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AGENDA PAPERS FOR

ACCOUNTS AND AUDIT COMMITTEE

Date: Wednesday, 7 February 2024

Time: 6.30 pm

Place: Committee Rooms 2 and 3, Trafford Town Hall, Talbot Road, Stretford, M32 0TH

A G E N D A	**PART I**	**Pages**

1. **ATTENDANCES**

   To note attendances, including Officers and any apologies for absence.

2. **DECLARATIONS OF INTEREST**

   Members to give notice of any interest and the nature of that interest relating to any item on the agenda in accordance with the adopted Code of Conduct.

3. **QUESTIONS FROM MEMBERS OF THE PUBLIC**

   A maximum of 15 minutes will be allocated to public questions submitted in writing to Democratic Services (democratic.services@trafford.gov.uk) by 4 p.m. on the working day prior to the meeting. Questions must be within the remit of the Committee or be relevant to items appearing on the agenda and will be submitted in the order in which they were received.

4. **MINUTES** 1 – 6

   To receive and if so determined, to approve as a correct record the Minutes of the meeting held on 23rd November 2023.

5. **EXCLUSION RESOLUTION**

   Motion (Which may be amended as Members think fit):

   - That the public be excluded from this meeting during consideration of the first item on the agenda STRATEGIC RISK UPDATE: Cyber Security presentation by the Chief Digital Officer, because of the likelihood of disclosure of "exempt information" which falls within one or more descriptive category or categories of the Local Government Act 1972, Schedule 12A, as amended by The Local Government (Access to Information) (Variation) Order 2006, and specified on the agenda item or report relating to each such item respectively.

6. **STRATEGIC RISK UPDATE: CYBER SECURITY**

To consider a report from the Chief Digital Officer.

7. **PROCUREMENT UPDATE - STAR UPDATE** 7 - 20

To consider a report update from the Director of STAR Procurement.

8. **AUDIT PROGRESS REPORT** Verbal Report

To consider a report of the Council's External Auditor, MAZARS.

9. **ASSET INVESTMENT STRATEGY UPDATE** 21 - 30

To receive a presentation from the Director of Finance and Systems.

10. **TREASURY MANAGEMENT ANNUAL STRATEGY REPORT** 31 - 94

To consider a report of the Leader of the Council with Executive Portfolio for Finance, Change and Governance and the Director of Finance and Systems.

11. **BUDGET MONITORING 2023-24 - PERIOD 8 (APRIL TO NOVEMBER 2023)** 95 - 144

To consider a report of the Leader of the Council with Executive Portfolio for Finance, Change and Governance and the Director of Finance and Systems.

12. **2023-24 AUDIT AND ASSURANCE SERVICE UPDATE REPORT, OCTOBER TO DECEMBER 2023** 145 - 160

To consider a report from the Audit and Assurance Manager.

13. **ACCOUNTS AND AUDIT COMMITTEE WORK PROGRAMME 2023-24** 161 - 164

To consider a report from the Audit and Assurance Manager.

14. **URGENT BUSINESS (IF ANY)**

Any other item or items which by reason of special circumstances (to be specified) the Chairman of the meeting is of the opinion should be considered at this meeting as a matter of urgency.

SARA TODD
Chief Executive

Membership of the Committee

Councillors B. Brotherton (Chair), J. Lloyd (Vice-Chair), J.M. Axford, O.J. Baskerville, J. Brophy, G. Carter, M. Cordingley, M.J. Welton, M.P. Whetton and Platt.

Further Information
For help, advice and information about this meeting please contact:

Stephanie Ferraioli, Governance Officer
Tel: 0161 912 2019
Email: stephanie.ferraioli@trafford.gov.uk

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ACCOUNTS AND AUDIT COMMITTEE

23 NOVEMBER 2023

PRESENT

Councillors: Brotherton (Chair), Axford, Cordingley, Baskerville, Brophy, Carter, Welton

IN ATTENDANCE

Jeannie Platt	Independent Member
Karen Murray	External Auditor, Mazars
Dave Muggeridge	Head of Financial Management
Mark Foster	Audit and Assurance Manager
Frank Fallon	Finance Manager
Stephanie Ferraioli	Governance Officer

1. ATTENDANCES

An apology for absence has been received from Councillor Lloyd and Whetton.

2. DECLARATION OF INTEREST

No declaration of interest to be recorded.

3. MINUTES

RESOLVED – That the minutes of the meeting held on 27 September 2023 be noted as a true and correct record.

4. QUESTIONS FROM MEMBERS OF THE PUBLIC

No questions from members of the public were received.

5.2021/22 AUDIT COMPLETION FOLLOW UP LETTER

The External Auditor MAZARS, presented the Audit Completion Follow up Letter for the financial year 2021/22 in which it is confirmed that the outstanding matters within the September 2023 Audit Completion Report have now been resolved.

RESOLVED – That the Audit Completion Follow up Letter be noted.

6. 2021/22 AUDITOR'S ANNUAL REPORT

The External Auditor MAZARS, presented the Auditor's Annual report for the financial year 2021/22, this confirmed that:

- the Audit Report, issued on 16 November, gave an unqualified opinion on the financial statements for the year ended 31 March 2022.
- Value for Money arrangements – work had been completed on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and no significant weaknesses in those arrangements had been identified.
- The report noted that although the external auditor was satisfied there was no immediate threat to the Council's financial sustainability, the use of reserves at current levels is not considered sustainable into the future. Action should be taken to align funding to the reduced cost base to ensure the Council achieve its planned saving targets and identify efficiency savings in its future budget as these reserves are critical to the Council's ability to manage future financial risks.

  RESOLVED – That the report be noted.

7. TREASURY MANAGEMENT 2023/24 MID YEAR PERFORMANCE REPORT

The Finance Manager for Place and Central Services presented the Treasury Management Mid-Year Performance Report for 2023/24 informing Members of the activities undertaken so far relating to Investment, Debt and Prudential Indicators this financial year.

Members were guided towards table 4 in the report where the Council's position in relation to debt and investment is clearly highlighted. The Council's external debt is lower than the Capital Financing Requirement and as such the Council is under borrowing by £93m. Ultimately, the decision to borrow during the remaining part of this financial year will be made by the Director of Finance and Systems in line with the Treasury Management and Debt strategies.

The Finance Manager for Place and Central Services was happy to report that during this period two loans have been repaid in full to the amount of £15m and no new loans have been secured, meaning that the total external loan amounts to just below £300m and the Council's investments maturing during the same period have been repaid on time. A discussion took place on the ethical investment policy and its influence in avoiding investments made in specific industries or counties with poor human rights records. The Head of Financial Management clarified that investments were restricted to counterparties as advised by our Treasury Management advisors which does reflect considerations on ethical conduct. The investment policy will be updated in February 2024 as part of the Treasury Strategy to formalise these arrangements.

A discussion took place on the role of the Investment Management Board and its role in ensuring appropriate governance and oversight of the Asset Investment Strategy. Members of the Accounts and Audit Committee requested further details of the boards Governance and oversight be reported to a later meeting.

RESOLVED:

1) That an update on the Governance arrangements of the Asset Investment Board be provided at the next meeting.
2) That the report be noted.

8. INSURANCE PERFORMANCE REPORT 2023/24

The Head of Financial Management presented the annual insurance report which covered the financial outturn, claims activity and future themes. The budget was contained within existing resources with sufficient resource to increase the Insurance Risk Reserve for the second year to cover potential evolving claims suggested by the actuary. A small increase in claims was being experienced compared with prior years following the post covid increase in activity. No patterns of claims were of concern and the high defence rate on highways claims was noted.

The Head of Financial Management highlighted the significant exercise currently in progress relating to the retendering of the insurance contract for the next 5 years and the potential risks relating to cost escalation given the current market conditions.

RESOLVED – That the update be noted.

9. FINANCIAL MANAGEMENT CODE UPDATE

The Head of Financial Management updated the Committee on the Council’s Financial Management Code set by the Chartered Institute of Public finance and Accountability (CIPFA), a code is not statutory but places a duty on each authority to ensure robust management of their finances.

The Council carried out an annual self assessment reviewing the 7 sections within the Code to ensure annual compliance. Progress against the self assessment was highlighted in the report. Further areas for improvement were discussed and will be progressed during the remainder of this financial year.

RESOLVED:

1) That a further update on the Financial Management Code be provided at next available opportunity.
2) That the update be noted.

10. STRATEGIC RISK REGISTER – NOVEMBER 2023 UPDATE

The Audit and Assurance Manager presented Committee with a further update after receiving more information from CLT. The report draws attention to the 16 risks with 3 changes with Risk 1 the Medium Term Financial Strategy, which presents an increase from 20 to 25 which is High; Risk 14 Business Continuity Planning, which also presents an increase from 6 Low to 9 Medium and Risk 13 relating to the joint venture with Amey which presents a decrease from 15 Medium to 10 Medium.

In respect of Risk 14, the Audit and Assurance Manager informed that a new officer covering the role of Emergency Planning will start after Christmas. It was also noted that more detailed updates on specific strategic risks regards Climate Change and Cyber Security, are expected to be provided at one of the next Committee meetings.

RESOLVED – That the update be noted.

11. 2023/24 AUDIT AND ASSURANCE SERVICE UPDATE REPORT JULY TO SEPTEMBER 2023

The Audit and Assurance Manager presented a further update on the audit plan for the period between July and September 2023 when the team have focused on progressing a number of financial systems audits as well as finalising a number of school audit reports (listed in section 5 on page 171 of the report along with the opinion levels which are either substantial or reasonable).

The team also continues to support the national counter fraud initiative and have also undertaken some work in respect of STAR Procurement; an update on both will be available at next Committee meeting.

RESOLVED:

1) That a further Audit update report will be presented at the next Committee meeting in February, which will include details of further final reports issued, and details of other work completed, including in relation to the National Fraud Initiative and STAR Procurement.
2) That the update be noted.

12. ACCOUNTS AND AUDIT COMMITTEE WORK PROGRAMME 2023/24

The Audit and Assurance Manager informed of the changes made to the work programme with STAR Procurement now attending in February to present to Members. It is also expected that there will be an update on Cyber security risks in February.

The Audit and Assurance Manager will review the work programme for the remainder of the year to include further training and briefings. Investment was suggested as one of the topics that is of great interest for Members.

RESOLVED:

1) That training briefing sessions for Members be arranged.
2) That the amendments to the work programme be noted.

13. URGENT BUSINESS (IF ANY)

There was no urgent business to discuss.

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Accounts and Audit Committee - Trafford

7th February 2024

STAR PROCUREMENT

Lorraine Cox
STAR Director
Elizabeth McKenna
Asst. Director – Delivery

STOCKPORT
METROPOLITAN BOROUGH COUNCIL

Knowsley Council

TRAFFORD
COUNCIL

STAR
PROCUREMENT

ROCHDALE
BOROUGH COUNCIL

St.Helens Council

Tameside
Metropolitan Borough

TRAFFORD COUNCIL

Trafford Achievements

As at 2022 / 2023

£1,415,294 in Efficiencies in 22/23

47.1% Social Value return secured on total contract value, accumulative over the past 4 years

76.42% of spend retained within GM, 49.7% being retained within Trafford, in 22/23

91.5% Compliance in 22/23

3.6 X Return on Investment in 22/23

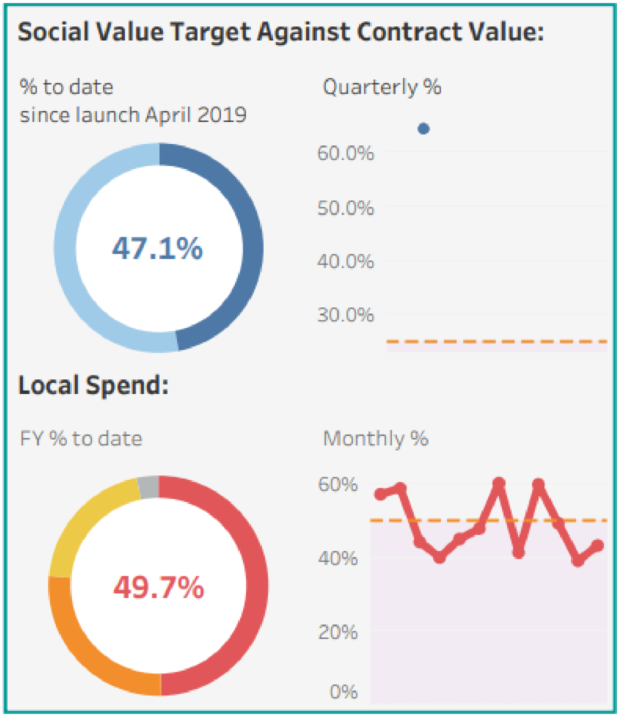
STAR

www.star-procurement.gov.uk

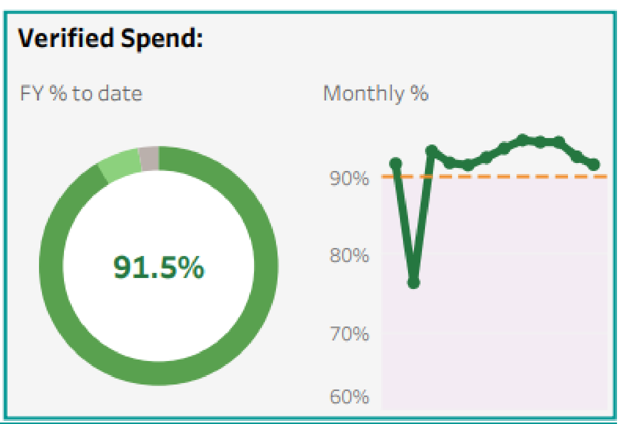
STAR PROCUREMENT

Trafford Council Q4 22/23 – Performance (STAR Board/JC Report):

Communities



Confidence



Trafford Council Q1 23/24 – Performance (STAR Board/JC Report):

Collaboration

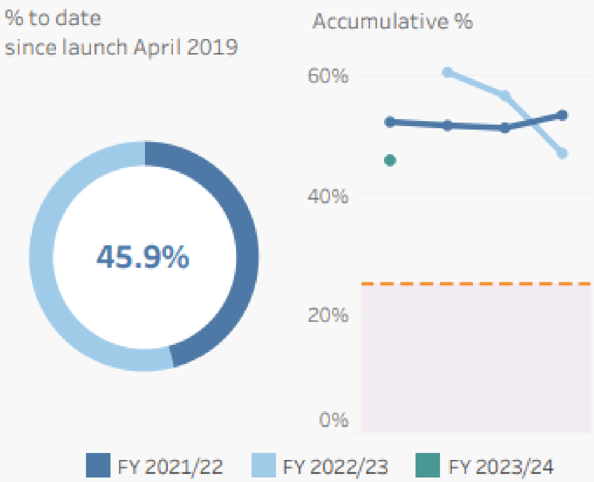
Collaborative Contracts:

163 Collaborative contracts live in FY 2022/23.

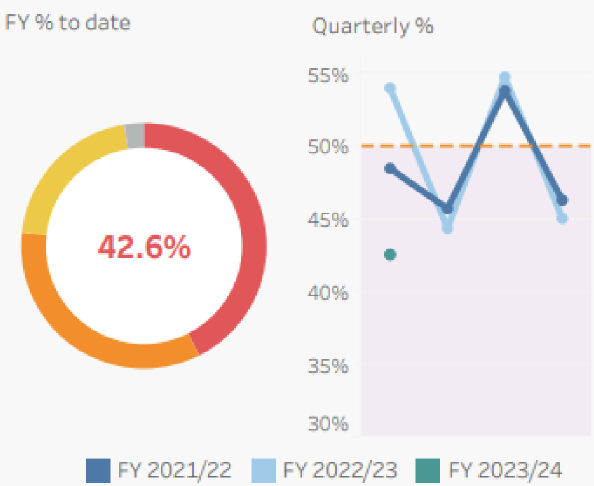
26 projected to continue in Q1 2023/24.

Communities

Social Value Target Against Contract Value:

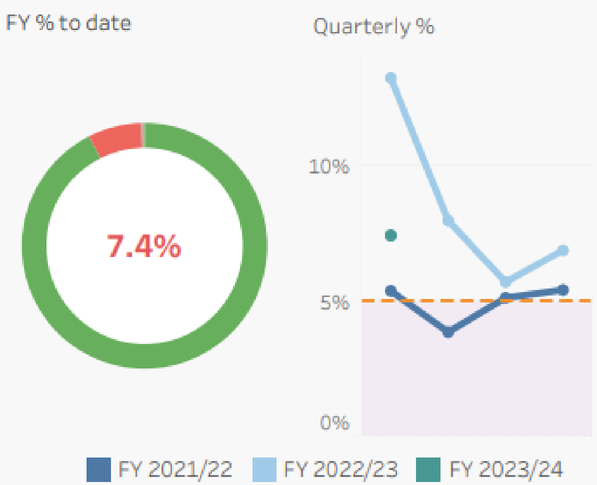


Local Spend:



Confidence

Non-Verified Spend:



![STAR PROCUREMENT]

Compliance Data:

- **Non-Verified Spend**: Q1 23/24: 7.4%
- Analysis is being undertaken to understand what isn't compliant and why. To be shared with Board Rep (Sara Saleh)

- **Exemptions Data**: Q1 23/24: 1
- What and Why?

Exemption	Value
GD3 Bus Stop Improvements	£ 17,350.00

TRAFFORD COUNCIL

STAR PROCUREMENT

Trafford Achievements

As at 2022 / 2023

Route to Market

42	21	62	9	9
Call Off – Direct Award	Exemption	RBS Low / Mini Competition	OJEU Tender	RBS High

Focus for 2023 / 24

Deliver to performance targets outlined in the **5 STAR reporting framework** to STAR Joint Committee

Support the **GMCA** commitment to **Driving Social Value in GM Public Procurement** e.g. Getting the right bidders i.e. RLW, GM Good Employment Charter supporters and commitment to Net Zero targets 2038 etc.

