	Medium	Low
0	4	1	0

Overall Assurance Level

Limited

Actions should be implemented by March 2025

Assurance Level by Scope Area

Achievement of Strategic Objectives	**Limited**
Compliance with Policies, Laws & Regulations	**No Areas Tested**
Safeguarding of Assets	**Limited**
Effectiveness and Efficiency of Operations	**Limited**
Reliability and Integrity of Data	**Reasonable**

A first high risk exception was raised in relation to financial planning due to a lack of consideration to future investment requirements, PCN recovery not being incorporated into budget oversight/tracking and the annual report outlining enforcement activities was last published in the 2020-21 financial year. The second high risk was raised in relation to a review of the storage and inventory management for parking permits which identified several concerns. The third high risk was raised in relation to record keeping for issued permits with testing identifying 91 permit payments not being updated on the system, 55 permits being issued under special arrangements without documentation as well as reduced rate permits not being updated in the system. The fourth risk was raised in relation to a lack of financial reconciliation of permit income with testing unable to establish payment for 20 out of 7,797 permits issued. The medium risk was raised due to the Service Managers team meetings with Enforcement Officers not being formally documented to capture insights and updates provided.

Portsmouth City Council Internal Audit Service is performed in compliance with the Public Sector Internal Audit Standards (PSIAS). Compliance to the standard was externally assessed during 2022/23.

Partnership for South Hampshire (PfSH)

Exceptions Raised				Overall Assurance Level	Assurance Level by Scope Area	
Critical	High	Medium	Low	Assurance	Achievement of Strategic Objectives	No Areas Tested
0	0	1	1		Compliance with Policies, Laws & Regulations	Assurance
					Safeguarding of Assets	No Areas Tested
					Effectiveness and Efficiency of Operations	Assurance
					Reliability and Integrity of Data	Assurance

Overall based on the testing conducted, Internal Audit can give assurance that adequate financial systems and controls are in place for the administration of the PfSH accounts.

List of Completed Grant

Grant Outcomes:	Assurance/Certified

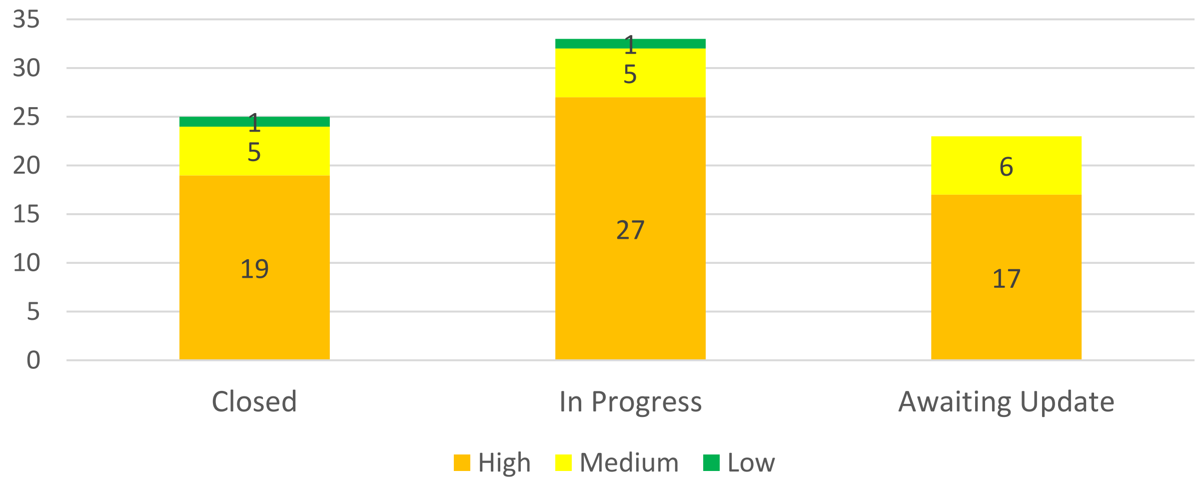
1. Bus Subsidy Grant
2. Canberra Towers Decarbonisation
3. Control and Outbreak Management Fund (COMF)
4. Disabled Facilities Grant
5. Local Transport Capital Funding
6. Multiply Grant
7. School Centred Initial Teacher Training (SCITT)
8. Transport Signal Obsolescence

Portsmouth City Council Internal Audit Service is performed in compliance with the Public Sector Internal Audit Standards (PSIAS). Compliance to the standard was externally assessed during 2022/23.