Drive increasing **collaboration** to deliver greater value for money across STAR and the wider region

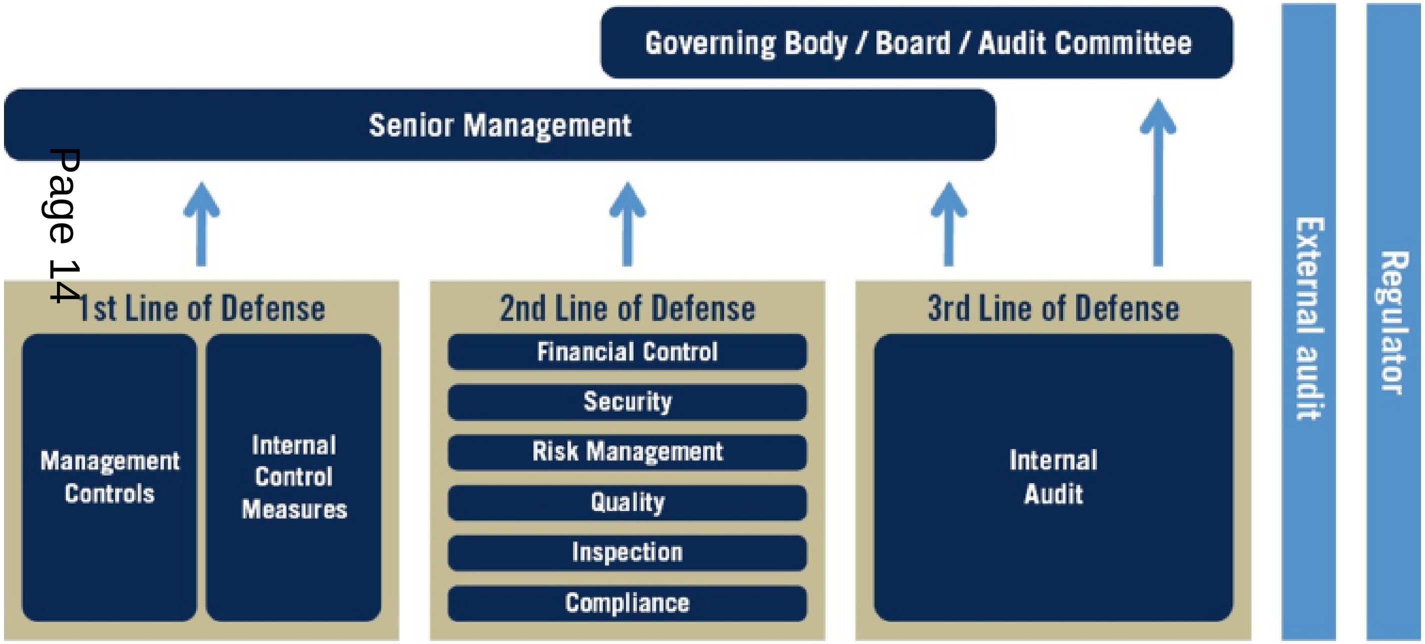
Securing **Social Value** linked to Corporate Priorities, supporting the delivery, and capturing impact

Ensure **financial sustainability** of STAR through planned growth and income generation

Drive further improvements through the **STAR Continuous Improvement Group** with the partner organisations

Prepare for the new **Procurement Bill** and continue to develop the application and implementation of the **National Procurement Policy Statement**

Three Lines of Defense Model



What RISKS do we think about:

STAR PROCUREMENT

What do we do to manage these RISKS:

First Line:

1. **Management Controls** – Escalation in STAR – Board Rep/JC
2. **Internal Control Measures** – 'gatekeeper role', QMS, training, communication and education (STAR and Council staff), reporting, analysing, monitoring and escalating

Second Line:

1. **Financial Control** – Budget availability checks/contractor assessment at tender stage (Trafford Finance SLA for budget management)
2. **Security** - Integrity/Availability/Confidentiality of each organisation's data/data sharing protocols (Stockport Data SLA) and GDPR training (annual via Trafford)
3. **Risk management** – STAR Risk Register feeds into Corporate RR. STAR have support from STAR Legal team (Trafford SLA)
4. **Quality** – PID requirement e.g. key decision in place. Peer/Board assessment (ensuring STAR is of an appropriate quality) and feedback from organisation users (internal and external) to improve services, cross-partner Continuous Improvement group.
5. **Inspection** - STAR governance inspections by external experts – Efficiency and effectiveness reviews (CAR) and Legal reviews e.g. Trowers and Hamlin (Trading/Income activity)
6. **Compliance** – reporting and monitoring via STAR Board/JC and Board Reps

What do we do to manage these RISKS:

Third Line and External:

1. Collaborative Audit Group – joint plan x6
2. Annual Governance Statement
3. External Audit
4. Procurement Regs/National Policy and Strategy/Procurement Policy Notices (PPNs) etc.

Senior Management:

1. Board Rep Engagement 121s – Sara Saleh
2. CLT attendance
3. Senior Leadership Group participation (SLG)
4. Support Social Value Steering Group

Board/Committees:

1. STAR Board, STAR Joint Committee – Sara Saleh / Cllr. Patel
2. Audit Committee attendance
3. Cabinet/Scrutiny etc. – when required

STAR and Trafford – Focus 2024

STAR PROCUREMENT

New Procurement Regulations Preparation and National Procurement Policy Statement (NPPS)

Performance Improvement:

1. Local spend
2. SV Secured and Delivered
3. Collaboration
4. Compliance
5. Efficiencies

Risk Management

Social Value Bespoke Approach – focus on outcomes

Continuous Improvement

GM SV Priorities:

1. Real Living Wage
2. GM Good Employment Charter
3. Inclusivity
4. Local Spend
5. Diversity
6. Carbon Reduction

Business Plan/Strategy Review

Any Questions

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Finance and Systems

TRAFFORD COUNCIL

Accounts and Audit Committee 7 February 2024

Asset Investment Strategy Update

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Agenda Item 9

Trafford Investment Strategy

Key Objective:

Promote TBC's Strategic Priorities while creating a suitable income stream to support local services.

Investment Characteristics

Geography

- Trafford Borough = Zone 1
- Greater Manchester and Neighbouring Boroughs = Zone 2

Return Requirements

- Coupon is 2.5% + TBC Funding Costs (0.5% lower in Borough).

Preferred Attributes

Projects with a certain social and environmental attributes will be preferred, and Borrowers incentivised to incorporate them where possible.

Investment Criteria

Development Lending

- Development Lending may be in Zone 1 or 2.
- Quality residential and commercial schemes.
- Suitable low carbon projects to be considered.
- Senior Facilities with First Fixed Charge.
- Minimum commitment of £10m.
- Max LTV – Temporarily 65%*
  (In-borough 70% LTV).
- Max LTC – Temporarily 75%*
  (In-borough 80% LTC).

*due to Covid-19 / economic uncertainty.

Other Investments

- Direct property investment to be in Zone 1 only on specific criteria.
- Green Infrastructure loans can be made – strategies being explored.
- Social infrastructure loans can be made – one project identified.

Investment Management Board – Terms of Reference

Purpose

The Investment Management Board's role is one of strategic direction and oversight of the Investment Strategy, including the approval of investment opportunities. It sets out the policies for the management of its investments ensuring priority is given firstly to the security of investments, followed by liquidity and then yield and should identify the procedures for monitoring, assessing and mitigating risk of loss of the invested sums. The Investment Management Board is responsible for ensuring the strategy is approved by full Council.

Officers are responsible for the operational implementation and execution of the Investment Strategy, which is approved annually by the Council, and updated more regularly if required to meet statutory or regulatory guidance.

Investment Management Board – Terms of Reference

Governance/Membership

The Board will comprise of the following:

The Leader of the Council (Chair)
The Leader of Conservative Party
The Leader of the Liberal Democrats Party
The Leader of the Green Party
The Executive Member for Investment, Regeneration and Strategic Planning
The Executive Member for Finance
The Chief Executive

In addition, the Shadow Executive Member for Investment, Regeneration and Strategic Planning will be invited to attend meetings of the IMB as a non-voting member.

The IMB will act under advisement from the Corporate Director for Place, Council's Monitoring Officer, the Corporate Director of Finance and Systems, and CBRE. Other officers and advisors will attend the IMB as appropriate.

Investment Management Board – Terms of Reference

Responsibilities

The Investment Management Board will be expected to undertake the following tasks:

- Oversee implementation and ongoing operational execution of the Investment Strategy
- Assess, evaluate and approve (or reject) the investments presented (expected return, volatility, risk factor analysis, etc) to determine if the Council should proceed on each individual proposal
- Approval of the strategic acquisition of land with development potential in line with the investment strategy
- Recommend approval of the investment in direct development opportunities on Council owned land, either independently, or through a joint venture or other partnership structure
- Monitor and evaluate overall investment performance, investment service providers, and costs regularly and at least on an annual basis
- Review overall portfolio opportunities, projections and risks at least on an annual basis
- Monitor, evaluate and assess whether fees incurred by investment service providers are appropriate and reasonable on an annual basis
- Approve the selection of any Investment Advisors
- Ensure performance measurement is based on external evaluations and net yield generated and reporting is undertaken with a view to making recommendations concerning sales or purchases and any amendments to the adopted strategy
- Acknowledge that there may be tax and VAT implications associated with investment activity
- Maintain a record of the meetings that take place
- To review and update the terms of reference on an annual basis, except the membership of the IMB which requires the approval of the Council.

Commitments to date – as at P8

Asset Investment Fund	Spend to Date £m	Repayments to Date £m	Commitment £m	Total £m
Property Purchase:				
Sonova House, Warrington	12.2			12.2
DSG, Preston	17.4			17.4
Grafton Centre incl. Travelodge Hotel, Altrincham	10.8			10.8
The Fort, Wigan	13.9			13.9
Sainsbury's, Altrincham	25.6			25.6
Sub Total	**79.9**	**0.0**	**0.0**	**79.9**
Property Development:				
Sale Magistrates Court	6.4	-		6.4
Brown Street, Hale	9.3	-6.1		3.2
Former sorting office, Lacy Street, Stretford	0.9	-		0.9
GMP Site, Chester Road, Old Trafford	0.0	-	0.6	0.6
Care Home Purchase & Remediation	2.5	-	0.6	3.0
Tamworth	0.2	-	0.3	0.5
Various Development Sites	1.2	0.0		1.2
Sub Total	20.4	-6.1	1.5	15.8

Asset Investment Fund	Spend to Date £m	Repayments to Date £m	Commitment £m	Total £m
Equity:				
Stretford Mall, Equity	9.3		7.1	16.4
Stamford Quarter, Equity	23.1		2.1	25.2
K Site, Stretford Equity	12.5		-0.2	12.3
Sub Total	**44.9**	**0.0**	**9.0**	**53.9**
Development Debt:				
Bruntwood; K site	12.2	-	0.0	12.3
Bruntwood; Stamford Qtr./Stretford Mall	32.5	-	9.2	41.7
CIS Building, Manchester	60.0	-25.8	-	34.2
Castle Irwell, Salford	19.6	-19.6	-	0.0
Castle Irwell, Salford – Phase 2	11.0	-9.5	0.0	1.5
Castle Irwell, Salford – Phase 3	7.5	0.0	8.5	16.0
Hale Library	4.3	-1.3	0.0	3.0
Network Space, Broadheath	16.4	-	5.1	21.5
Sunlight House	23.5	-	3.5	27.0
Barton Dock Road, Trafford Park	9.1	-	2.9	11.9
One Victoria	0.0	0.0	22.6	22.6
Sub Total	**196.0**	**-56.1**	**51.7**	**191.6**
Total Capital Investment	**341.3**	**-62.3**	**62.2**	**341.3**
Albert Estate Investment	17.6	-5.6		12.0
Total Investment	**359.0**	**-67.9**	**62.2**	**353.4**

Review of the size of the Investment Fund

Current Level of Commitments	£353m
New investments under consideration/due diligence	£120m
Headroom in Existing Fund of £500m	£27m

(Headroom will increase as investments mature and are repaid over the next 6/12 months)

Recommend maintaining Fund at £500m

Prior Years Performance and Forecast

	Actuals 2020/21 £k	Actuals 2021/22 £k	Actuals 2022/23 £k	Forecast 2023/24 £k	Forecast 2024/25 £k	Forecast 2025/26 £k	Forecast 2026/27 £k
Gross Income	-17,795	-14,335	-13,410	-15,166	-16,953	-17,766	-16,484
Maintenance and Admin Costs	805	432	968	656	557	655	706
External Fees	840	262	961	769	700	700	700
Financing Cost - Interest	5,452	4,586	4,698	6,181	8,167	9,367	8,059
Financing Cost – Debt Repayment (MRP)	2,241	2,252	2,316	2,381	2,092	2,092	2,092
Risk Reserve	2,085	108	-1,254	-760	-600	-735	-260
Net income to support revenue budget	**-6,372**	**-6,695**	**-5,721**	**-5,939**	**-6,037**	**-5,687**	**-5,187**

Risk Reserve at 01/04/23	**5,005**
Budgeted Contributions	-2,355
GMP Site Costs	-643
Forecast Reserve at 31/03/27	**2,007**

Investment Monitoring

Performance Metric	Frequency	How	Where
Net Income	Bi-monthly	Budget Monitoring Reports	Executive
Capital Expenditure	Bi-monthly	Budget Monitoring Reports	Executive
Asset Valuation	Annual	Statement of Accounts	Accounts & Audit Ctte, Executive
Prudential Indicators	Bi-monthly	Budget Report, Outturn Report	Council, Executive
Loan covenants	Quarterly	Loan monitoring - CBRE	IMB – by exception

The Asset Investment Strategy has also been subject to two reviews by the Audit and Assurance Service and is reported regularly as part of the updates of the Strategic Risk Register

Risks and Mitigations

Risk	Mitigation
• Market /Sector	• Annual update of Investment Strategy by external advisors to assess the market. Focus on diverse portfolio, low risk assets
• Tenant Risk	• Annual review of credit risk of tenants using D&B ratings (Risk Reserve to cover void losses)
• Skills	• Regular updates from external advisors, skills training for internal staff. Plans to introduce further Member training by CIPFA
• Valuation Risk	• Annual reviews; ensure sufficient headroom on debt investments i.e. Loan to Value covenants
• Security	• On debt deals ensure first legal charge on all property
• Asset Condition	• Use of external advisors to assess property condition issues (Risk Reserve created to cover future property related costs)

TRAFFORD COUNCIL

Report to:	**Accounts and Audit Committee 7 February 2024** **Executive and Council 21 February 2024**
Report for:	**Decision**
Report of:	**The Executive Member for Finance, Change and Governance and the Director of Finance and Systems**

Report Title

TREASURY MANAGEMENT STRATEGY 2024/25 – 2026/27

Summary

This report outlines the:

- strategy to be implemented during this period for investments and borrowing,
- outlook for interest rates,
- management of associated risks,
- policy to be adopted on Minimum Revenue Provision (MRP) and
- Prudential Indicators.

Recommendations

That Accounts & Audit Committee be requested to note and recommend the report to Executive.
That Executive notes the report and recommends that Council approves;

- the Treasury Management Strategy 2024/25 – 2026/27 including the:
- policy on debt strategy as set out in section 4;
- the updated policy on Minimum Revenue Provision in section 5;
- Investment Strategy as set out in section 6;
- Prudential Indicators and limits including the Authorised Limit (as required by section 3(1) of the Local Government Act 2003), Operational Boundary, Minimum Revenue Provision Statement and Investment criteria as detailed in Appendix 2.

Contact person for access to background papers and further information:

Name: Frank Fallon

Background papers: None

Relationship to Corporate Priorities	Value for Money
Relationship to GM Policy or Strategy Framework	Not applicable
Financial	The treasury management strategy will aim to minimise risk to the Council whilst maximising investment interest. The Council's debt position will be administered effectively and any new loans taken will be in-line with that provided for within the Medium Term Financial Plan and Prudential Indicators as approved by Council.
Legal Implications:	Actions are undertaken in accordance with legislation issued by Department for Levelling Up, Housing and Communities (DLUHC) and guidance from Chartered Institute of Public Finance & Accountancy (CIPFA) Prudential Code and the Treasury Management Code of Practice.
Equality/Diversity Implications	All treasury management transactions undertaken by the Council are carried out with institutions with no known direct links to any illegal regimes or which promote the use of forced labour.
Sustainability Implications	The Council, when undertaking any treasury management investment fully supports the ethos of socially responsible investments and will avoid direct investment in institutions with material links to environmentally harmful activities. Opportunities to invest monies in products which both supports sustainable assets and complies with the Council's investment strategy will continue to be explored as and when they become available.
Carbon Reduction	Not directly applicable – See above
Staffing/E-Government/Asset Management Implications	Not applicable
Risk Management Implications	The monitoring and control of risk underpins all treasury management activities and these factors have been incorporated into the systems and procedures for this function which are independently tested on a regular basis. Failure to properly manage and monitor the Council's loans and investments could lead to service failure and a loss of reputation. Whilst no Treasury activity is without risk, the Council's in-house treasury management team continually monitor risks to ensure that security of capital sums is maintained at all times and adverse fluctuations in interest rates are avoided.
Health & Wellbeing Implications	Not applicable
Health and Safety Implications	Not applicable

Executive Summary

This report has been prepared in accordance with the Council's Financial Procedure Rules number 8 and outlines the forecasted treasury management activities for the forthcoming three years. Additional reports are produced during the course of the year informing Members of the preceding financial year actual activities together with a current mid-year update.

Economic position (Section 3)

Major influences on the Authority's treasury management strategy for 2024/25:

- Impact of higher interest rates and inflation
- weakening economic outlook
- uncertain political climate due to an upcoming general election
- war in Ukraine and the Middle East

Debt (Section 4)

- New external borrowing will be taken to assist in financing the capital borrowing requirement as outlined in the 2024/27 Capital Programme report
- All associated costs of new borrowing to be contained within the Medium Term Financial Plan
- Debt restructuring exercises will only be undertaken in order to produce revenue savings or reduce overall treasury risk

MRP (Section 5 and Appendix 2)

- MRP Policy and any potential review
- The Council switched from an approach of setting aside MRP for both supported and unsupported (prudential) borrowing on an equal instalment basis to an annuity basis in 2023/24

Further detail can be found in Section 5 of this report.

Investments (Section 6 and Appendix 3)

- The Council's investment criteria remains unchanged from that previously adopted of SLY, **S**ecurity of capital first, then **L**iquidity of its cash flows and finally **Y**ields.
- Council is required to agree the Investment criteria and this is set out for Member approval at Appendix 3.

Prudential Indicators and limits (Section 8 and Appendix 2)

- Council is required to approve a set of Prudential Indicators and limits ensuring its capital expenditure plans and borrowing remain robust, prudent, affordable and sustainable. These are detailed at Appendix 2 for Member approval.

Background

1.1 The Council is required to operate a balanced budget with cash raised during the year being used to pay for expenditure incurred. A primary part of the treasury management operation is to ensure that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet service activity with any temporary surplus monies being invested in low risk institutions.

1.2 Another function of this service is to ensure that the Council's capital borrowing requirement, the longer-term cash flow planning, is provided for which may involve arranging long or short-term loans or using longer-term cash flow surpluses. In addition to this and when it is financially prudent to do so, any debt previously obtained may be restructured.

1.3 The Council's in-house treasury management team will ensure that:

- all treasury management transactions undertaken comply with the statutory requirements as stipulated within the relevant professional codes and legislation (Local Government Act 2003, CIPFA Prudential Code and Treasury Management Code, MRP Guidance, and DLUHC Investment Guidance, (a brief outline of these frameworks is provided at Appendix 1),
- sufficient cash is available to meet both service activity and the Council's capital strategy,
- various periodic cash flows are prepared and maintained accurately using all known information available,
- where capital plans require, appropriate borrowing facilities are undertaken and
- when financially prudent any debt previously obtained is restructured.

1.4 Treasury management is defined by CIPFA as:

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

1.5 Management of the Treasury function will seek to ensure sufficient funding is in place to cover planned payments or undertaking the investment of temporary surplus funds when available in a secure manner.

1.6 Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of all monies invested is achieved to avoid any potential loss of principal which in turn would result in a loss to the General Fund Balance

1.7 The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions as covered by this report), and more strategic investments, such as regeneration properties, which are reported and managed through the capital programme. To assist with this activity, the Council uses a specialist external advisor.

1.8 Whilst any strategic initiatives or loans to third parties will impact on the treasury function, these activities are classed as non-treasury activities, (arising from capital expenditure) and are separate from the day-to-day treasury management activities. Details of these transactions are shown in Appendix 4 for reference.

1.9 Members are required to receive and approve, as a minimum, three main treasury reports each year which incorporate a variety of policies, forecasts and actuals as follows;

- **Annual Treasury Strategy** (issued February - is the most important report and includes):
  ➢ A MRP policy (this reflects capital expenditure previously financed by borrowing and how the principal element is charged to revenue over time),
  ➢ The treasury management strategies (how the investments and borrowings are to be organised) including treasury prudential indicators and limits and
  ➢ An investment strategy (the parameters on how investments are to be managed).
- **Mid-year update** – (issued November / December – this provides an);
  ➢ update for Members with the progress of the treasury management activities undertaken for the period April to September and
  ➢ opportunity for amending prudential indicators and policies if necessary.
- **Annual outturn** – (issued June);
  ➢ this provides details of actual treasury operations undertaken in the previous financial year.

1.10 Each of the above 3 reports are scrutinised by the Council's Accounts & Audit Committee before being forwarded onto either Executive or Council for final approval.

1.11 This report which has been prepared in accordance with the required statutory regulations and guidance, includes;
- The current treasury position (section 2);
- Economic & Interest Rate forecast (section 3)
- Debt Strategy (section 4)
- Minimum Revenue Provision (section 5)
- Investment Strategy (section 6)
- Investment Risk Benchmarking (section 7)
- Prudential Indicators (section 8)
- Related Treasury Issues (section 9)
- Recommendations (section 10)
- Appendices.

1.12 The Council uses Arlingclose as its external treasury management advisors who provide a range of services on treasury matters from the supply of credit ratings to technical support. The Council recognises that there is value in using external providers for this service which is subject to regular reviews.

1.13 Whilst the external advisors provide support to the in-house team, the Council will consider all available information when forming an opinion on matters concerning treasury management and acknowledges that the final decision remains with the Council at all times.

1.14 The Council also acknowledges the importance of ensuring that all members and staff involved in the treasury management function receive adequate and relevant training in order to undertake the duties and responsibilities allocated to them. This is further highlighted in the CIPFA Code which requires the responsible officer, the Director of Finance and Systems, ensures that members with responsibility for this task, receive adequate training in treasury management.

1.15 The CIPFA Treasury Management Code was updated in September 2021 and from 2023 required that all staff involved in the Treasury Management function have the necessary expertise, knowledge and skills to perform their role. In addition board/council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Regular training is provided to Members of the Accounts and Audit Committee and for reference a member training event was provided on 23rd January 2024 as part of the consideration of this annual strategy by the Council's in-house team and its external advisors Arlingclose. Additional training is also provided as a precursor to the regular updates at year-end and mid-year.

Continuing attendance at relevant courses / seminars / webinars by staff and members as presented by CIPFA, Arlingclose and other suitable professional organisations will be encouraged.

2. Treasury Position

2.1 The Council's investment and debt positions at the beginning of the current financial year and as at 31st December 2023 are listed in the table below;

	31 March 2023		31 December 2023	
	Principal £m	**Average Interest Rate %**	**Principal £m**	**Average Interest Rate %**
DEBT				
Short term (payable before 31.03.24)				
PWLB	4.3	6.62	4.2	6.75
Market	15.0	4.24	0.0	0.00
Sub-total	19.3	4.77	4.2	6.75
Long term (payable after 31.03.24)				
PWLB	277.8	2.32	277.8	2.32
Market	21.0	4.79	21.0	4.79
Sub-total	298.8	2.49	298.8	2.49
Total debt	**318.1**	**2.63**	**303.0**	**2.55**
INVESTMENTS				
Short term (less than 1 year duration)				
- Instant access	26.3	4.06	7.4	5.32
- Call accounts	0.0	0	0.3	5.14
- Term deposit	27.4	3.92	6.0	4.88
Sub-total	**53.7**	**3.99**	**13.7**	**5.12**
Long term (greater than 1 year duration)				
- CCLA	4.7	4.65	4.6	5.62
- Strategic Investment programme (SIP)	12.0	n/a	12.0	n/a
Sub-total	**16.7**	**4.65**	**16.6**	**5.62**
Total Investments	**70.4**	**4.04**	**30.3**	**5.25**

Information in the above table reflects the;

- level of funds available on a temporary basis for investment purposes which fluctuate on a daily basis due to the timing of precept payments, receipt of grants and spend progress on the capital programme,
- repayment of monies borrowed and;

- value of original monies placed with CCLA was £5m. The fall in value from March 2023 to December 2023, of £0.1m, is representative of a reduction in property values driven, in part, by rising interest rates. Although, capital valuations have shifted down, the rental market is still strong in multiple sectors, and so yields are expected to be less effected.

3. Economic & Interest Rate forecast

3.1 The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the Authority's treasury management strategy for 2024/25. The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level for the rest of 2023. In December 2023, members of the BoE's Monetary Policy Committee voted in favour of keeping Bank Rate at 5.25%.

Office for National Statistics (ONS) figures showed CPI inflation was 4.0% in December 2023, down from a 4.6% rate in the previous month and, in line with the recent trend, lower than expected. The core CPI (excluding energy, food, alcohol and tobacco) inflation rate declined to 5.1% from the previous month's 5.7%, again lower than predictions. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling slowly, but taking until early 2025 to reach the 2% target before dropping below target during the second half 2025 and into 2026.

3.2 Arlingclose produce interest rate projections periodically throughout the year and the latest forecasts (December 2023) are shown below for reference;

Average rates	2023-24 Forecast %	2024-25 Forecast %	2025-26 Forecast %	2026-27 Forecast %
Bank Rate	4.94	5.06	3.88	3.08
Investment Rates 3 month	5.40	5.16	3.93	3.12
PWLB Loan Rates				
5 Year	4.57	4.50	4.23	4.12
20 Year	5.00	5.00	5.00	5.02
50 Year	4.60	4.69	4.70	4.75

3.3 The December 2023 Bank Rate of 5.25% is expected to remain at this level until Q3 2024/25 and then decrease to 4.75% by the end of the financial year.

3.4 The Council will continue to adopt a cautious approach to its treasury management activities whilst utilising the information available from both Arlingclose and other external sources which may become available during this time.

4. Debt Strategy

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

4.2 The underlying need to borrow comes from the Capital Financing Requirement (CFR) which represents the total level of outstanding capital expenditure both historic and current, not yet paid for from either revenue or capital resources (eg capital grants). It is essentially a measure of the Council's indebtedness or its underlying borrowing need.

4.3 The Council needs to ensure that its debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates going out to 2026/27. Whilst this allows some flexibility for limited early borrowing for future years, it also ensures that borrowing is not undertaken for revenue or speculative purposes. The Director of Finance and Systems can confirm that to date the Council has not exceeded the CFR with its debt.

4.4 CFR increases with new debt-financed capital expenditure and reduces with contributions made under Minimum Revenue Provision (MRP) and capital receipts used to replace debt. The CFR is not allowed to rise indefinitely and statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset with an annual revenue charge, the MRP, being applied to reduce the CFR each year.

4.5 Included within the CFR are any other long-term liabilities such as Private Finance Initiative (PFI) schemes and finance leases. Whilst these increase the overall balance of the CFR, the Council's borrowing requirement is not increased as this type of liability includes a borrowing facility by the PFI or lease provider. The Council currently has £3.4m (31 March 2024) liability of such schemes within the CFR which is set to fall to £2.20m by 31 March 2027 as highlighted in the table below;

Other long-term liabilities	**2023/24 Estimate £000**	**2024/25 Estimate £000**	**2025/26 Estimate £000**	**2026/27 Estimate £000**
Total at 1 April	3,755	3,404	3,029	2,628
Expected repayment	(351)	(375)	(401)	(428)
Total at 31 March	3,404	3,029	2,628	2,200

4.6 With effect from April 2024, the International Financial Reporting Standard 16 will require that all Council leases are also included within the CFR. Whilst the compliance of this new accounting requirement will impact on the Council's overall long term liabilities, it is deemed at this stage to be immaterial.

4.7 The total of the Council's loans outstanding as at 31 December 2023 totalled £303.0m and a breakdown of this debt is provided for reference in Section 2 above.

4.8 The Council held, as mentioned above £36.0m of Non-PWLB (Market) loans and of these £15.0m were held at variable rates of interest in the form of Lender's Option Borrower's Option (LOBO) loans. With regards to this type of loan, the lender has the option to propose an increase in the interest rate at set dates and should this situation occur then the Council can either accept the new rate or repay the loan at no additional cost. In accordance with the Director of Finance and Systems delegated authority, the Council repaid the £15m of LOBO loans in June 2023 due to the lender proposing an increase to the interest rate.

4.9 The Council continues, as in previous years, to be in an under-borrowed position which reflects that the CFR balance is greater than the level of external debt and this is in line with the majority of other UK local authorities. This under-borrowed position has arisen from previous and current years annual CFR (borrowing need), not being fully funded with new loans, as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure.

4.10 Since March 2023, the Council's forecast under-borrowing is expected to grow to a level which is not considered sustainable due to the impact on the Council's cash balances. Therefore, the Council will reduce the level of under borrowing over the next couple of years by using external debt to finance in-year borrowing requirements and when asset strategy investments are repaid these receipts will be used to pay back the internal borrowing. This process is expected to begin within 2023/24, with the under-borrowing at year end expected to be £92.7m.

This externalisation of this debt will be funded by existing provisions within the Treasury Management and Strategic Investment Programme revenue budgets. The situation will be continued to be monitored, with considerations given to movements in interest rates and future capital plans. The decision to borrow will be taken by the Director of Finance and Systems per delegated powers, and in accordance with the approved Treasury Management and Debt Strategies.

4.11 As in line with previous years requirements any new capital projects which are to be funded from borrowing will need to generate sufficient revenue savings in order to be self-financing therefore avoiding any impact on the Council's MTFP.

4.12 The Director of Finance and Systems will continue to monitor interest rates and adopt a sensible approach to changing circumstances within the 2024/25 treasury operations before taking on any new debt.

4.13 Based on current commitments the table below reflects the level of external debt the Council potentially may have for the period 2023/24 to 2026/27 which is used to part fund its capital programme. In addition, it reflects to the borrowing required to finance the projected future pipeline of schemes for the Council's Strategic Investments.

	2023/24 Estimate £000	**2024/25 Estimate £000**	**2025/26 Estimate £000**	**2026/27 Estimate £000**
Strategic Investment Programme				
Total at 1 April	170,158	220,514	314,017	365,491
Planned repayments	(154)	(158)	(162)	(25,367)
Potential New external debt	50,510	93,661	51,636	25,367
Sub-Total at 31 March	**220,514**	**314,017**	**365,491**	**365,491**
General Capital Programme				
Total at 1 April	148,010	148,314	162,324	183,744
Planned repayments	(19,185)	0	0	(2,354)
Potential New external debt	19,490	14,010	21,420	0
Sub-Total at 31 March	**148,314**	**162,324**	**183,744**	**181,390**
Total Estimated External Debt	**368,828**	**476,342**	**549,235**	**546,881**
Capital Financing Requirement (CFR)	**461,524**	**519,406**	**587,410**	**573,233**
Estimated (Under)/Over	**(92,696)**	**(43,064)**	**(38,175)**	**(26,352)**

Borrowing at year end				

4.14 All interest incurred on the Council's external debt is charged directly to treasury management apart from where it has previously been agreed by Executive for interest incurred on major development schemes e.g. Sale Magistrates Court to be capitalised.

4.15 When any form of borrowing is required to finance the Council's capital expenditure, be this long or short term, consideration will continue to be given to obtaining funds at the most advantegous rates possible at that time, from the following souces:

- Other local authorities,
- The Government via the PWLB,
- Dedicated publicly funded companies e.g. Salix,
- Financial institutions within the money market (insurance companies, pension funds and banks).

4.16 The uptake of new long term debt will be processed in accordance with the Council's approved scheme of delegation and reported to members at the earliest opportunity. Action of this sort will be undertaken in accordance with a number of factors such as affordability, proposed life of the asset, current interest rate projections and advice obtained from the Council's external advisors.

4.17 Rescheduling any of the Council's current loans will only be undertaken when it is cost effective to do so taking into account the high early repayment penalty (premium) which will be incurred. This situation will be monitored during the course of the year and in the event any debt rescheduling is done, it will be reported to the Members at the earliest opportunity following its action.

4.18 Whilst the Council retains the flexibility to borrow funds in advance of requirement as a result of potential changes to market conditions i.e. a sharp rise in interest rates, it will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will ensure that funds are taken within the forward approved CFR estimates and that value for money can be demonstrated.

4.19 Any borrowing taken by the Director of Finance and Systems in advance of need will be done in accordance with delegated powers and within the constraints stated below;

- no more than 50% of the expected increase in borrowing need (CFR) over the three year planning period and
- the Council would not look to borrow more than 12 months in advance of need.

4.20 The Council's debt maturity profile is provided at Appendix 2 for reference which also shows, in accordance with the Code of Practice, the potential first date the lending banks could amend the rate of interest for their respective market LOBO loans (if any).

4.21 *The Council is required to approve;*

- *the above debt strategy and*
- *as part of the Prudential Indicators and Limits requirement, the limits for external debt in accordance with the Local Government Act 2003, having regard to CIPFA's prudential code before the commencement of each financial year. These limits are detailed at Appendix 2.*

5. Minimum Revenue Provision Strategy

5.1. Local Authorities are required by statute to make a charge to their revenue account to provide for the repayment of debt resulting from capital expenditure, known as Minimum Revenue Provision ("MRP").

5.2. The Council is required to determine a level of MRP it considers to be prudent, whilst having regard to the MRP Guidance issued by the Department for Levelling Up, Housing and Communities ("DLUHC").

5.3. The Guidance provides suggested methods for the calculation of MRP that the DLUHC consider to be prudent, however the Guidance and legislation do not define what is prudent. It is for each Authority to determine a prudent repayment based on its own individual circumstances, considering the medium and long-term financial plans, current budgetary pressures, future capital expenditure plans and funding needs.

5.4. Any change to the Authority's MRP Policy needs to consider:

- Its appropriateness and compliance with the MRP guidance.
- Affordability, prudence and sustainability with regard to current revenue budgets of the Authority, balanced against deferring costs of future Council Taxpayers.
- The Authority's future capital programme in terms of complexity, variability and deliverability.
- Capital Financing Requirement (CFR) forecasts and the level of borrowing proposed by the Authority in future years.
- S151 officer consideration of what constitutes a prudent provision

5.5. The main consideration for the MRP policy and referred to in the Guidance is to align the period over which the MRP is made to one that is commensurate with the period over which their capital expenditure provides benefits. Therefore, when considering the broad aim of MRP making a prudent provision, there is scope to recognise the flexibilities which exist in determining an appropriate annual repayment profile and the context of the Authority's current and future financial position.

5.6. An authority may also consider that 'prudent' in this context does not necessarily mean the quickest possible repayment period and will also have regard to the prudent financial planning of the authority overall, the flow of benefits from the capital expenditure, and other relevant factors. For example, the MRP Policy may also take account of the financial forecast in the authority's medium / long term financial plan in determining what is prudent MRP in the circumstances.

5.7. The majority of the MRP which the Council sets aside is done so currently under an Annuity Method. Under the Annuity Method, rather than setting aside MRP on an equal instalment basis it operates similar to a repayment mortgage where the principal element of the repayment increases over the life of the loan. Therefore, under this method MRP would start low then increase over the time.

5.8. This method is now being increasingly applied by a number of authorities and The Chartered Institute of Public Finance and Accountancy (CIPFA) puts forward the following reasoning for using the annuity method in 'The Practitioner's Guide to Capital Finance in Local Government' (2019) which states:

- The annuity method provides a fairer charge than equal instalments as it takes account of the time value of money, whereby paying £100 in 10 years' time is less of a burden than paying £100 now.

- The schedule of charges produced by the annuity method thus results in a consistent charge over an asset's life, considering the real value of the amounts when they fall due.
- The annuity method would then be a prudent basis for providing for assets that provided a steady flow of benefits over their useful life.

5.9. The MRP Policy will continue to be reviewed annually to make sure the approach is prudent and that it is appropriate based on the condition and profile of benefits being derived from the assets.

5.10. In December 2023, the Department for Levelling Up, Housing and Communities published a consultation on changes to the Minimum Revenue Provision statutory guidance and regulations. This follows a consultation in November 2021 aimed at strengthening the duty to make Minimum Revenue Provision (MRP) and a further consultation in June/July 2022 to address concerns of unintended consequences that the initial consultation may have caused.

As a result of the complexity introduced by the previous consultation outcomes, the government said it would review the Statutory MRP Guidance before putting in place changes to the Regulations, and that no changes would take effect before April 2024. This current consultation, closing in February 2024, is looking for views on the revised MRP guidance and amended regulations, which do not differ substantially from the June/July consultation.

5.11. The council's MRP policy is considered to comply with the updated proposals set out in the consultation. Should there need to be a change in policy following the outcome of the consultation and once the detailed guidance is issued, this will be reported to Council in the next update.

5.12. The Council is requested to approve the MRP Statement as detailed at Appendix 2.

6. Investment Strategy

6.1 In accordance with both DLUHC and CIPFA guidelines, the term 'investments' now reflects both financial and non-financial investments. This report deals solely with financial investments, (as managed by the in-house treasury management team). Non-financial investments, essentially the Council's Strategic Investment programme, are covered in the Capital Strategy, (a separate report).

6.2 When the Council's in-house treasury management team places an investment, it does so with regard to current legislation and guidance as highlighted below but also with regards to the outlook for short-term interest rates.

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

6.3 On each occasion when the Council's in-house treasury management team places an investment it continues to ensure that the primary principle will be as that followed in previous years of **SLY**, **S**ecurity of funds first, **L**iquidity second followed by **Y**ield.

6.4 Environmental, social and governance (ESG) issues are increasingly significant for the Council and its residents. The CIPFA Treasury Management Code recommends that councils consider their credit and counterparty policies in light of

ESG information. The Investments Strategy has therefore been updated for 2024/25, to confirm that the Council will only place funds with institutions which are signatories to the UN Principles for Responsible Banking, or are UK Government or Local Government bodies. The UN Principles for Responsible Banking are a unique framework for ensuring that signatory banks' strategy and practice align with the vision society has set out for its future in the Sustainable Development Goals and the Paris Climate Agreement. The Council will also remove from its approved lending list any financial institutions whose practices or behaviours are not deemed to be commensurable with the values or ethical standards of the Council.

6.5 The Council will aim to achieve the maximum return (yield) on its investments appropriate with proper levels of security and liquidity in line with the Council's risk appetite. In order to safeguard its funds the Council's in-house treasury management team will continue its approach of not undertaking any investment without thoroughly understanding the product together with associated risks or in any institution which is paying considerably over and above market levels.

6.6 Funds making up the Council's investments derive from monies received in advance of spend requirement and from the balances and reserves which it holds. Whilst greater returns are usually obtainable by investing for longer periods, most cash balances are required to manage the movements of the Council's day to day cash flows. Cash not required for immediate use may be invested for longer periods of time, however before doing so careful assessment to the value to be obtained from this is undertaken.

6.7 Guidance issued by both the DLUHC and CIPFA as identified at paragraph 6.2 places a high priority on the management of risk and whilst this will never completely be eliminated, it can be minimised. The Director of Finance and Systems will maintain a counterparty list with the assistance of Arlingclose specifying which institutions it can place funds with. By only placing funds with those institutions which appear on this list it reduces the risk of an institution defaulting, enables diversification and avoids concentration risk. The key credit ratings used to monitor institutions are the short term and long-term ratings.

6.8 The Council will use UK institutions, including banks, building societies and local authorities together with banks located in a country which has a minimum Sovereign Long term credit rating of AA-. As well as detailing the criteria institutions must meet to enable them to be included onto the Council's approved lending list, within their respective category, Appendix 2 also specifies both the maximum value and duration funds can be placed at any one time.

6.9 Credit rating information is supplied by Arlingclose, the Council's treasury advisors, on all active counterparties that comply with the criteria above. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to an institution at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

6.10 This approach uses real time credit rating information provided by Arlingclose and enables an institution, should they meet or no longer meet the minimum credit criteria required to be immediately included on to or removed off the approved list.

6.11 A full explanation of the credit ratings determining the institutions which the Council will use can be found at Appendix 3.

6.12 The Council's in-house treasury management team recognises ratings should not be the sole basis of determining the quality of an institution. It is important to continually assess and monitor institutions both on the economic and political environments in which they operate together with information that reflects the opinion of the markets. To achieve this, the Council will, with Arlingclose, monitor market pricing on additional factors such as "credit default swaps" (CDS) and overlay this information on top of the credit ratings. This additional market information is detailed for Members' reference at Appendix 3.

6.13 Members are asked to approve this base criteria, however the Director of Finance and Systems may temporarily restrict further investment activity to those institutions considered of higher credit quality than the minimum criteria set out for approval should any exceptional market conditions be encountered.

6.14 Investments will continue to be placed as follows;

- Short-term – cash required to meet known cash flow outgoings in the next month, plus a contingency to cover any unexpected transaction over the same period with bank notice accounts and money market funds being the main methods used for this purpose.
- Medium-term – cash required to manage the annual seasonal cash flow cycle covering the next 12 months and will generally be in the form of fixed term deposits and ultra-short dated bond funds.
- Long-term – cash not required to meet any immediate cash flow requirements and can be used primarily to generate investment income by using fixed or structured term deposits, certificates of deposits, government bonds or the Local Authority Property Investment fund.

6.15 Investment instruments identified for use in the financial year together with institution limits are detailed for members reference in Appendix 2. The use of longer term instruments (greater than one year from inception to repayment) falls in the Non-specified investment category and these will only be used where the Council's liquidity requirements are safeguarded and be limited to the Prudential Indicator which is also detailed at Appendix 2.