4. Audit Action Tracker

4.1 An Audit Action Tracker has been rolled out across the authority which lists outstanding actions raised in audit reports. The tracker includes details on ownership, status, progress and timeframes in a user friendly SharePoint site. The purpose of the tracker is to provide Senior Managers and Directors additional means to maintain greater visibility and oversight of outstanding actions in their services/directorates and to ensure greater traction when it comes to implementation.

4.2 Action owners are ultimately responsible for ensuring that actions they have agreed to have been completed and the risk exposure has been adequately reduced or mitigated. Internal Audit will follow up on a number of actions/audits based on the risk profile, of the 153 actions in the tracker. This equates to 72 (47%) actions with the remaining 81 (53%) delegated to the service with some routine checking being undertaken by audit. Details on the progress of actions delegated to services has been included below:

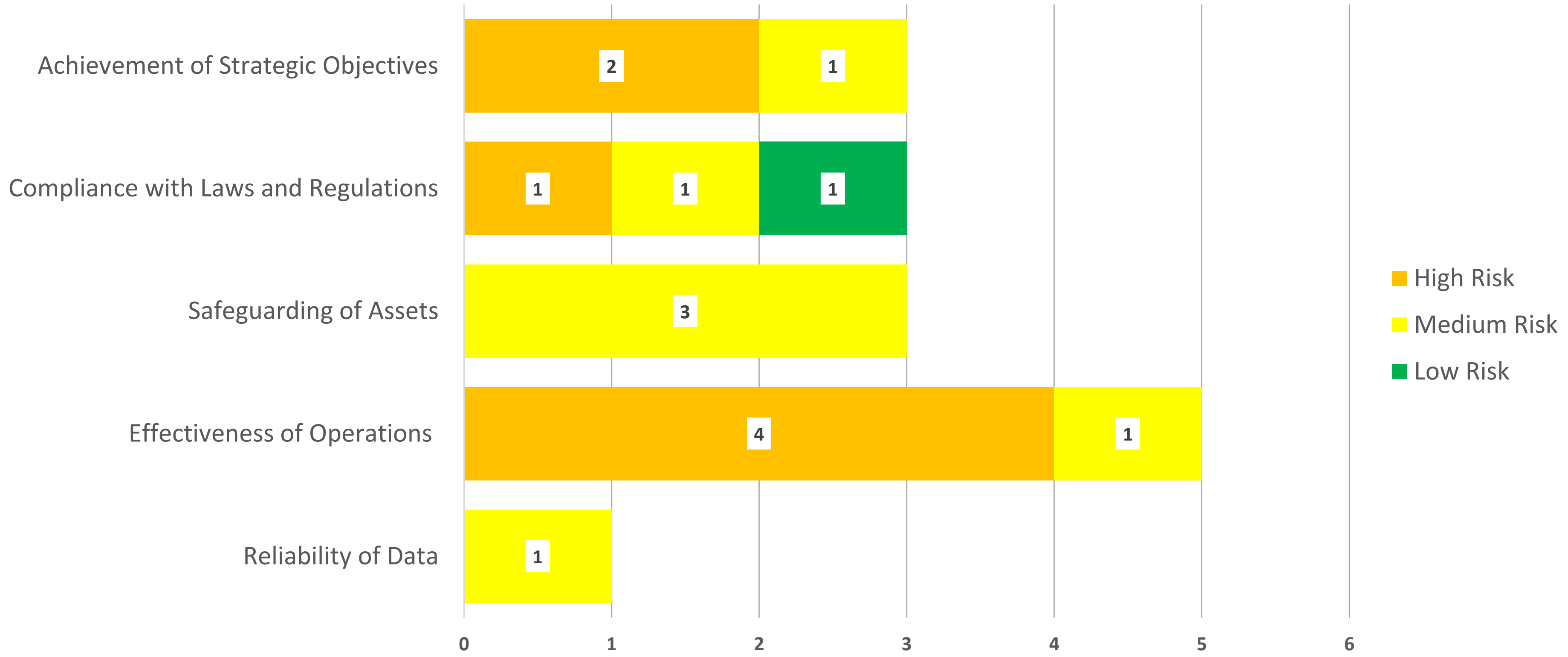


<u>Actions Delegated to Service</u>
Of those 81 actions delegated to the service, as of 18th October; 25 (31%) have been closed down with a further 33 (41%) currently listed as in progress. The remaining 23 (28%) were awaiting an update from the service.

4.3 As of mid-October, Internal Audit has attended each Directorate Management Team (DMT) to demonstrate the audit action tracker and to outline their responsibilities regarding updating on action progress. Internal Audit will return to each DMT on a quarterly basis to report on the directorates progress and to raise by exception the open actions which have gained little traction, or which are still significant control weaknesses.

Portsmouth City Council Internal Audit Service is performed in compliance with the Public Sector Internal Audit Standards (PSIAS). Compliance to the standard was externally assessed during 2022/23.

5. Exception Analysis to Date



	Achievement of Strategic Objectives	Compliance	Safeguarding of Assets	Effectiveness of Operations	Reliability & Integrity	Total
Critical Risk						
High Risk	2	1		4		7