6.16 The level of the Council's investments together with the average interest rate, as at 31 December 2023, is provided for reference at paragraph 2.1

6.17 *The Council is requested to approve the;*

- *adoption of the above Investment strategy and*
- *minimum criteria for providing a list of high-quality investment institutions, instruments and limits to be applied as set out at Appendix 2.*

7. Investment Risk Benchmarking

7.1 The CIPFA Code of Practice and DLUHC Investment Guidance require that appropriate security and liquidity benchmarks are considered and reported to members annually and details of these are provided below with more detail concerning the security benchmark being provided in Appendix 3.

7.2 Benchmarks are simple guides (not limits) to maximum risk for use with cash deposits and so may be breached from time to time, depending on movements in interest rates and institution criteria. The purpose of the benchmark is to assist officers to monitor the current and trend position and amend the operational strategy to manage risk as conditions change. For reference the benchmarks proposed are;

- Security - Each individual year the security benchmark is:

1 year investments	2 year investments	3 year investments
0.03%	**0.08%**	**0.10%**

Note - This benchmark is an average risk of default measure and would not constitute an expectation of loss against a particular investment. At the end of December 2023, the Council's default rate of its investments placed was 0.03% which is in line with the 1 year benchmark of 0.03%.

- Liquidity - The current CIPFA Treasury Management Code of Practice defines this as "*having adequate, though not excessive cash resources, borrowing arrangements, overdrafts or standby facilities to enable at all times to have the level of funds available which are necessary for the achievement of its business / service objectives*".

  -Weighted Average Life (WAL) - benchmark for 2024/25 is set at 6 months, with a maximum of 3 years for cash time deposits;

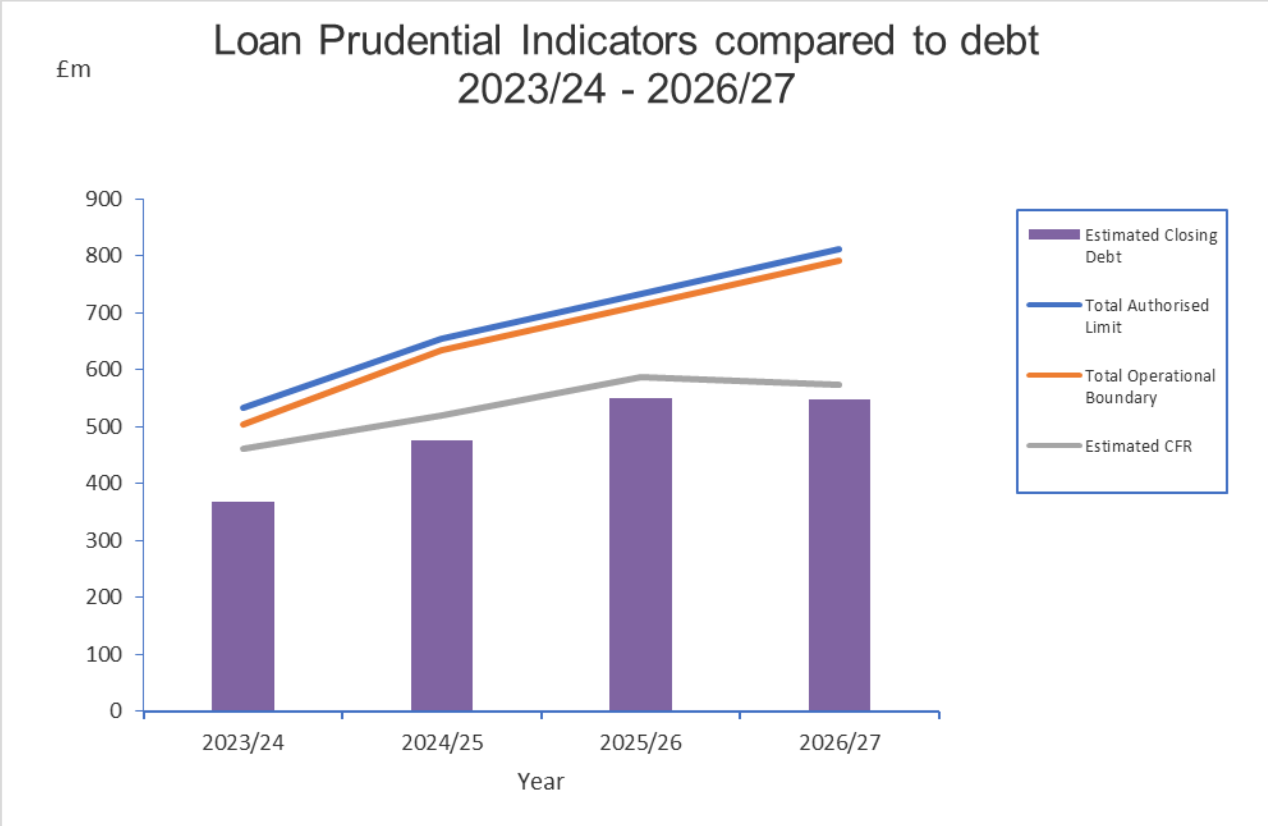
  -Liquid short term deposits - at least £5m is available within a week's notice.

- Yield- The Council aims to achieve a return on its investments of greater than 1 month Sterling Overnight Index Average (SONIA) rate.

8. Prudential Indicators

8.1 A number of prudential indicators have been devised for the treasury management process and these have been prepared to assist managing risk and reduce the impact of an adverse movement in interest rate. These indicators have been set at levels which do not restrict day to day activities whilst at the same time ensure the Council's capital expenditure plans are prudent, affordable and sustainable.

8.2 The graph below shows how two of these prudential indicators (Authorised Limit and Operational Boundary) relate to forecast levels of debt.



8.3 *Members are requested to approve the full set of Prudential Indicators for the Council's treasury management activities as detailed at Appendix 2.*

9. Related Treasury Issues

9.1 Asset Investment Strategy. During 2017/18 the Council introduced a programme to acquire suitable assets which will deliver significant regeneration benefits for the area and increase the Council's income generating capacity thereby enabling it to maintain the provision of services in future years.

9.2 Whilst investments under Asset Investment Strategy are made to support policy related activities and are therefore considered outside the treasury management function, their implementation will have an impact on the Council's cash flow. All such investments are also considered on each occasion in accordance with the principles set out in paragraphs 6.2 and 6.3 above.

9.3 International Financial Reporting Standards 9 (IFRS9). This was introduced to enable a reader of the Council's accounts to fully assess the worth and risk of its financial instruments with any potential losses or profits being taken to the accounts in full in the year they occur. Whilst IFRS 9 is primarily a re-classification not a re-valuation exercise, its introduction has not had any major impact for the Council to date. Currently there is one investment which is affected by this re-classification which is placed with the pooled Church Commissioners Local Authority in its Property fund. To mitigate against revaluation losses or gains impacting on the Council's General Fund, DLUHC issued an override which has been extended to 31 March 2025 enabling local authorities' time to either arrange for a planned exit or for potential surpluses to be placed into an unusable reserve and applied in those years when a downward revaluation occurs.

The Council's in-house team will;

- continue to monitor both the monthly valuations received for this investment and the quarterly market forecasts produced to ensure that any potential losses in valuation are kept to a minimum and
- consider setting aside a proportion of the annual interest received into a reserve for use to smooth out any potential losses.

10. Recommendations

That Accounts & Audit Committee be requested to note and recommend the report to Executive.

That Executive notes the report and recommends that Council approves;

- the Treasury Management Strategy 2024/25 – 2026/27 including the:
- policy on debt strategy as set out in section 4;
- the Minimum Revenue Provision policy as set out in section 5;
- Investment Strategy as set out in section 6;
- Prudential Indicators and limits including the Authorised Limit (as required by section 3(1) of the Local Government Act 2003), Operational Boundary, Minimum Revenue Provision Statement and Investment criteria as detailed in Appendix 2.

Other Options

This report is a mandatory report which has been produced in order to comply with Financial Procedure Rules and relevant legislation. The DLUHC Guidance and CIPFA Code do not prescribe any particular treasury management strategy for Councils to adopt and there are an unlimited number of other options that the Council could consider as part of its treasury management activities. This report however outlines a clear and practical approach with an appropriate balance between risk management and cost effectiveness and is recommended by the Director of Finance and Systems.

Consultation

There are no applicable consultation requirements in respect of this report. Advice has been obtained from Arlingclose, the Council's external advisors.

Reasons for Recommendation

The Financial Procedure Rules, incorporating the requirements of the CIPFA Treasury Management Code of Practice requires that the annual strategy report is provided to the Council as an essential control over treasury management activities. In it the Council approves the parameters under which officers will operate. In addition The Local Government Act 2003 requires that the Council approves an annual borrowing limit (the Authorised Limit) and DLUHC Guidance an annual investment strategy (setting out the limits to investment activities) prior to the commencement of each financial year.

Key Decision

This will be a key decision likely to be taken in: February 2024

This is a key decision currently on the Forward Plan: Yes

Finance Officer Clearance DM

Legal Officer Clearance DS

Corporate Director's Signature GB

APPENDIX 1

STATUTORY FRAMEWORK

Local Government Act 2003

In accordance with the Local Government Act 2003 (and supporting regulations and guidance) each Council must before the commencement of each financial year, produce a report fulfilling three key requirements as stipulated below;

- The debt strategy in accordance with the CIPFA Code of Practice on Treasury Management (section 4);
- The investment strategy in accordance with the DLUHC investment guidance (section 6);
- The reporting of the prudential indicators as required by the CIPFA Prudential Code for Capital Finance in Local Authorities (Appendix 3).

CIPFA Code of Practice

The Council's treasury activities are strictly regulated by statutory requirements in conjunction with a professional code of practice (the CIPFA Treasury Management Code of Practice). These Codes are revised from time to time and the Council complies with any revisions.

ELEMENTS FOR COUNCIL APPROVAL

(Including Prudential and Treasury Indicators, Minimum Revenue Provision & Investment Criteria)

In accordance with the current DLUHC Guidance, CIPFA Treasury Management Code of Practice, each council is required to set before the commencement of each financial year Treasury Management Prudential Indicators and limits, a Minimum Revenue Provision Statement and Investment criteria.

The Accounts and Audit Committee and Executive are requested to recommend that Council approve these for the period 2024/25 – 2026/27 as detailed below. Upon recommendation, Council is required to approve the prudential indicators and limits affecting treasury management performance for this period.

TREASURY PRUDENTIAL INDICATORS AND LIMITS –

In accordance with the current CIPFA Prudential code, the Council is required to produce prudential indicators and limits reflecting the projected capital activity regarding its capital investment programme. These have an impact on the Council's treasury management activities and are monitored on a regular basis with any breaches being reported to Council at the earliest opportunity.

Authorised Limit for External debt	**2023/24 estimate £m**	**2024/25 estimate £m**	**2025/26 estimate £m**	**2026/27 estimate £m**
General Capital Programme	280.0	280.0	310.0	310.0
Strategic Investment programme	250.0	370.0	420.0	500.0
Other Long Term Liabilities (PFI)	3.8	3.4	3.0	2.6
Total	**533.8**	**653.4**	**733.0**	**812.6**

Authorised Limit for External debt - This is a key prudential indicator and represents a control on the maximum level of external debt that the Council will require for all known potential requirements. It includes headroom to cover the risk of short-term cash flow variations that could lead to temporary borrowing and any potential effects arising from bringing "off balance sheet" leased assets onto the balance sheet in compliance with IFRS 16. This statutory limit as determined under section 3(1) of the Local Government Act 2003 needs to be approved by Council prior to the commencement of each financial year.3

Operational Boundary for External debt	**2023/24 estimate £m**	**2024/25 estimate £m**	**2025/26 estimate £m**	**2026/27 estimate £m**
General Capital Programme	250.0	260.0	290.0	290.0
Strategic Investment programme	250.0	370.0	420.0	500.0
Other long term Liabilities (PFI)	3.8	3.4	3.0	2.6
Total	**503.8**	**633.4**	**713.0**	**792.6**

Operational boundary for External Debt- calculated on a similar basis as the authorised limit but represents the likely level of external debt that may be reached during the course of the year and is not a limit.

Upper limit for Principal sums invested over 1 Year	2023/24 estimate £m	2024/25 estimate £m	2025/26 estimate £m	2026/27 estimate £m
Maximum limit	**100.0**	**100.0**	**100.0**	**100.0**
Current investments:				
Manchester Airport Shares as at 31 March 2023 *	37.7	37.7	37.7	37.7
Church Commissioners Local Authorities Property Investment Fund	5.0	5.0	5.0	5.0
Strategic Investments	12.0	12.0	12.0	12.0
Total Current Investments	54.7	54.7	54.7	54.7

* Manchester airport shares are included for clarity and transparency purposes only as they are a non-treasury investment.

Upper Limit for sums invested for over 1 year – these limits are set with regard to the Council's liquidity requirements.

Upper Interest limits	2023/24 estimate £m	2024/25 estimate £m	2025/26 estimate £m	2026/27 estimate £m
Fixed interest rate exposure based on net debt	9.5	9.5	9.5	9.5
Variable interest rate exposure based on net debt	1.0	1.0	1.0	1.0

Upper Interest Limits – identifies the maximum limit of interest payable after deducting all investment interest for each category of interest rate fixing

Maturity structure of all external loan debt – 2024/25 to 2026/27	Lower limit %	Upper limit %
Under 12 months	0	40
12 months to 2 years	0	40
2 years to 5 years	0	40
5 years to 10 years	0	40
10 years to 20 years	0	40
20 years to 30 years	0	40
30 years to 40 years	0	70
40 years and above	0	90

Maturity Structure of Borrowing – these gross limits are set to reduce the Council's exposure to large sums falling due for payment or refinancing and reflect the next date on which the lending bank can amend the interest rate for any Lender Option Borrower Option loans the Council currently has.

Gross Debt and the Capital Financing Requirement

The Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Director of Finance and Systems reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Liability Benchmark

In the update to the Treasury Management Code made in December 2021, a requirement has been made for the Council to estimate and measure its liability benchmark. The liability benchmark is not a single measure but is presented as a chart of four balances as described below. A warning would be indicated if the Liability Benchmark (which is the Net Loans Requirement plus a notional buffer of £20m) exceeds the Loans CFR.

■ Existing loan debt outstanding: the Council's existing loans which are still outstanding in future years.

■ Loans CFR: calculated in accordance with the loans CFR definition in the Prudential Code, and projected into the future based on approved prudential borrowing and planned MRP taking account of approved prudential borrowing

■ Net Loans Requirement: the Council's gross loan debt, less treasury management investments, at the last financial year end, projected into the future based on its approved prudential borrowing, planned MRP and any other forecast major cash flows

■ Liability Benchmark (or Gross Loans Requirement) = Net loans requirement + short term liquidity allowance (a notional buffer of £20m)

The chart, below, shows that actual loans are less than the benchmark, which indicates a future borrowing requirement driven by spending with the capital strategy.

The chart below shows that the Liability Benchmark (forecast total external debt less investment) is less than the Loans Capital Financing Requirement.

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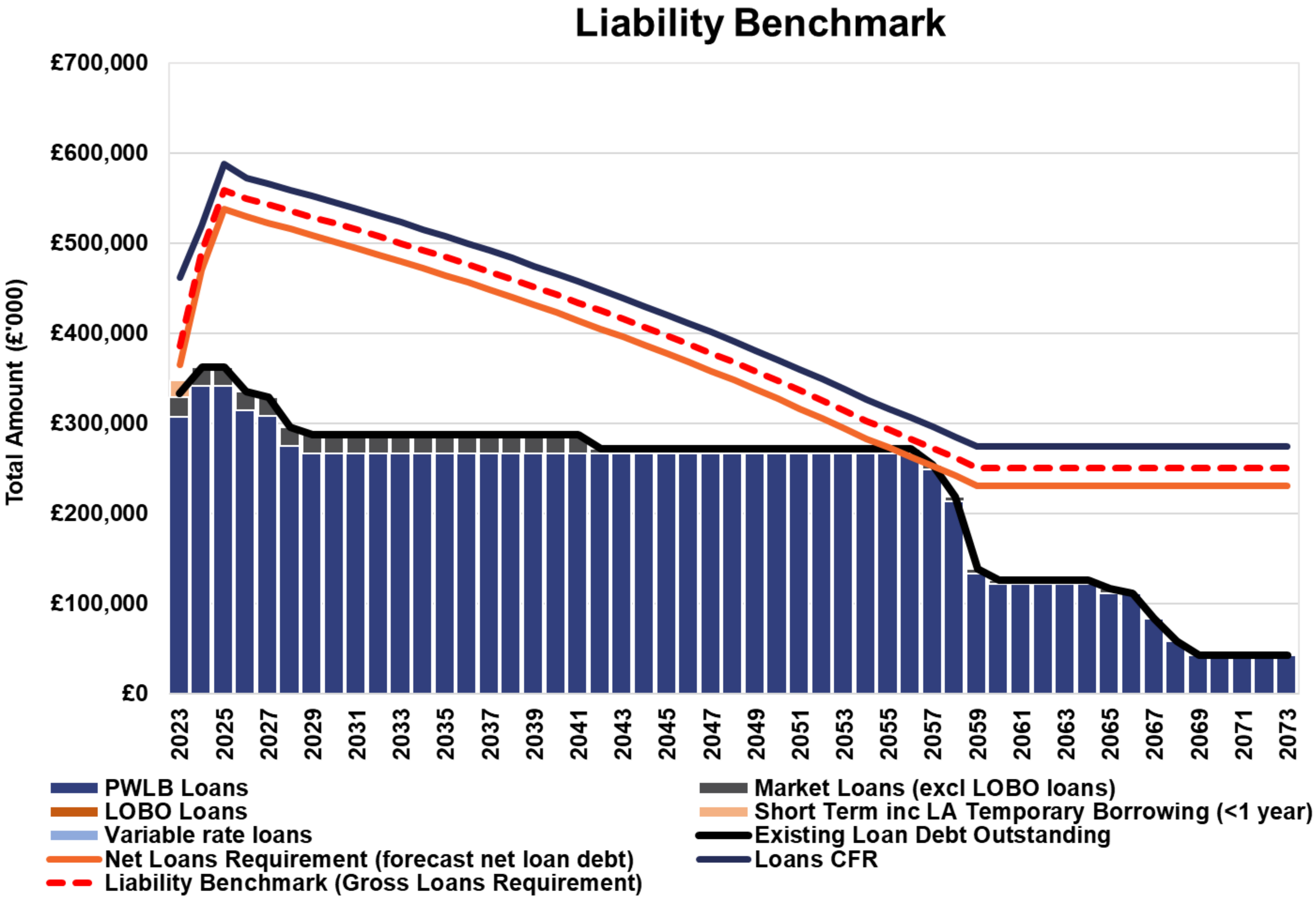

Liability Benchmark
£700,000
£600,000
£500,000
£400,000
£300,000
£200,000
£100,000
£0
Total Amount (£'000)
2023
2025
2027
2029
2031
2033
2035
2037
2039
2041
2043
2045
2047
2049
2051
2053
2055
2057
2059
2061
2063
2065
2067
2069
2071
2073
PWLB Loans
Market Loans (excl LOBO loans)
LOBO Loans
Short Term inc LA Temporary Borrowing (<1 year)
Variable rate loans
Existing Loan Debt Outstanding
Net Loans Requirement (forecast net loan debt)
Loans CFR
Liability Benchmark (Gross Loans Requirement)

MINIMUM REVENUE PROVISION

In accordance with the current DLUHC Guidance, the Council shall determine an amount of minimum revenue provision that it considers to be prudent and submit to Council for approval an annual MRP Statement which sets out its policy.

The following MRP Statement has been reviewed and prepared in accordance with the Council's accounting procedures and is recommended for approval to be effective from 1st April 2024:

- **Capital expenditure financed by Supported Borrowing:** MRP will be calculated on the Asset Life Method (up to 50 years), using an annuity calculation in accordance with DLUHC guidance;
- **Capital expenditure financed by Prudential Borrowing:** MRP will be based on either the estimated life of the assets once operational and charged on a straight line or annuity basis in accordance with DLUHC guidance;
- **Strategic Asset Investment Strategy financed by Prudential Borrowing:** Voluntary Revenue Provision (VRP) using the periods stipulated within the DLUHC Guidance of up to 50 years will be applied and written down on an annuity basis in accordance with DLUHC guidance. By adopting this approach it will enable the Council upon the sale of each asset, to either apply the capital receipt or use the VRP receipts to extinguish debt taken.
- **PFI schemes and leases shown on the balance sheet:** MRP will be based on the amount of the principal element within the annual unitary service payment and financed from the provision set-up to cover the final bullet payment. Capital receipts are to be used to replenish this provision to ensure any final bullet payment can still be made in 2028/29;
- **Expenditure that does not create an asset:** this is where the Council through the Strategic Asset Investment Strategy has made equity investment with Joint Venture companies with VRP being provided and calculated on a straight line basis for periods up to 50 years or annuity basis in accordance with DLUHC guidance;.
- **Use of a Capitalisation Direction**: Expenditure incurred in response to the issuance of a Capitalisation Direction by Central Government, MRP will be made over a period not exceeding 20 years, in accordance with the 2018 Guidance;
- **Lending to a third party**: In instances where the Council lends funds to a third party and in accordance with the guidelines issued (February 2018) by the Secretary of State, MRP is required to be provided over the useful life of the asset created. The Council in this instance will not follow the guidance but rather treat any advance as "Serviced debt" and therefore no MRP will be set-aside providing there is an agreed repayment date. Annually the Council will undertake a financial assessment of the third parties ability to repay the debt and where any adverse changes are perceived to be occurring then a provision will be created to cover any future potential financial losses.
- **Equity** – MRP for the acquisition of share capital will be calculated on a straight line basis for a period up to 20 years or annuity basis in accordance with DLUHC guidance;. The Council will consider on a case by case basis the appropriateness of the application of this period against any equity investments it undertakes.

INVESTMENT CRITERIA – **(changes in relation to ESG)**

Counterparty Selection

- The Council will only use institutions which are located in the UK or from a country with a minimum Sovereign Long term credit rating of AA-. The individual credit criteria is highlighted below and where credit ratings have been issued, both the Long and Short term rating from 2 of the 3 main agencies will need to meet the minimum required. The requirements shown below for categories 1 to 5 and 7 will be applied to both Specified and Non-specified investments. Category 6 applies only to The Church Commissioners Local Authorities Property Investment fund.
- The CIPFA Treasury Management Code requires local authorities to consider their counterparty policies in regard to environmental, social and governance (ESG) information. With this in mind, the Council will only place funds with institutions which are signatories to the UN Principles for Responsible Banking, or are UK Government or Local Government bodies.
- The Council will remove from its approved lending list any financial institutions whose practices or behaviours are not deemed to be commensurable with the values or ethical standards of the Council.

The limits shown in the table below are set at a contingency level and operationally monies will be placed with a number of institutions with a maximum 20% of the portfolio being placed with any one institution at the time each investment is made. This situation will be monitored during the course of the year with any corrective action being undertaken at the first opportunity without any financial penalty being incurred.

	Fitch (or equivalent) – Long Term	Maximum Group Limit	Maximum Time Limit
Category 1 – • UK & Non UK Banks (bank subsidiaries must have a parent guarantee in place), • UK Building Societies Institutions must also have an individual minimum short term credit rating of – Fitch F1 or equivalent.	AA to AAA A+ to AA- A- to A	£75m £25m £10m	3yrs 1yr 1yr
Category 2 – UK Building Societies which are unrated or do not meet the minimum ratings as per Category 1 with assets in excess of; • £5bln+, • £2.5bln - £4.99bln	- -	£5m £3m	1yr 1yr
Category 3 – UK Banks part nationalised - Royal Bank of Scotland. This bank or its subsidiaries can be included provided it continues to be part nationalised or meets the ratings in category1 above.	-	£20m	1yr
Category 4 – The Council's own banker for transactional purposes if the bank falls below the above criteria.	-	n/a	1day

Category 5 – • Pooled Investment Vehicles:			
➢ Money Market Funds (per fund)	AAA	£20m	3yrs
➢ Ultra-Short Dated Bond Funds(per fund)	AA	£15m	3yrs
• Social & Ethical funds (per fund)	-	£5m	10yrs
• UK Government (including treasury bills, gilts and the DMO)	-	£20m	3yrs
• Local Authorities (per authority)	-	£10m	3yrs
• Supranational Institutions	-	£20m	1yrs
Cont…	**Fitch (or equivalent) – Long Term**	**Maximum Group Limit**	**Maximum Time Limit**
Category 6 – • Local Authority Property Investment fund	-	£10m	10yrs
Category 7 – • Support for the Strategic Asset Investment Programme	-	£50m	5yrs

Specified and Non Specified Investments – (no changes)

In accordance with the current Code of Practice, the Council is required to set criteria which identify its investments between Specified and Non Specified investments and these are classified as follows;

- **Specified investments** - are high security and liquid investments with a maturity of no more than a year or those which could be for a longer period but where the Council has the right to be repaid within one year if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small.
- **Non specified investments** - are any other type of investment not defined as specified above. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18 month deposit would still be non-specified even if it has only 11 months left until maturity. A maximum of £100m is permitted to be held in this classification as detailed on page 22, Prudential Indicator Upper limit for sums invested over one year.

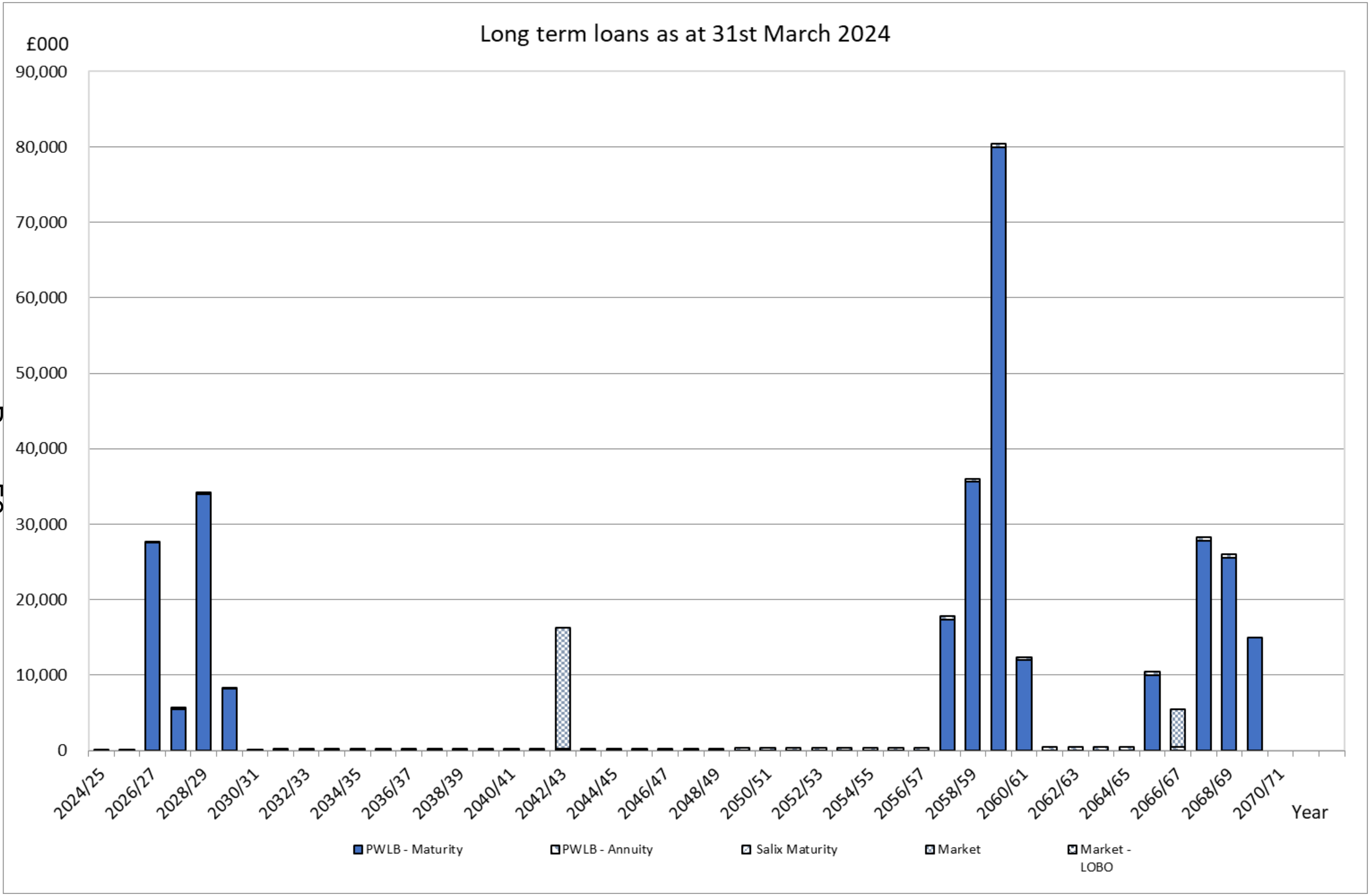
Instruments & Maximum period

All Investments undertaken will be in Sterling and placed in any of the following instruments: Term Deposits, Money Market Funds, Ultra Short Dated Bond Funds, Treasury Bills, Bonds, Gilts or Certificates of Deposits unless otherwise stated below;

Specified Investments	Maximum Maturity
The UK Government including Local Authorities and Debt Management Office.	1 Year
Supranational bonds of less than one year duration (e.g. International Monetary Fund)	1 Year
Pooled investment vehicles such as money market funds (including the revised categories of Low Volatility Net Asset value and variable Net Asset Value funds) Social & Ethical funds and	1 Year

low volatility bond funds.	
Specified Investments…..cont.	**Maximum Maturity**
An institution that has been awarded a high short term credit rating (minimum F1 or equivalent) by a credit rating agency, such as a bank or building society.	1 Year
Non-Specified Investments	
Multilateral development bank bonds - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. World Bank). The security of principal and interest on maturity is on a par with the Government and these bonds usually provide returns above equivalent gilt edged securities. The value of the bond may rise or fall and losses may accrue if the bond is sold prematurely.	3 Years
Gilt edged securities. These are Government bonds and provide the highest security of interest and principal. The value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	3 Years
The Council's own bank if it fails to meet the basic credit criteria with balances being kept to a minimum.	1 Day
UK Banks which have significant Government holdings	1 Year
Any bank or building society which meets the minimum long term credit criteria for Category 1 institutions detailed on page 23 with a maturity of greater than one year (including forward deals in excess of 1 year from inception to repayment).	3 Years
Building societies The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies which have a minimum asset size of £2.5bln but will restrict these type of investments as shown for Category 2 institutions on page 23.	1 Year
The UK Government including Local Authorities and Debt Management Office.	3 Years
Pooled investment vehicles such as money market funds (including the revised categories of Low Volatility Net Asset value and variable Net Asset Value funds) Social & Ethical funds and low volatility bond funds.	10 Years
Share capital or loan capital in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. It is envisaged this facility will apply to the Manchester Airport share-holding which the Council holds at a historical value of £37.7m as reported in the 2020/21 Statement of Accounts.	Unspecified
Manchester Airport Group – This is in response to the restructuring of the airports existing debt and is included for	Term of loans

clarity and transparency purposes only.	
Church Commissioners Local Authorities Property Investment Fund - This fund is aimed solely for use by public sector organisations wishing to invest in the property market whilst at the same time generating a favourable rate of return.	10 Years
Support the Strategic Asset Investment programme - where external borrowing to support the investment would not be in accordance with the CIPFA Prudential Code.	5 Years



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APPENDIX 4

INVESTMENT CREDIT AND INSTITUTION RISK MANAGEMENT

Monitoring of investment counterparties - The Council receives credit rating advice from Arlingclose and when ratings change this information is checked promptly to ensure institutions affected comply with the Council's criteria. On the occasion a rating may be downgraded when an investment has already been made, the criteria used are such that this should not affect the full receipt of the principal and interest. Any institution failing to meet the criteria, or those on the minimum criteria placed on negative credit watch, will be removed from the list immediately and if required new institutions which meet the criteria will be added.

		Credit Rating Agency		
Classification	**Description**	**Fitch (Minimum)**	**Moody's (Minimum)**	**Standard & Poors (Minimum)**
Short Term	Ensures that an institution is able to meet its financial obligations within 1 Year	F1 (Range **F1+, F2 A** to **D**)	P1 (Range **P1** to **P3**)	A1 (Range **A-1,** to **C**)
Long Term	Ensures that an institution is able to meet its financial obligations greater than 1 Year	A- (Range **AAA** to **D**)	A3 (Range **AAA** to **C**)	A- (Range **AAA** to **CC**)

The Council's list of Investment institutions is prepared primarily using credit rating information with full regard also being given to other sources of available information concerning credit quality. The information below will continue to be considered when undertaking investments;

- Credit default swaps - CDS were first created in 1997 and are a financial instrument for swapping the risk of debt default. Essentially the owner of the debt would enter into an agreement with a third party who would receive a payment in return for protection against a particular credit event – such as default. Whilst absolute prices can be unreliable, trends in CDS spreads do give an indicator of relative confidence about credit risk.
- Equity prices – like CDS prices, equities are sensitive to a wide array of factors and a decline in share price may not necessarily signal that the institution in question is in difficulty.
- Interest rates being paid - If an institution is offering an interest rate which is considerably out of line with the rest of the market this could indicate that the investment is likely to carry a high risk.
- Information provided by treasury management advisors – this may include some information detailed above together with weekly investment market updates.
- Market & Financial Press information – information obtained from the money market brokers used by the Council in respect of interest rates & institutions will also be considered.

No investment will be made with an institution if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

In order to further safeguard the Council's investments and in addition to the information shown at Appendix 3, due care will be taken to consider country, group and sector exposure as follows;

- **Country** – this will be chosen by the credit rating of the Sovereign state as shown at Appendix 3 and no more than 40% of the Council's total investments will be directly placed with non-UK counterparties at any time;
- **Group** – this will apply where a number of financial institutions are under one ownership (e.g. Royal Bank of Scotland / Nat West) and the Group limit will be the same as the individual limit for any one institution within that group;
- **Sector** limits will be monitored regularly for appropriateness.

Investment Risk benchmarking

Security benchmarks are central to the approved treasury strategy through the institution selection criteria and proposed benchmarks for these are set out below.

A method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy. The table below shows the latest average defaults for differing periods of investment grade products for each of Fitch, Moody's and Standard and Poors long term rating category over the period 1981 to 2022. The Council can generally place investments up to a maximum period of 3 years and for this purpose will only use high rated institutions in order to ensure any potential risk in the form of defaults are kept to a minimum. Investments placed over 1 year but up to 3 years are placed with higher rated institutions in order to ensure that any potential risk of default as highlighted in the table below is kept to a minimum.

Long term rating	Average 1 yr default	Average 2 yr default	Average 3 yr default	Average 4 yr default	Average 5 yr default
AAA	0.04%	0.09%	0.17%	0.26%	0.38%
AA	0.03%	0.08%	0.10%	0.18%	0.25%
A	0.03%	0.17%	0.28%	0.43%	0.59%
BBB	0.17%	0.41%	0.71%	1.09%	1.49%
BB	0.73%	2.11%	3.72%	5.24%	6.63%
B	2.86%	6.84%	10.62%	13.77%	16.29%
CCC	19.79%	28.25%	33.87%	37.16%	40.15%

The Council's minimum long term rating criteria is currently "A-", meaning the average expectation of default for a one year investment in an institution with a "A-" long term rating would be 0.03% of the total investment (e.g. for a £1m investment the average loss would be £500). This is only an average as any specific institution loss is likely to be higher.

APPENDIX 4

NON-TREASURY INVESTMENT ACTIVITIES

Details of the actual spend and commitments on the Council's non-treasury activities are outlined below:

Description	£m	Purpose
General		
Manchester Airport Group	29.7	Regeneration – 3 Shareholder loans
Homestep	0.5	Regeneration – Capital loan monies advanced to assist first time buyers to acquire property within Trafford which remains in place
Town Centre	0.65	Regeneration – Capital loan monies advanced to assist businesses occupy empty high street units within Trafford.
Sub-total	**30.85**	
Asset Regeneration Schemes		
Property Purchases	62.5	
Property Development	15.9	
Equity	53.9	
Development Debt	262.7	
Sub-total	**395.0**	
TOTAL	**425.85**	Further information can be found in Capital Strategy Report February 2024

TRAFFORD COUNCIL

Report to:	**Accounts and Audit Committee 7 February 2024** **Executive and Council 21 February 2024**
Report for:	**Decision**
Report of:	**The Executive Member for Finance, Change and Governance and the Director of Finance and Systems**

Report Title

TREASURY MANAGEMENT STRATEGY 2024/25 – 2026/27

Summary

This report outlines the:

- strategy to be implemented during this period for investments and borrowing,
- outlook for interest rates,
- management of associated risks,
- policy to be adopted on Minimum Revenue Provision (MRP) and
- Prudential Indicators.

Recommendations

That Accounts & Audit Committee be requested to note and recommend the report to Executive.
That Executive notes the report and recommends that Council approves;

- the Treasury Management Strategy 2024/25 – 2026/27 including the:
- policy on debt strategy as set out in section 4;
- the updated policy on Minimum Revenue Provision in section 5;
- Investment Strategy as set out in section 6;
- Prudential Indicators and limits including the Authorised Limit (as required by section 3(1) of the Local Government Act 2003), Operational Boundary, Minimum Revenue Provision Statement and Investment criteria as detailed in Appendix 2.

Contact person for access to background papers and further information:

Name: Frank Fallon

Background papers: None

Relationship to Corporate Priorities	Value for Money
Relationship to GM Policy or Strategy Framework	Not applicable
Financial	The treasury management strategy will aim to minimise risk to the Council whilst maximising investment interest. The Council's debt position will be administered effectively and any new loans taken will be in-line with that provided for within the Medium Term Financial Plan and Prudential Indicators as approved by Council.
Legal Implications:	Actions are undertaken in accordance with legislation issued by Department for Levelling Up, Housing and Communities (DLUHC) and guidance from Chartered Institute of Public Finance & Accountancy (CIPFA) Prudential Code and the Treasury Management Code of Practice.
Equality/Diversity Implications	All treasury management transactions undertaken by the Council are carried out with institutions with no known direct links to any illegal regimes or which promote the use of forced labour.
Sustainability Implications	The Council, when undertaking any treasury management investment fully supports the ethos of socially responsible investments and will avoid direct investment in institutions with material links to environmentally harmful activities. Opportunities to invest monies in products which both supports sustainable assets and complies with the Council's investment strategy will continue to be explored as and when they become available.
Carbon Reduction	Not directly applicable – See above
Staffing/E-Government/Asset Management Implications	Not applicable
Risk Management Implications	The monitoring and control of risk underpins all treasury management activities and these factors have been incorporated into the systems and procedures for this function which are independently tested on a regular basis. Failure to properly manage and monitor the Council's loans and investments could lead to service failure and a loss of reputation. Whilst no Treasury activity is without risk, the Council's in-house treasury management team continually monitor risks to ensure that security of capital sums is maintained at all times and adverse fluctuations in interest rates are avoided.
Health & Wellbeing Implications	Not applicable
Health and Safety Implications	Not applicable

Executive Summary

This report has been prepared in accordance with the Council's Financial Procedure Rules number 8 and outlines the forecasted treasury management activities for the forthcoming three years. Additional reports are produced during the course of the year informing Members of the preceding financial year actual activities together with a current mid-year update.

Economic position (Section 3)

Major influences on the Authority's treasury management strategy for 2024/25:

- Impact of higher interest rates and inflation
- weakening economic outlook
- uncertain political climate due to an upcoming general election
- war in Ukraine and the Middle East

Debt (Section 4)

- New external borrowing will be taken to assist in financing the capital borrowing requirement as outlined in the 2024/27 Capital Programme report
- All associated costs of new borrowing to be contained within the Medium Term Financial Plan
- Debt restructuring exercises will only be undertaken in order to produce revenue savings or reduce overall treasury risk

MRP (Section 5 and Appendix 2)

- MRP Policy and any potential review
- The Council switched from an approach of setting aside MRP for both supported and unsupported (prudential) borrowing on an equal instalment basis to an annuity basis in 2023/24

Further detail can be found in Section 5 of this report.