Medium Risk	1	1	3	1	1	7
Low Risk - Improvement		1				1
Grand Total	**3**	**3**	**3**	**5**	**1**	**15**

Portsmouth City Council Internal Audit Service is performed in compliance with the Public Sector Internal Audit Standards (PSIAS). Compliance to the standard was externally assessed during 2022/23.

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DECISION-MAKER:		**AUDIT COMMITTEE**		
SUBJECT:		**CIPFA RESILIENCE AND FINANCIAL MANAGEMENT REVIEW – PROGRESS UPDATE**		
DATE OF DECISION:		**11 NOVEMBER 2024**		
REPORT OF:		**EXECUTIVE DIRECTOR ENABLING SERVICES & S151 OFFICER**		
CONTACT DETAILS				
Executive Director	**Title:**	**Executive Director Enabling Services & S151 Officer**		
	Name:	**Mel Creighton**	**Tel:**	**023 80833528**
	E-mail:	**Mel.Creighton@southampton.gov.uk**		
Author:	**Title:**	**Director of Finance (interim)**		
	Name:	**Richard Williams**	**Tel:**	**023 8083 2936**
	E-mail:	**Richard.Williams@southampton.gov.uk**		

STATEMENT OF CONFIDENTIALITY		
NOT APPLICABLE		
BRIEF SUMMARY		
In May 2023 the Council commissioned the Chartered Institute of Public Finance and Accountancy (CIPFA) to undertake a Resilience and Financial Management review. This report provides an update to the Committee on progress in implementing the recommendations of the CIPFA review.		
RECOMMENDATIONS:		
	(i)	To note the Council's progress in implementing the recommendations of the CIPFA review.
	(ii)	To note the next steps to implement the remainder of the recommendations of the review as part of the Reshaping Financial Management programme.
REASONS FOR REPORT RECOMMENDATIONS		
1.	This is a progress update for noting by the Committee at this stage. As the implementation of the recommendations progresses, further update reports will be provided to the Committee.	
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED		
2.	The alternative would be not to update and keep the Audit Committee appraised of progress. This was rejected because it does not provide transparency nor the opportunity to demonstrate the significant progress made.	
DETAIL (Including consultation carried out)		
	CONSULTATION	
3.	Not applicable.	