Investments (Section 6 and Appendix 3)

- The Council's investment criteria remains unchanged from that previously adopted of SLY, **S**ecurity of capital first, then **L**iquidity of its cash flows and finally **Y**ields.
- Council is required to agree the Investment criteria and this is set out for Member approval at Appendix 3.

Prudential Indicators and limits (Section 8 and Appendix 2)

- Council is required to approve a set of Prudential Indicators and limits ensuring its capital expenditure plans and borrowing remain robust, prudent, affordable and sustainable. These are detailed at Appendix 2 for Member approval.

Background

1.1 The Council is required to operate a balanced budget with cash raised during the year being used to pay for expenditure incurred. A primary part of the treasury management operation is to ensure that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet service activity with any temporary surplus monies being invested in low risk institutions.

1.2 Another function of this service is to ensure that the Council's capital borrowing requirement, the longer-term cash flow planning, is provided for which may involve arranging long or short-term loans or using longer-term cash flow surpluses. In addition to this and when it is financially prudent to do so, any debt previously obtained may be restructured.

1.3 The Council's in-house treasury management team will ensure that:

- all treasury management transactions undertaken comply with the statutory requirements as stipulated within the relevant professional codes and legislation (Local Government Act 2003, CIPFA Prudential Code and Treasury Management Code, MRP Guidance, and DLUHC Investment Guidance, (a brief outline of these frameworks is provided at Appendix 1),
- sufficient cash is available to meet both service activity and the Council's capital strategy,
- various periodic cash flows are prepared and maintained accurately using all known information available,
- where capital plans require, appropriate borrowing facilities are undertaken and
- when financially prudent any debt previously obtained is restructured.

1.4 Treasury management is defined by CIPFA as:

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

1.5 Management of the Treasury function will seek to ensure sufficient funding is in place to cover planned payments or undertaking the investment of temporary surplus funds when available in a secure manner.

1.6 Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of all monies invested is achieved to avoid any potential loss of principal which in turn would result in a loss to the General Fund Balance

1.7 The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions as covered by this report), and more strategic investments, such as regeneration properties, which are reported and managed through the capital programme. To assist with this activity, the Council uses a specialist external advisor.

1.8 Whilst any strategic initiatives or loans to third parties will impact on the treasury function, these activities are classed as non-treasury activities, (arising from capital expenditure) and are separate from the day-to-day treasury management activities. Details of these transactions are shown in Appendix 4 for reference.

1.9 Members are required to receive and approve, as a minimum, three main treasury reports each year which incorporate a variety of policies, forecasts and actuals as follows;

- **Annual Treasury Strategy** (issued February - is the most important report and includes):
  - ➢ A MRP policy (this reflects capital expenditure previously financed by borrowing and how the principal element is charged to revenue over time),
  - ➢ The treasury management strategies (how the investments and borrowings are to be organised) including treasury prudential indicators and limits and
  - ➢ An investment strategy (the parameters on how investments are to be managed).
- **Mid-year update** – (issued November / December – this provides an);
  - ➢ update for Members with the progress of the treasury management activities undertaken for the period April to September and
  - ➢ opportunity for amending prudential indicators and policies if necessary.
- **Annual outturn** – (issued June);
  - ➢ this provides details of actual treasury operations undertaken in the previous financial year.

1.10 Each of the above 3 reports are scrutinised by the Council's Accounts & Audit Committee before being forwarded onto either Executive or Council for final approval.

1.11 This report which has been prepared in accordance with the required statutory regulations and guidance, includes;

- The current treasury position (section 2);
- Economic & Interest Rate forecast (section 3)
- Debt Strategy (section 4)
- Minimum Revenue Provision (section 5)
- Investment Strategy (section 6)
- Investment Risk Benchmarking (section 7)
- Prudential Indicators (section 8)
- Related Treasury Issues (section 9)
- Recommendations (section 10)
- Appendices.

1.12 The Council uses Arlingclose as its external treasury management advisors who provide a range of services on treasury matters from the supply of credit ratings to technical support. The Council recognises that there is value in using external providers for this service which is subject to regular reviews.

1.13 Whilst the external advisors provide support to the in-house team, the Council will consider all available information when forming an opinion on matters concerning treasury management and acknowledges that the final decision remains with the Council at all times.

1.14 The Council also acknowledges the importance of ensuring that all members and staff involved in the treasury management function receive adequate and relevant training in order to undertake the duties and responsibilities allocated to them. This is further highlighted in the CIPFA Code which requires the responsible officer, the Director of Finance and Systems, ensures that members with responsibility for this task, receive adequate training in treasury management.

1.15 The CIPFA Treasury Management Code was updated in September 2021 and from 2023 required that all staff involved in the Treasury Management function have the necessary expertise, knowledge and skills to perform their role. In addition board/council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Regular training is provided to Members of the Accounts and Audit Committee and for reference a member training event was provided on 23rd January 2024 as part of the consideration of this annual strategy by the Council's in-house team and its external advisors Arlingclose. Additional training is also provided as a precursor to the regular updates at year-end and mid-year.

Continuing attendance at relevant courses / seminars / webinars by staff and members as presented by CIPFA, Arlingclose and other suitable professional organisations will be encouraged.

2. Treasury Position

2.1 The Council's investment and debt positions at the beginning of the current financial year and as at 31st December 2023 are listed in the table below;

	31 March 2023		31 December 2023	
	Principal £m	**Average Interest Rate %**	**Principal £m**	**Average Interest Rate %**
DEBT				
Short term (payable before 31.03.24)				
PWLB	4.3	6.62	4.2	6.75
Market	15.0	4.24	0.0	0.00
Sub-total	19.3	4.77	4.2	6.75
Long term (payable after 31.03.24)				
PWLB	277.8	2.32	277.8	2.32
Market	21.0	4.79	21.0	4.79
Sub-total	298.8	2.49	298.8	2.49
Total debt	**318.1**	**2.63**	**303.0**	**2.55**
INVESTMENTS				
Short term (less than 1 year duration)				
- Instant access	26.3	4.06	7.4	5.32
- Call accounts	0.0	0	0.3	5.14
- Term deposit	27.4	3.92	6.0	4.88
Sub-total	**53.7**	**3.99**	**13.7**	**5.12**
Long term (greater than 1 year duration)				
- CCLA	4.7	4.65	4.6	5.62
- Strategic Investment programme (SIP)	12.0	n/a	12.0	n/a
Sub-total	**16.7**	**4.65**	**16.6**	**5.62**
Total Investments	**70.4**	**4.04**	**30.3**	**5.25**

Information in the above table reflects the;

- level of funds available on a temporary basis for investment purposes which fluctuate on a daily basis due to the timing of precept payments, receipt of grants and spend progress on the capital programme,
- repayment of monies borrowed and;

- value of original monies placed with CCLA was £5m. The fall in value from March 2023 to December 2023, of £0.1m, is representative of a reduction in property values driven, in part, by rising interest rates. Although, capital valuations have shifted down, the rental market is still strong in multiple sectors, and so yields are expected to be less effected.

3. Economic & Interest Rate forecast

3.1 The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the Authority's treasury management strategy for 2024/25. The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level for the rest of 2023. In December 2023, members of the BoE's Monetary Policy Committee voted in favour of keeping Bank Rate at 5.25%.

Office for National Statistics (ONS) figures showed CPI inflation was 4.0% in December 2023, down from a 4.6% rate in the previous month and, in line with the recent trend, lower than expected. The core CPI (excluding energy, food, alcohol and tobacco) inflation rate declined to 5.1% from the previous month's 5.7%, again lower than predictions. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling slowly, but taking until early 2025 to reach the 2% target before dropping below target during the second half 2025 and into 2026.

3.2 Arlingclose produce interest rate projections periodically throughout the year and the latest forecasts (December 2023) are shown below for reference;

Average rates	2023-24 Forecast %	2024-25 Forecast %	2025-26 Forecast %	2026-27 Forecast %
Bank Rate	4.94	5.06	3.88	3.08
Investment Rates 3 month	5.40	5.16	3.93	3.12
PWLB Loan Rates 5 Year 20 Year 50 Year	 4.57 5.00 4.60	 4.50 5.00 4.69	 4.23 5.00 4.70	 4.12 5.02 4.75

3.3 The December 2023 Bank Rate of 5.25% is expected to remain at this level until Q3 2024/25 and then decrease to 4.75% by the end of the financial year.

3.4 The Council will continue to adopt a cautious approach to its treasury management activities whilst utilising the information available from both Arlingclose and other external sources which may become available during this time.

4. Debt Strategy

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

4.2 The underlying need to borrow comes from the Capital Financing Requirement (CFR) which represents the total level of outstanding capital expenditure both historic and current, not yet paid for from either revenue or capital resources (eg capital grants). It is essentially a measure of the Council's indebtedness or its underlying borrowing need.

4.3 The Council needs to ensure that its debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates going out to 2026/27. Whilst this allows some flexibility for limited early borrowing for future years, it also ensures that borrowing is not undertaken for revenue or speculative purposes. The Director of Finance and Systems can confirm that to date the Council has not exceeded the CFR with its debt.

4.4 CFR increases with new debt-financed capital expenditure and reduces with contributions made under Minimum Revenue Provision (MRP) and capital receipts used to replace debt. The CFR is not allowed to rise indefinitely and statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset with an annual revenue charge, the MRP, being applied to reduce the CFR each year.

4.5 Included within the CFR are any other long-term liabilities such as Private Finance Initiative (PFI) schemes and finance leases. Whilst these increase the overall balance of the CFR, the Council's borrowing requirement is not increased as this type of liability includes a borrowing facility by the PFI or lease provider. The Council currently has £3.4m (31 March 2024) liability of such schemes within the CFR which is set to fall to £2.20m by 31 March 2027 as highlighted in the table below;

Other long-term liabilities	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
Total at 1 April	3,755	3,404	3,029	2,628
Expected repayment	(351)	(375)	(401)	(428)
Total at 31 March	3,404	3,029	2,628	2,200

4.6 With effect from April 2024, the International Financial Reporting Standard 16 will require that all Council leases are also included within the CFR. Whilst the compliance of this new accounting requirement will impact on the Council's overall long term liabilities, it is deemed at this stage to be immaterial.

4.7 The total of the Council's loans outstanding as at 31 December 2023 totalled £303.0m and a breakdown of this debt is provided for reference in Section 2 above.

4.8 The Council held, as mentioned above £36.0m of Non-PWLB (Market) loans and of these £15.0m were held at variable rates of interest in the form of Lender's Option Borrower's Option (LOBO) loans. With regards to this type of loan, the lender has the option to propose an increase in the interest rate at set dates and should this situation occur then the Council can either accept the new rate or repay the loan at no additional cost. In accordance with the Director of Finance and Systems delegated authority, the Council repaid the £15m of LOBO loans in June 2023 due to the lender proposing an increase to the interest rate.

4.9 The Council continues, as in previous years, to be in an under-borrowed position which reflects that the CFR balance is greater than the level of external debt and this is in line with the majority of other UK local authorities. This under-borrowed position has arisen from previous and current years annual CFR (borrowing need), not being fully funded with new loans, as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure.

4.10 Since March 2023, the Council's forecast under-borrowing is expected to grow to a level which is not considered sustainable due to the impact on the Council's cash balances. Therefore, the Council will reduce the level of under borrowing over the next couple of years by using external debt to finance in-year borrowing requirements and when asset strategy investments are repaid these receipts will be used to pay back the internal borrowing. This process is expected to begin within 2023/24, with the under-borrowing at year end expected to be £92.7m.

This externalisation of this debt will be funded by existing provisions within the Treasury Management and Strategic Investment Programme revenue budgets. The situation will be continued to be monitored, with considerations given to movements in interest rates and future capital plans. The decision to borrow will be taken by the Director of Finance and Systems per delegated powers, and in accordance with the approved Treasury Management and Debt Strategies.

4.11 As in line with previous years requirements any new capital projects which are to be funded from borrowing will need to generate sufficient revenue savings in order to be self-financing therefore avoiding any impact on the Council's MTFP.

4.12 The Director of Finance and Systems will continue to monitor interest rates and adopt a sensible approach to changing circumstances within the 2024/25 treasury operations before taking on any new debt.

4.13 Based on current commitments the table below reflects the level of external debt the Council potentially may have for the period 2023/24 to 2026/27 which is used to part fund its capital programme. In addition, it reflects to the borrowing required to finance the projected future pipeline of schemes for the Council's Strategic Investments.

	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
Strategic Investment Programme				
Total at 1 April	170,158	220,514	314,017	365,491
Planned repayments	(154)	(158)	(162)	(25,367)
Potential New external debt	50,510	93,661	51,636	25,367
Sub-Total at 31 March	**220,514**	**314,017**	**365,491**	**365,491**
General Capital Programme				
Total at 1 April	148,010	148,314	162,324	183,744
Planned repayments	(19,185)	0	0	(2,354)
Potential New external debt	19,490	14,010	21,420	0
Sub-Total at 31 March	**148,314**	**162,324**	**183,744**	**181,390**
Total Estimated External Debt	**368,828**	**476,342**	**549,235**	**546,881**
Capital Financing Requirement (CFR)	**461,524**	**519,406**	**587,410**	**573,233**
Estimated (Under)/Over	**(92,696)**	**(43,064)**	**(38,175)**	**(26,352)**

Borrowing at year end				

4.14 All interest incurred on the Council's external debt is charged directly to treasury management apart from where it has previously been agreed by Executive for interest incurred on major development schemes e.g. Sale Magistrates Court to be capitalised.

4.15 When any form of borrowing is required to finance the Council's capital expenditure, be this long or short term, consideration will continue to be given to obtaining funds at the most advantegous rates possible at that time, from the following souces:

- Other local authorities,
- The Government via the PWLB,
- Dedicated publicly funded companies e.g. Salix,
- Financial institutions within the money market (insurance companies, pension funds and banks).

4.16 The uptake of new long term debt will be processed in accordance with the Council's approved scheme of delegation and reported to members at the earliest opportunity. Action of this sort will be undertaken in accordance with a number of factors such as affordability, proposed life of the asset, current interest rate projections and advice obtained from the Council's external advisors.

4.17 Rescheduling any of the Council's current loans will only be undertaken when it is cost effective to do so taking into account the high early repayment penalty (premium) which will be incurred. This situation will be monitored during the course of the year and in the event any debt rescheduling is done, it will be reported to the Members at the earliest opportunity following its action.

4.18 Whilst the Council retains the flexibility to borrow funds in advance of requirement as a result of potential changes to market conditions i.e. a sharp rise in interest rates, it will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will ensure that funds are taken within the forward approved CFR estimates and that value for money can be demonstrated.

4.19 Any borrowing taken by the Director of Finance and Systems in advance of need will be done in accordance with delegated powers and within the constraints stated below;

- no more than 50% of the expected increase in borrowing need (CFR) over the three year planning period and
- the Council would not look to borrow more than 12 months in advance of need.

4.20 The Council's debt maturity profile is provided at Appendix 2 for reference which also shows, in accordance with the Code of Practice, the potential first date the lending banks could amend the rate of interest for their respective market LOBO loans (if any).

4.21 *The Council is required to approve;*

- *the above debt strategy and*
- *as part of the Prudential Indicators and Limits requirement, the limits for external debt in accordance with the Local Government Act 2003, having regard to CIPFA's prudential code before the commencement of each financial year. These limits are detailed at Appendix 2.*

5. Minimum Revenue Provision Strategy

5.1. Local Authorities are required by statute to make a charge to their revenue account to provide for the repayment of debt resulting from capital expenditure, known as Minimum Revenue Provision ("MRP").

5.2. The Council is required to determine a level of MRP it considers to be prudent, whilst having regard to the MRP Guidance issued by the Department for Levelling Up, Housing and Communities ("DLUHC").

5.3. The Guidance provides suggested methods for the calculation of MRP that the DLUHC consider to be prudent, however the Guidance and legislation do not define what is prudent. It is for each Authority to determine a prudent repayment based on its own individual circumstances, considering the medium and long-term financial plans, current budgetary pressures, future capital expenditure plans and funding needs.

5.4. Any change to the Authority's MRP Policy needs to consider:

- Its appropriateness and compliance with the MRP guidance.
- Affordability, prudence and sustainability with regard to current revenue budgets of the Authority, balanced against deferring costs of future Council Taxpayers.
- The Authority's future capital programme in terms of complexity, variability and deliverability.
- Capital Financing Requirement (CFR) forecasts and the level of borrowing proposed by the Authority in future years.
- S151 officer consideration of what constitutes a prudent provision

5.5. The main consideration for the MRP policy and referred to in the Guidance is to align the period over which the MRP is made to one that is commensurate with the period over which their capital expenditure provides benefits. Therefore, when considering the broad aim of MRP making a prudent provision, there is scope to recognise the flexibilities which exist in determining an appropriate annual repayment profile and the context of the Authority's current and future financial position.

5.6. An authority may also consider that 'prudent' in this context does not necessarily mean the quickest possible repayment period and will also have regard to the prudent financial planning of the authority overall, the flow of benefits from the capital expenditure, and other relevant factors. For example, the MRP Policy may also take account of the financial forecast in the authority's medium / long term financial plan in determining what is prudent MRP in the circumstances.

5.7. The majority of the MRP which the Council sets aside is done so currently under an Annuity Method. Under the Annuity Method, rather than setting aside MRP on an equal instalment basis it operates similar to a repayment mortgage where the principal element of the repayment increases over the life of the loan. Therefore, under this method MRP would start low then increase over the time.

5.8. This method is now being increasingly applied by a number of authorities and The Chartered Institute of Public Finance and Accountancy (CIPFA) puts forward the following reasoning for using the annuity method in 'The Practitioner's Guide to Capital Finance in Local Government' (2019) which states:

- The annuity method provides a fairer charge than equal instalments as it takes account of the time value of money, whereby paying £100 in 10 years' time is less of a burden than paying £100 now.

- The schedule of charges produced by the annuity method thus results in a consistent charge over an asset's life, considering the real value of the amounts when they fall due.
- The annuity method would then be a prudent basis for providing for assets that provided a steady flow of benefits over their useful life.

5.9. The MRP Policy will continue to be reviewed annually to make sure the approach is prudent and that it is appropriate based on the condition and profile of benefits being derived from the assets.

5.10. In December 2023, the Department for Levelling Up, Housing and Communities published a consultation on changes to the Minimum Revenue Provision statutory guidance and regulations. This follows a consultation in November 2021 aimed at strengthening the duty to make Minimum Revenue Provision (MRP) and a further consultation in June/July 2022 to address concerns of unintended consequences that the initial consultation may have caused.

As a result of the complexity introduced by the previous consultation outcomes, the government said it would review the Statutory MRP Guidance before putting in place changes to the Regulations, and that no changes would take effect before April 2024. This current consultation, closing in February 2024, is looking for views on the revised MRP guidance and amended regulations, which do not differ substantially from the June/July consultation.

5.11. The council's MRP policy is considered to comply with the updated proposals set out in the consultation. Should there need to be a change in policy following the outcome of the consultation and once the detailed guidance is issued, this will be reported to Council in the next update.

5.12. The Council is requested to approve the MRP Statement as detailed at Appendix 2.

6. Investment Strategy

6.1 In accordance with both DLUHC and CIPFA guidelines, the term 'investments' now reflects both financial and non-financial investments. This report deals solely with financial investments, (as managed by the in-house treasury management team). Non-financial investments, essentially the Council's Strategic Investment programme, are covered in the Capital Strategy, (a separate report).

6.2 When the Council's in-house treasury management team places an investment, it does so with regard to current legislation and guidance as highlighted below but also with regards to the outlook for short-term interest rates.

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

6.3 On each occasion when the Council's in-house treasury management team places an investment it continues to ensure that the primary principle will be as that followed in previous years of **SLY**, **S**ecurity of funds first, **L**iquidity second followed by **Y**ield.