	RESILIENCE AND FINANCIAL MANAGEMENT REVIEW
4.	The Resilience and Financial Management Review covered three elements i) the financial resilience of the Council and what steps could be taken to improve resilience ii) the financial management arrangements the council has in place and opportunities for improvement and iii) benchmarking and how the council's spend compares to statistical neighbours.
	REVIEW RECOMMENDATIONS
5.	The review's recommendations are set out in Appendix 1 and this includes an assessment of the council's progress to date in implementing the recommendations. This shows that significant progress has already been made both in stabilising the council's financial position and improving financial management.
6.	Further work is planned on improving financial management across the organisation and within the finance function. This is being delivered as part of the Reshaping Financial Management programme. Further updates on the programme will be provided as it progresses.
7.	Similarly, there is further work to do to build the financial resilience of the council including removing the £40M structural deficit that necessitated the application for Exceptional Financial Support (EFS). This will require the rebuilding of reserves, delivering Transformation Savings and setting in train a growth and development plan that will increase the local tax base.
RESOURCE IMPLICATIONS	
Capital/Revenue	
8.	Not applicable
Property/Other	
9.	Note applicable
LEGAL IMPLICATIONS	
Statutory power to undertake proposals in the report:	
10.	
Other Legal Implications:	
11.	None
RISK MANAGEMENT IMPLICATIONS	
12.	The risk management implications have been taken into consideration in developing and implementing the recommendations of the CIPFA Review and in designing the Reshaping Financial Management programme.
POLICY FRAMEWORK IMPLICATIONS	
13.	Not applicable.

KEY DECISION?	**~~Yes~~/No**	
WARDS/COMMUNITIES AFFECTED:		**None**

SUPPORTING DOCUMENTATION	
Appendices	
1.	Progress Update
2.	

Documents In Members' Rooms

1.	CIPFA Resilience and Financial Management Review (May 2023)

Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	~~Yes~~/No
Privacy Impact Assessment	
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	~~Yes~~/No
Other Background Documents **Other Background documents available for inspection at:**	

Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	None	

Appendix 1

CIPFA REVIEW PROGRESS UPDATE

Introduction

This Appendix sets out the significant progress made in implementing the recommendations of the CIPFA review, as at the end of October 2024. There is still further work to be done, and this is being taken forward as part of the Reshaping Financial Management (RFM) programme, that is part of the Council's Transformation Programme.

As well as to this Committee progress is reported to the Transformation Board and to the Improvement Board on a regular basis.

The tables below set out the progress against each of the main recommendations made by CIPFA.

Financial Resilience

Table 1 below summarises CIPFA's main recommendations in relation to financial resilience and the council's progress to date in implementing them.

Table 1: Financial Resilience Recommendations and Progress

CIPFA Recommendation	Progress as at October 2024
It is crucial that the Council delivers the savings identified as planned.	The budget monitoring report for Month 6 (to the end of September 2024) shows that 96% of the planned £24.6M savings for 2024/25 are delivered or expected to deliver (rising to 99% if amber rated savings are included). This compares to 39% savings delivery in 2022/23.
Expenditure is controlled within the presented budget	Budget Monitoring (again M6) for 2024/25 is forecasting an overall positive variance of £13.2M compared to the presented budget. In 2023/24 a forecast deficit of £16M at Month 5 (August) was reduced to an overspend of £1.1M at year end due to cost control and budget management measures
There should be a concerted effort to replenish reserves in a planned programme.	The General Fund Reserve has been increased to £12M so it is now at the minimum recommended by CIPFA, as opposed to nearly £2M below. At the end of 2023/24 we were also able to contribute £4.4M across several earmarked reserves. Earmarked Reserves are essential to managing our financial risk and to set aside sums for known or likely calls. They include our Medium-Term Financial Risk Reserve, Social Care Demand Risk Reserve, and the Transformation and Improvement Reserve. Our financial strategy going forwards is to progressively replenish and improve our Reserves position to increase financial resilience. We will not draw on Reserves to support the revenue budget in 2024/25.
Improved scrutiny of capital programme needed	The budget monitoring report for Month 7 will include a more insightful analysis of under/overspends on the programme and of slippage. This monitoring report will be presented to Cabinet at the end of November.
On Council Tax collection the broader sector however tends to have collection rates nearer 95%.	The target collection rate for Council Tax is 95% for 2024/25. The outturn position for 2023/24 was a modest improvement on 2022/23 at 93.76%. The recently implemented Debt Management

	Centre includes plans to increase Council Tax collection rates, and to reduce levels of Council Tax debt.

Financial Management

Table 2 below summarises CIPFA's main recommendations in relation to financial resilience and the council's progress to date in implementing them.

CIPFA prioritised its recommendations on financial management, where 1 is the highest priority and 4 the least important. This has allowed us to prioritise improvements.

Table 2: Financial Management Recommendations and Progress

CIPFA Recommendation	Priority	Progress as at October 2024
Strengthen the budget setting process with greater ownership and engagement across the Council.	1	The budget setting process for 2024/25 included a more rigorous and collaborative assessment of deliverable savings and pressures, so that budgets were both realistic and achievable. This, alongside early delivery of Transformation savings, h`as resulted in positive and improving budget monitoring variance every month (to Month 6), the successful implementation of Deficit Recovery Plans and the near 100% sign up of Accountability Statements by budget holders. A budget lesson learned exercise was undertaken following the 2024/25 budget involving elected members, directors and budget holders. Improvements will be introduced for 2025/26 including simplification and better presentation of budget reports.
Increase the standard of financial awareness across service directorates.	2	Following Council approval of the 2024/25 budget, budget holders were issued with user-friendly budget packs for the budgets for which they are responsible. These were accompanied by briefing and budget drop-in sessions. Alongside budget packs, Accountability Statements were required to be signed confirming the budget holder understood their responsibility to manage within the resources allocated. The Southampton Manager programme will include budget holder and financial awareness training and competency requirements.
The approach to strategic budgeting and financial planning is developed to include a longer time frame, greater use of cost and demand driver intelligence and scenario planning.	1	The Rebased MTFS 2024/25 to 2028/29 was presented to Cabinet in July and updated in October. This clearly articulates the movement from the 2024/25 budget to the base position for 2025/26 including the budget gap the council needs to close through transformation and other savings. This will be updated prior to budget setting in February 2025 when further finance settlement information will be available. This update will incorporate the results of the demand management modelling work that has been commissioned from Newton. Going forward the ambition is to develop a 10-year balanced MTFS model to incorporate long term demand planning and the impact

		of growth and development plans on the local tax base and other funding sources.
Consider the integration of finance into the assessment of future requirements and change programmes, not just at business case stage but from the outset.	2	The Finance team have been heavily involved from the outset of the Transformation programme. Two members of the finance team have been seconded to the Programme to support financial modelling, benefits realisation and monitoring of expenditure. Finance Business Partners and their teams have supported Portfolio and Programmes from the outset up to and including business case development. A dedicated Transformation Programme Business Partner has been recently appointed to work on programme delivery.
Continue to develop the star chamber approach which is helping to provide leverage in addressing the current financial challenges	1	Finance have been heavily involved with the Management Board, elected members and Transformation Board to challenge and stretch the savings targets of the Transformation Programme ensuring these will be sufficient to address the Council's structural deficit as set out in the MTFS.
Develop a finance service offer that can be communicated across the Council.	4	The finance service now provides an integrated offer comprising operational finance (revenue and benefits, debt management and accounts payable), corporate and strategic finance and business partnering. Management and leadership arrangement reflect this. The integrated offer will be further developed as part of the Target Operating Model for finance that is currently in development for implementation next year.
Review and refresh the role and function of finance business partners to ensure it is fit for purpose.	1	There is now a business partner single point of contact for each Executive Director and their teams, reflecting the new council directorate structure. The role and responsibilities of business partnering are being reviewed to ensure they undertake a broader financial advisory role, rather than specific focus on budget monitoring. This is being further developed in the Target Operating Model. Finance is also involved in developing the overall Enabling Services business partnering approach.
Develop a culture of budget holder accountability and responsibility.	1	Budget holder Accountability Statements have been introduced with near 100% compliance across the Council.
Work with the services to improve the production of business cases.	2	Finance guidance, principles and approach to costing and savings estimation for Transformation Business Cases was developed by finance to ensure consistency across the board for services. This was then used to develop the financial aspects of each business case.
Improve the sophistication of information on costs and their drivers in building budgets.	1	There is improved monitoring of costs and their drivers especially in adults and children's services including of unit costs, care settings and volumes. This increased sophistication is feeding through to both the MTFS and transformation savings and will be reflected in budget setting.
Consider developing the approach and skills used to	3	This has already started with careful monitoring of demography, demand and packages of care in Adults and