6.4 Environmental, social and governance (ESG) issues are increasingly significant for the Council and its residents. The CIPFA Treasury Management Code recommends that councils consider their credit and counterparty policies in light of

ESG information. The Investments Strategy has therefore been updated for 2024/25, to confirm that the Council will only place funds with institutions which are signatories to the UN Principles for Responsible Banking, or are UK Government or Local Government bodies. The UN Principles for Responsible Banking are a unique framework for ensuring that signatory banks' strategy and practice align with the vision society has set out for its future in the Sustainable Development Goals and the Paris Climate Agreement. The Council will also remove from its approved lending list any financial institutions whose practices or behaviours are not deemed to be commensurable with the values or ethical standards of the Council.

6.5 The Council will aim to achieve the maximum return (yield) on its investments appropriate with proper levels of security and liquidity in line with the Council's risk appetite. In order to safeguard its funds the Council's in-house treasury management team will continue its approach of not undertaking any investment without thoroughly understanding the product together with associated risks or in any institution which is paying considerably over and above market levels.

6.6 Funds making up the Council's investments derive from monies received in advance of spend requirement and from the balances and reserves which it holds. Whilst greater returns are usually obtainable by investing for longer periods, most cash balances are required to manage the movements of the Council's day to day cash flows. Cash not required for immediate use may be invested for longer periods of time, however before doing so careful assessment to the value to be obtained from this is undertaken.

6.7 Guidance issued by both the DLUHC and CIPFA as identified at paragraph 6.2 places a high priority on the management of risk and whilst this will never completely be eliminated, it can be minimised. The Director of Finance and Systems will maintain a counterparty list with the assistance of Arlingclose specifying which institutions it can place funds with. By only placing funds with those institutions which appear on this list it reduces the risk of an institution defaulting, enables diversification and avoids concentration risk. The key credit ratings used to monitor institutions are the short term and long-term ratings.

6.8 The Council will use UK institutions, including banks, building societies and local authorities together with banks located in a country which has a minimum Sovereign Long term credit rating of AA-. As well as detailing the criteria institutions must meet to enable them to be included onto the Council's approved lending list, within their respective category, Appendix 2 also specifies both the maximum value and duration funds can be placed at any one time.

6.9 Credit rating information is supplied by Arlingclose, the Council's treasury advisors, on all active counterparties that comply with the criteria above. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to an institution at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

6.10 This approach uses real time credit rating information provided by Arlingclose and enables an institution, should they meet or no longer meet the minimum credit criteria required to be immediately included on to or removed off the approved list.

6.11 A full explanation of the credit ratings determining the institutions which the Council will use can be found at Appendix 3.

6.12 The Council's in-house treasury management team recognises ratings should not be the sole basis of determining the quality of an institution. It is important to continually assess and monitor institutions both on the economic and political environments in which they operate together with information that reflects the opinion of the markets. To achieve this, the Council will, with Arlingclose, monitor market pricing on additional factors such as "credit default swaps" (CDS) and overlay this information on top of the credit ratings. This additional market information is detailed for Members' reference at Appendix 3.

6.13 Members are asked to approve this base criteria, however the Director of Finance and Systems may temporarily restrict further investment activity to those institutions considered of higher credit quality than the minimum criteria set out for approval should any exceptional market conditions be encountered.

6.14 Investments will continue to be placed as follows;

- Short-term – cash required to meet known cash flow outgoings in the next month, plus a contingency to cover any unexpected transaction over the same period with bank notice accounts and money market funds being the main methods used for this purpose.
- Medium-term – cash required to manage the annual seasonal cash flow cycle covering the next 12 months and will generally be in the form of fixed term deposits and ultra-short dated bond funds.
- Long-term – cash not required to meet any immediate cash flow requirements and can be used primarily to generate investment income by using fixed or structured term deposits, certificates of deposits, government bonds or the Local Authority Property Investment fund.

6.15 Investment instruments identified for use in the financial year together with institution limits are detailed for members reference in Appendix 2. The use of longer term instruments (greater than one year from inception to repayment) falls in the Non-specified investment category and these will only be used where the Council's liquidity requirements are safeguarded and be limited to the Prudential Indicator which is also detailed at Appendix 2.

6.16 The level of the Council's investments together with the average interest rate, as at 31 December 2023, is provided for reference at paragraph 2.1

6.17 *The Council is requested to approve the;*

- *adoption of the above Investment strategy and*
- *minimum criteria for providing a list of high-quality investment institutions, instruments and limits to be applied as set out at Appendix 2.*

7. Investment Risk Benchmarking

7.1 The CIPFA Code of Practice and DLUHC Investment Guidance require that appropriate security and liquidity benchmarks are considered and reported to members annually and details of these are provided below with more detail concerning the security benchmark being provided in Appendix 3.

7.2 Benchmarks are simple guides (not limits) to maximum risk for use with cash deposits and so may be breached from time to time, depending on movements in interest rates and institution criteria. The purpose of the benchmark is to assist officers to monitor the current and trend position and amend the operational strategy to manage risk as conditions change. For reference the benchmarks proposed are;

- Security - Each individual year the security benchmark is:

1 year investments	2 year investments	3 year investments
0.03%	**0.08%**	**0.10%**

Note - This benchmark is an average risk of default measure and would not constitute an expectation of loss against a particular investment. At the end of December 2023, the Council's default rate of its investments placed was 0.03% which is in line with the 1 year benchmark of 0.03%.

- Liquidity - The current CIPFA Treasury Management Code of Practice defines this as "*having adequate, though not excessive cash resources, borrowing arrangements, overdrafts or standby facilities to enable at all times to have the level of funds available which are necessary for the achievement of its business / service objectives*".

  -Weighted Average Life (WAL) - benchmark for 2024/25 is set at 6 months, with a maximum of 3 years for cash time deposits;

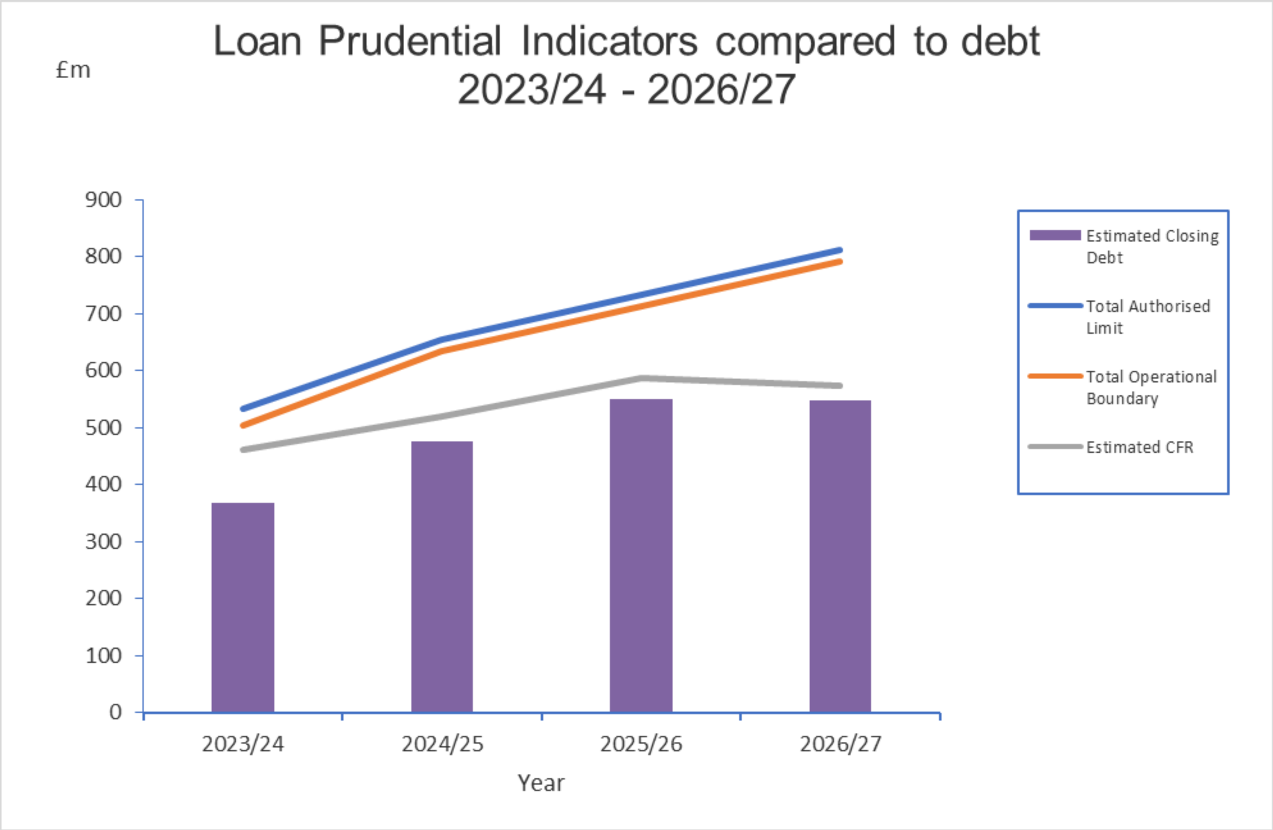
  -Liquid short term deposits - at least £5m is available within a week's notice.

- Yield- The Council aims to achieve a return on its investments of greater than 1 month Sterling Overnight Index Average (SONIA) rate.

8. Prudential Indicators

8.1 A number of prudential indicators have been devised for the treasury management process and these have been prepared to assist managing risk and reduce the impact of an adverse movement in interest rate. These indicators have been set at levels which do not restrict day to day activities whilst at the same time ensure the Council's capital expenditure plans are prudent, affordable and sustainable.

8.2 The graph below shows how two of these prudential indicators (Authorised Limit and Operational Boundary) relate to forecast levels of debt.



8.3 *Members are requested to approve the full set of Prudential Indicators for the Council's treasury management activities as detailed at Appendix 2.*

9. Related Treasury Issues

9.1 Asset Investment Strategy. During 2017/18 the Council introduced a programme to acquire suitable assets which will deliver significant regeneration benefits for the area and increase the Council's income generating capacity thereby enabling it to maintain the provision of services in future years.

9.2 Whilst investments under Asset Investment Strategy are made to support policy related activities and are therefore considered outside the treasury management function, their implementation will have an impact on the Council's cash flow. All such investments are also considered on each occasion in accordance with the principles set out in paragraphs 6.2 and 6.3 above.

9.3 International Financial Reporting Standards 9 (IFRS9). This was introduced to enable a reader of the Council's accounts to fully assess the worth and risk of its financial instruments with any potential losses or profits being taken to the accounts in full in the year they occur. Whilst IFRS 9 is primarily a re-classification not a re-valuation exercise, its introduction has not had any major impact for the Council to date. Currently there is one investment which is affected by this re-classification which is placed with the pooled Church Commissioners Local Authority in its Property fund. To mitigate against revaluation losses or gains impacting on the Council's General Fund, DLUHC issued an override which has been extended to 31 March 2025 enabling local authorities' time to either arrange for a planned exit or for potential surpluses to be placed into an unusable reserve and applied in those years when a downward revaluation occurs.

The Council's in-house team will;

- continue to monitor both the monthly valuations received for this investment and the quarterly market forecasts produced to ensure that any potential losses in valuation are kept to a minimum and
- consider setting aside a proportion of the annual interest received into a reserve for use to smooth out any potential losses.

10. Recommendations

That Accounts & Audit Committee be requested to note and recommend the report to Executive.

That Executive notes the report and recommends that Council approves;

- the Treasury Management Strategy 2024/25 – 2026/27 including the:
- policy on debt strategy as set out in section 4;
- the Minimum Revenue Provision policy as set out in section 5;
- Investment Strategy as set out in section 6;
- Prudential Indicators and limits including the Authorised Limit (as required by section 3(1) of the Local Government Act 2003), Operational Boundary, Minimum Revenue Provision Statement and Investment criteria as detailed in Appendix 2.

Other Options

This report is a mandatory report which has been produced in order to comply with Financial Procedure Rules and relevant legislation. The DLUHC Guidance and CIPFA Code do not prescribe any particular treasury management strategy for Councils to adopt and there are an unlimited number of other options that the Council could consider as part of its treasury management activities. This report however outlines a clear and practical approach with an appropriate balance between risk management and cost effectiveness and is recommended by the Director of Finance and Systems.

Consultation

There are no applicable consultation requirements in respect of this report. Advice has been obtained from Arlingclose, the Council's external advisors.

Reasons for Recommendation

The Financial Procedure Rules, incorporating the requirements of the CIPFA Treasury Management Code of Practice requires that the annual strategy report is provided to the Council as an essential control over treasury management activities. In it the Council approves the parameters under which officers will operate. In addition The Local Government Act 2003 requires that the Council approves an annual borrowing limit (the Authorised Limit) and DLUHC Guidance an annual investment strategy (setting out the limits to investment activities) prior to the commencement of each financial year.

Key Decision

This will be a key decision likely to be taken in: February 2024

This is a key decision currently on the Forward Plan: Yes

Finance Officer Clearance DM

Legal Officer Clearance DS

Corporate Director's Signature GB

STATUTORY FRAMEWORK

Local Government Act 2003

In accordance with the Local Government Act 2003 (and supporting regulations and guidance) each Council must before the commencement of each financial year, produce a report fulfilling three key requirements as stipulated below;

- The debt strategy in accordance with the CIPFA Code of Practice on Treasury Management (section 4);
- The investment strategy in accordance with the DLUHC investment guidance (section 6);
- The reporting of the prudential indicators as required by the CIPFA Prudential Code for Capital Finance in Local Authorities (Appendix 3).

CIPFA Code of Practice

The Council's treasury activities are strictly regulated by statutory requirements in conjunction with a professional code of practice (the CIPFA Treasury Management Code of Practice). These Codes are revised from time to time and the Council complies with any revisions.

ELEMENTS FOR COUNCIL APPROVAL

(Including Prudential and Treasury Indicators, Minimum Revenue Provision & Investment Criteria)

In accordance with the current DLUHC Guidance, CIPFA Treasury Management Code of Practice, each council is required to set before the commencement of each financial year Treasury Management Prudential Indicators and limits, a Minimum Revenue Provision Statement and Investment criteria.

The Accounts and Audit Committee and Executive are requested to recommend that Council approve these for the period 2024/25 – 2026/27 as detailed below. Upon recommendation, Council is required to approve the prudential indicators and limits affecting treasury management performance for this period.

TREASURY PRUDENTIAL INDICATORS AND LIMITS –

In accordance with the current CIPFA Prudential code, the Council is required to produce prudential indicators and limits reflecting the projected capital activity regarding its capital investment programme. These have an impact on the Council's treasury management activities and are monitored on a regular basis with any breaches being reported to Council at the earliest opportunity.

Authorised Limit for External debt	2023/24 estimate £m	2024/25 estimate £m	2025/26 estimate £m	2026/27 estimate £m
General Capital Programme	280.0	280.0	310.0	310.0
Strategic Investment programme	250.0	370.0	420.0	500.0
Other Long Term Liabilities (PFI)	3.8	3.4	3.0	2.6
Total	**533.8**	**653.4**	**733.0**	**812.6**

Authorised Limit for External debt - This is a key prudential indicator and represents a control on the maximum level of external debt that the Council will require for all known potential requirements. It includes headroom to cover the risk of short-term cash flow variations that could lead to temporary borrowing and any potential effects arising from bringing "off balance sheet" leased assets onto the balance sheet in compliance with IFRS 16. This statutory limit as determined under section 3(1) of the Local Government Act 2003 needs to be approved by Council prior to the commencement of each financial year.3

Operational Boundary for External debt	2023/24 estimate £m	2024/25 estimate £m	2025/26 estimate £m	2026/27 estimate £m
General Capital Programme	250.0	260.0	290.0	290.0
Strategic Investment programme	250.0	370.0	420.0	500.0
Other long term Liabilities (PFI)	3.8	3.4	3.0	2.6
Total	**503.8**	**633.4**	**713.0**	**792.6**

Operational boundary for External Debt- calculated on a similar basis as the authorised limit but represents the likely level of external debt that may be reached during the course of the year and is not a limit.

Upper limit for Principal sums invested over 1 Year	2023/24 estimate £m	2024/25 estimate £m	2025/26 estimate £m	2026/27 estimate £m
Maximum limit	**100.0**	**100.0**	**100.0**	**100.0**
Current investments: Manchester Airport Shares as at 31 March 2023 * Church Commissioners Local Authorities Property Investment Fund Strategic Investments	37.7 5.0 12.0	37.7 5.0 12.0	37.7 5.0 12.0	37.7 5.0 12.0
Total Current Investments	54.7	54.7	54.7	54.7

* Manchester airport shares are included for clarity and transparency purposes only as they are a non-treasury investment.

Upper Limit for sums invested for over 1 year – these limits are set with regard to the Council's liquidity requirements.

Upper Interest limits	2023/24 estimate £m	2024/25 estimate £m	2025/26 estimate £m	2026/27 estimate £m
Fixed interest rate exposure based on net debt	9.5	9.5	9.5	9.5
Variable interest rate exposure based on net debt	1.0	1.0	1.0	1.0

Upper Interest Limits – identifies the maximum limit of interest payable after deducting all investment interest for each category of interest rate fixing

Maturity structure of all external loan debt – 2024/25 to 2026/27	Lower limit %	Upper limit %
Under 12 months	0	40
12 months to 2 years	0	40
2 years to 5 years	0	40
5 years to 10 years	0	40
10 years to 20 years	0	40
20 years to 30 years	0	40
30 years to 40 years	0	70
40 years and above	0	90

Maturity Structure of Borrowing – these gross limits are set to reduce the Council's exposure to large sums falling due for payment or refinancing and reflect the next date on which the lending bank can amend the interest rate for any Lender Option Borrower Option loans the Council currently has.

Gross Debt and the Capital Financing Requirement
The Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Director of Finance and Systems reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Liability Benchmark

In the update to the Treasury Management Code made in December 2021, a requirement has been made for the Council to estimate and measure its liability benchmark. The liability benchmark is not a single measure but is presented as a chart of four balances as described below. A warning would be indicated if the Liability Benchmark (which is the Net Loans Requirement plus a notional buffer of £20m) exceeds the Loans CFR.

■ Existing loan debt outstanding: the Council's existing loans which are still outstanding in future years.

■ Loans CFR: calculated in accordance with the loans CFR definition in the Prudential Code, and projected into the future based on approved prudential borrowing and planned MRP taking account of approved prudential borrowing

■ Net Loans Requirement: the Council's gross loan debt, less treasury management investments, at the last financial year end, projected into the future based on its approved prudential borrowing, planned MRP and any other forecast major cash flows

■ Liability Benchmark (or Gross Loans Requirement) = Net loans requirement + short term liquidity allowance (a notional buffer of £20m)

The chart, below, shows that actual loans are less than the benchmark, which indicates a future borrowing requirement driven by spending with the capital strategy.

The chart below shows that the Liability Benchmark (forecast total external debt less investment) is less than the Loans Capital Financing Requirement.