develop budgets and forecast within finance and the budget holder community.		Children's Services. We are working with Newton on future demand modelling for home to school transport, looked after children and care packages in adult services. We are actively benchmarking against statistical neighbours to inform budget and savings targets. The Southampton Manager training will include creation of a Finance Academy to embed skills in the wider budget holder community.
Continue to develop the role of budget holders to ensure engagement and ownership throughout the financial year.	1	There has been demonstrably improved engagement between finance and budget holders for the production o of the 2024/25 monthly budget monitoring reports. In turn these reports have been substantially re-designed to provide clearer and more insightful management information.
Review and address the finance function 'transactional' activity.	3	A new Debt Management Centre was implemented in August 2025 to provide a centralised, customer focused approach to debt collection. This will be further refined and developed over the coming months, including bringing more debt types into scope. Further significant enhancements in transactional services are being introduced and planned, including payment simplification and Council Tax e-billing alongside opportunities for automation and process improvement.
Consider a programme of process reviews with the aim of introducing efficiency, reducing work arounds and maximising output value.	4	The RFM programme has a 'Process' workstream to introduce process efficiency within finance including the MTFS and budgeting processes. Proposals for improved efficiency of Finance Procedure Rules (FPRs) will come forward as part of the Constitution Review. In addition, within the transactional workstream, business processes in operational finance are being reviewed to deliver single view of the customer, payment simplification and automation.
Evaluate the finance system and develop an improvement plan to maximise the functionality available, also its readiness for a self-serve environment.	4	There is a Technology Workstream within the RFM programme and this has already developed a technology road map of system improvements to the Council core Enterprise Resource Planning (ERP) system (Business World). Some changes have been implemented including production of user-friendly budget packs and Power BI based budget monitoring report.
Broaden the MTFP conversation across all partners to capture wider opportunities for service delivery and efficiency.	3	As part of the ambitions to develop a 10-year MTFS, council will engage with devolution partners, other public sector bodies and the private sector to drive economic growth and regeneration in the city, to increase the tax base and council revenues.
Work to improve integration of the MTFP with individual service plans. Ensure the expected additional costs of transformation and the expected savings are profiled over the life of the MTFP.	1	Transformation savings (and costs) now reflected and profiled in the council's financial strategy and MTFS. This is reflected in both the Quarter 1 MTFS and Rebase report (July 2024) and the Quarter 2 MTFS Update (October 2024). The MTFS also sets the Cash Limit targets for Directorate and service business plans.

Consider development of KPIs and dashboards to monitor and inform balance sheet reporting.	3	Improvements in budget monitoring and reporting include how balance sheet reporting takes place including debt, reserves and treasury management reporting.

Benchmarking

As part of the Review, CIPFA undertook some high-level service benchmarking. This was based on the Revenue Outturn (RO) data for 2021/2022 and compared to the Council's nearest statistical neighbours as defined in the CIPFA Stats+ Model.

It does notes that any benchmarking should be treated with caution, but does conclude:

Our data analysis shows that the Council's spend per head is 21% higher than its nearest neighbours' average spend. There are potential savings that the Council could make by more closely matching its neighbours' cost per head, particularly in Education Services, Adult Social Care, and Planning and Development Services.

The Council is now more actively using benchmarking information to:

- Inform the Transformation Savings targets within the Transformation Programme, especially in areas of high comparative spend.
- Illustrate how the Council compares to statistical neighbours. For example, the benchmarking section of the July MTFS quarter 1 Update report.
- Update the benchmarks with the latest available information – currently 2023/24 rather than the 2021/22 data that CIPFA was able to use.
- Help guide financial policy over the medium term and focus the organisation on the cost of service delivery.

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