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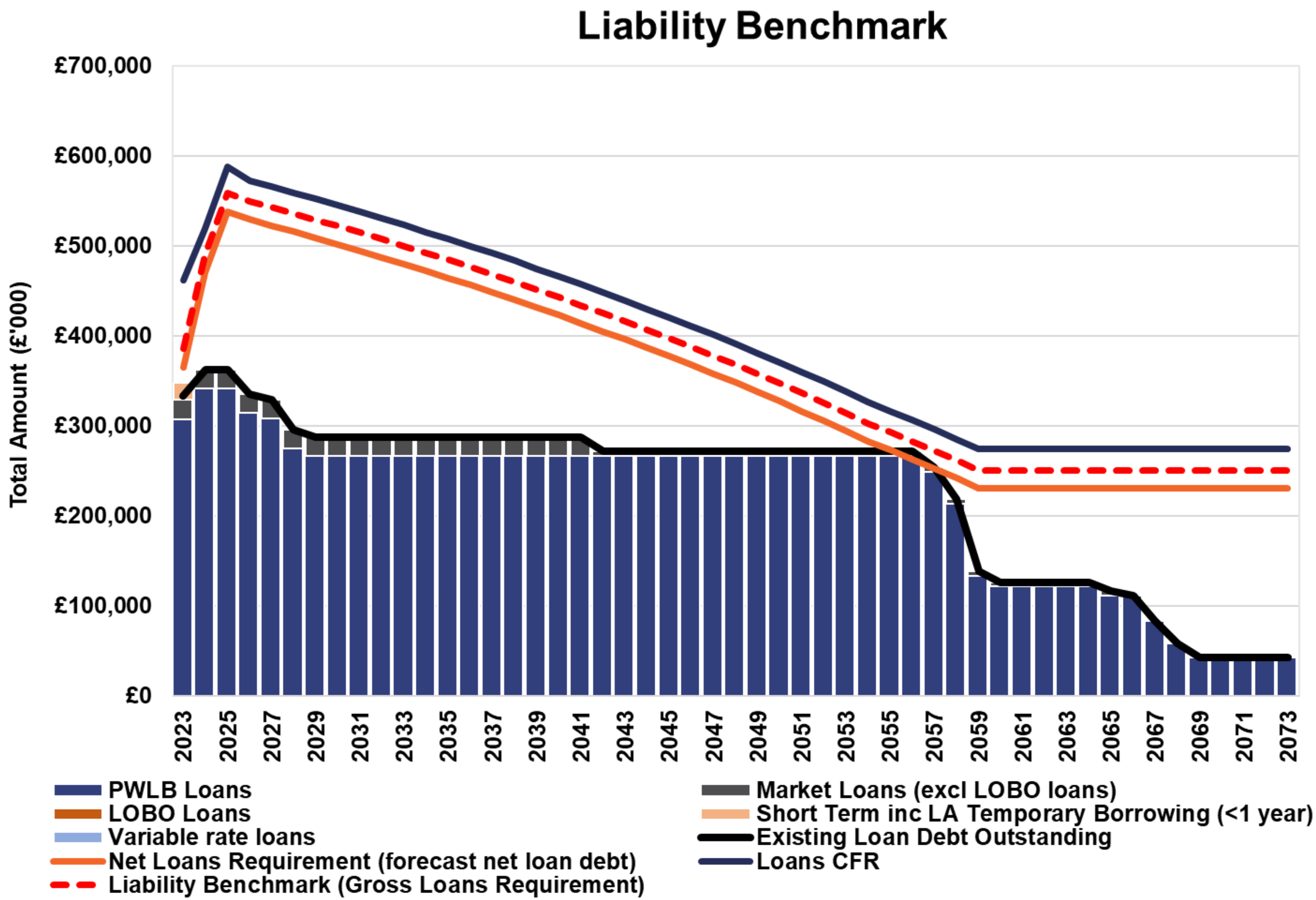
Liability Benchmark
£700,000
£600,000
£500,000
£400,000
£300,000
£200,000
£100,000
£0
Total Amount (£'000)
2023
2025
2027
2029
2031
2033
2035
2037
2039
2041
2043
2045
2047
2049
2051
2053
2055
2057
2059
2061
2063
2065
2067
2069
2071
2073
PWLB Loans
Market Loans (excl LOBO loans)
LOBO Loans
Short Term inc LA Temporary Borrowing (<1 year)
Variable rate loans
Existing Loan Debt Outstanding
Net Loans Requirement (forecast net loan debt)
Loans CFR
Liability Benchmark (Gross Loans Requirement)

MINIMUM REVENUE PROVISION

In accordance with the current DLUHC Guidance, the Council shall determine an amount of minimum revenue provision that it considers to be prudent and submit to Council for approval an annual MRP Statement which sets out its policy.

The following MRP Statement has been reviewed and prepared in accordance with the Council's accounting procedures and is recommended for approval to be effective from 1st April 2024:

- **Capital expenditure financed by Supported Borrowing:** MRP will be calculated on the Asset Life Method (up to 50 years), using an annuity calculation in accordance with DLUHC guidance;
- **Capital expenditure financed by Prudential Borrowing:** MRP will be based on either the estimated life of the assets once operational and charged on a straight line or annuity basis in accordance with DLUHC guidance;
- **Strategic Asset Investment Strategy financed by Prudential Borrowing:** Voluntary Revenue Provision (VRP) using the periods stipulated within the DLUHC Guidance of up to 50 years will be applied and written down on an annuity basis in accordance with DLUHC guidance. By adopting this approach it will enable the Council upon the sale of each asset, to either apply the capital receipt or use the VRP receipts to extinguish debt taken.
- **PFI schemes and leases shown on the balance sheet:** MRP will be based on the amount of the principal element within the annual unitary service payment and financed from the provision set-up to cover the final bullet payment. Capital receipts are to be used to replenish this provision to ensure any final bullet payment can still be made in 2028/29;
- **Expenditure that does not create an asset:** this is where the Council through the Strategic Asset Investment Strategy has made equity investment with Joint Venture companies with VRP being provided and calculated on a straight line basis for periods up to 50 years or annuity basis in accordance with DLUHC guidance;.
- **Use of a Capitalisation Direction**: Expenditure incurred in response to the issuance of a Capitalisation Direction by Central Government, MRP will be made over a period not exceeding 20 years, in accordance with the 2018 Guidance;
- **Lending to a third party**: In instances where the Council lends funds to a third party and in accordance with the guidelines issued (February 2018) by the Secretary of State, MRP is required to be provided over the useful life of the asset created. The Council in this instance will not follow the guidance but rather treat any advance as "Serviced debt" and therefore no MRP will be set-aside providing there is an agreed repayment date. Annually the Council will undertake a financial assessment of the third parties ability to repay the debt and where any adverse changes are perceived to be occurring then a provision will be created to cover any future potential financial losses.

- **Equity** – MRP for the acquisition of share capital will be calculated on a straight line basis for a period up to 20 years or annuity basis in accordance with DLUHC guidance;. The Council will consider on a case by case basis the appropriateness of the application of this period against any equity investments it undertakes.

INVESTMENT CRITERIA – **(changes in relation to ESG)**

Counterparty Selection

- The Council will only use institutions which are located in the UK or from a country with a minimum Sovereign Long term credit rating of AA-. The individual credit criteria is highlighted below and where credit ratings have been issued, both the Long and Short term rating from 2 of the 3 main agencies will need to meet the minimum required. The requirements shown below for categories 1 to 5 and 7 will be applied to both Specified and Non-specified investments. Category 6 applies only to The Church Commissioners Local Authorities Property Investment fund.
- The CIPFA Treasury Management Code requires local authorities to consider their counterparty policies in regard to environmental, social and governance (ESG) information. With this in mind, the Council will only place funds with institutions which are signatories to the UN Principles for Responsible Banking, or are UK Government or Local Government bodies.
- The Council will remove from its approved lending list any financial institutions whose practices or behaviours are not deemed to be commensurable with the values or ethical standards of the Council.

The limits shown in the table below are set at a contingency level and operationally monies will be placed with a number of institutions with a maximum 20% of the portfolio being placed with any one institution at the time each investment is made. This situation will be monitored during the course of the year with any corrective action being undertaken at the first opportunity without any financial penalty being incurred.

	Fitch (or equivalent) – Long Term	**Maximum Group Limit**	**Maximum Time Limit**
Category 1 – • UK & Non UK Banks (bank subsidiaries must have a parent guarantee in place), • UK Building Societies Institutions must also have an individual minimum short term credit rating of – Fitch F1 or equivalent.	AA to AAA A+ to AA- A- to A	£75m £25m £10m	3yrs 1yr 1yr
Category 2 – UK Building Societies which are unrated or do not meet the minimum ratings as per Category 1 with assets in excess of; • £5bln+, • £2.5bln - £4.99bln	- -	£5m £3m	1yr 1yr
Category 3 – UK Banks part nationalised - Royal Bank of Scotland. This bank or its subsidiaries can be included provided it continues to be part nationalised or meets the ratings in category1 above.	-	£20m	1yr
Category 4 – The Council's own banker for transactional purposes if the bank falls below the above criteria.	-	n/a	1day

Category 5 – • Pooled Investment Vehicles: ➢ Money Market Funds (per fund) ➢ Ultra-Short Dated Bond Funds(per fund) • Social & Ethical funds (per fund) • UK Government (including treasury bills, gilts and the DMO) • Local Authorities (per authority) • Supranational Institutions	AAA AA - - - -	£20m £15m £5m £20m £10m £20m	3yrs 3yrs 10yrs 3yrs 3yrs 1yrs
Cont…	**Fitch (or equivalent) – Long Term**	**Maximum Group Limit**	**Maximum Time Limit**
Category 6 – • Local Authority Property Investment fund	-	£10m	10yrs
Category 7 – • Support for the Strategic Asset Investment Programme	-	£50m	5yrs

Specified and Non Specified Investments – (no changes)

In accordance with the current Code of Practice, the Council is required to set criteria which identify its investments between Specified and Non Specified investments and these are classified as follows;

- **Specified investments** - are high security and liquid investments with a maturity of no more than a year or those which could be for a longer period but where the Council has the right to be repaid within one year if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small.
- **Non specified investments** - are any other type of investment not defined as specified above. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18 month deposit would still be non-specified even if it has only 11 months left until maturity. A maximum of £100m is permitted to be held in this classification as detailed on page 22, Prudential Indicator Upper limit for sums invested over one year.

Instruments & Maximum period

All Investments undertaken will be in Sterling and placed in any of the following instruments: Term Deposits, Money Market Funds, Ultra Short Dated Bond Funds, Treasury Bills, Bonds, Gilts or Certificates of Deposits unless otherwise stated below;

Specified Investments	Maximum Maturity
The UK Government including Local Authorities and Debt Management Office.	1 Year
Supranational bonds of less than one year duration (e.g. International Monetary Fund)	1 Year
Pooled investment vehicles such as money market funds (including the revised categories of Low Volatility Net Asset value and variable Net Asset Value funds) Social & Ethical funds and	1 Year

low volatility bond funds.	
Specified Investments…..cont.	**Maximum Maturity**
An institution that has been awarded a high short term credit rating (minimum F1 or equivalent) by a credit rating agency, such as a bank or building society.	1 Year
Non-Specified Investments	
Multilateral development bank bonds - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. World Bank). The security of principal and interest on maturity is on a par with the Government and these bonds usually provide returns above equivalent gilt edged securities. The value of the bond may rise or fall and losses may accrue if the bond is sold prematurely.	3 Years
Gilt edged securities. These are Government bonds and provide the highest security of interest and principal. The value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	3 Years
The Council's own bank if it fails to meet the basic credit criteria with balances being kept to a minimum.	1 Day
UK Banks which have significant Government holdings	1 Year
Any bank or building society which meets the minimum long term credit criteria for Category 1 institutions detailed on page 23 with a maturity of greater than one year (including forward deals in excess of 1 year from inception to repayment).	3 Years
Building societies The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies which have a minimum asset size of £2.5bln but will restrict these type of investments as shown for Category 2 institutions on page 23.	1 Year
The UK Government including Local Authorities and Debt Management Office.	3 Years
Pooled investment vehicles such as money market funds (including the revised categories of Low Volatility Net Asset value and variable Net Asset Value funds) Social & Ethical funds and low volatility bond funds.	10 Years
Share capital or loan capital in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. It is envisaged this facility will apply to the Manchester Airport share-holding which the Council holds at a historical value of £37.7m as reported in the 2020/21 Statement of Accounts.	Unspecified
Manchester Airport Group – This is in response to the restructuring of the airports existing debt and is included for	Term of loans

clarity and transparency purposes only.	
Church Commissioners Local Authorities Property Investment Fund - This fund is aimed solely for use by public sector organisations wishing to invest in the property market whilst at the same time generating a favourable rate of return.	10 Years
Support the Strategic Asset Investment programme - where external borrowing to support the investment would not be in accordance with the CIPFA Prudential Code.	5 Years

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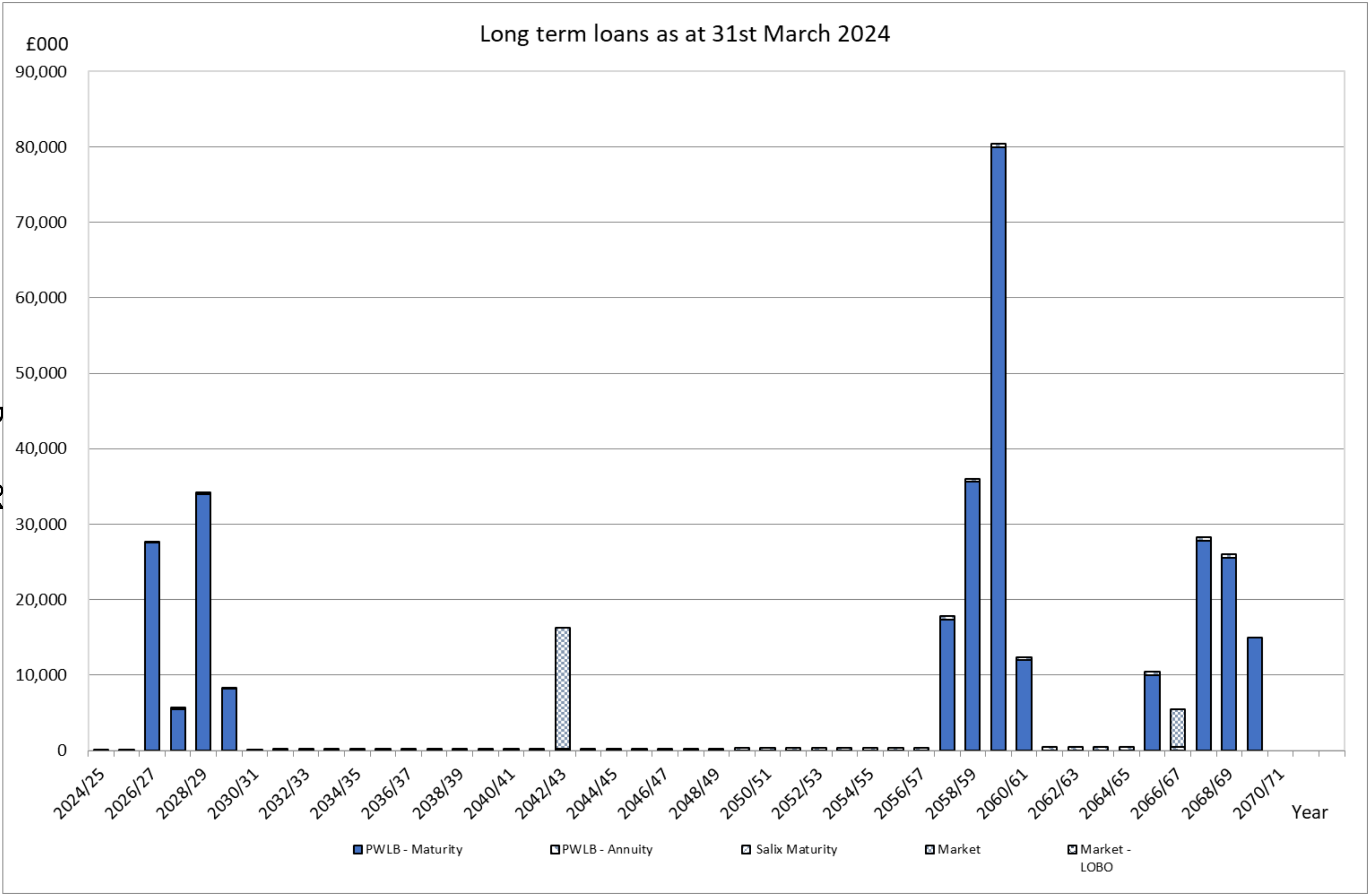

APPENDIX 4

INVESTMENT CREDIT AND INSTITUTION RISK MANAGEMENT

Monitoring of investment counterparties - The Council receives credit rating advice from Arlingclose and when ratings change this information is checked promptly to ensure institutions affected comply with the Council's criteria. On the occasion a rating may be downgraded when an investment has already been made, the criteria used are such that this should not affect the full receipt of the principal and interest. Any institution failing to meet the criteria, or those on the minimum criteria placed on negative credit watch, will be removed from the list immediately and if required new institutions which meet the criteria will be added.

		Credit Rating Agency		
Classification	**Description**	**Fitch (Minimum)**	**Moody's (Minimum)**	**Standard & Poors (Minimum)**
Short Term	Ensures that an institution is able to meet its financial obligations within 1 Year	F1 (Range **F1+, F2 A** to **D**)	P1 (Range **P1** to **P3**)	A1 (Range **A-1,** to **C**)
Long Term	Ensures that an institution is able to meet its financial obligations greater than 1 Year	A- (Range **AAA** to **D**)	A3 (Range **AAA** to **C**)	A- (Range **AAA** to **CC**)

The Council's list of Investment institutions is prepared primarily using credit rating information with full regard also being given to other sources of available information concerning credit quality. The information below will continue to be considered when undertaking investments;

- Credit default swaps - CDS were first created in 1997 and are a financial instrument for swapping the risk of debt default. Essentially the owner of the debt would enter into an agreement with a third party who would receive a payment in return for protection against a particular credit event – such as default. Whilst absolute prices can be unreliable, trends in CDS spreads do give an indicator of relative confidence about credit risk.
- Equity prices – like CDS prices, equities are sensitive to a wide array of factors and a decline in share price may not necessarily signal that the institution in question is in difficulty.
- Interest rates being paid - If an institution is offering an interest rate which is considerably out of line with the rest of the market this could indicate that the investment is likely to carry a high risk.
- Information provided by treasury management advisors – this may include some information detailed above together with weekly investment market updates.
- Market & Financial Press information – information obtained from the money market brokers used by the Council in respect of interest rates & institutions will also be considered.

No investment will be made with an institution if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

In order to further safeguard the Council's investments and in addition to the information shown at Appendix 3, due care will be taken to consider country, group and sector exposure as follows;

- **Country** – this will be chosen by the credit rating of the Sovereign state as shown at Appendix 3 and no more than 40% of the Council's total investments will be directly placed with non-UK counterparties at any time;
- **Group** – this will apply where a number of financial institutions are under one ownership (e.g. Royal Bank of Scotland / Nat West) and the Group limit will be the same as the individual limit for any one institution within that group;
- **Sector** limits will be monitored regularly for appropriateness.

Investment Risk benchmarking

Security benchmarks are central to the approved treasury strategy through the institution selection criteria and proposed benchmarks for these are set out below.

A method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy. The table below shows the latest average defaults for differing periods of investment grade products for each of Fitch, Moody's and Standard and Poors long term rating category over the period 1981 to 2022. The Council can generally place investments up to a maximum period of 3 years and for this purpose will only use high rated institutions in order to ensure any potential risk in the form of defaults are kept to a minimum. Investments placed over 1 year but up to 3 years are placed with higher rated institutions in order to ensure that any potential risk of default as highlighted in the table below is kept to a minimum.

Long term rating	Average 1 yr default	Average 2 yr default	Average 3 yr default	Average 4 yr default	Average 5 yr default
AAA	0.04%	0.09%	0.17%	0.26%	0.38%
AA	0.03%	0.08%	0.10%	0.18%	0.25%
A	0.03%	0.17%	0.28%	0.43%	0.59%
BBB	0.17%	0.41%	0.71%	1.09%	1.49%
BB	0.73%	2.11%	3.72%	5.24%	6.63%
B	2.86%	6.84%	10.62%	13.77%	16.29%
CCC	19.79%	28.25%	33.87%	37.16%	40.15%

The Council's minimum long term rating criteria is currently "A-", meaning the average expectation of default for a one year investment in an institution with a "A-" long term rating would be 0.03% of the total investment (e.g. for a £1m investment the average loss would be £500). This is only an average as any specific institution loss is likely to be higher.

NON-TREASURY INVESTMENT ACTIVITIES

Details of the actual spend and commitments on the Council's non-treasury activities are outlined below:

Description	£m	Purpose
General		
Manchester Airport Group	29.7	Regeneration – 3 Shareholder loans
Homestep	0.5	Regeneration – Capital loan monies advanced to assist first time buyers to acquire property within Trafford which remains in place
Town Centre	0.65	Regeneration – Capital loan monies advanced to assist businesses occupy empty high street units within Trafford.
Sub-total	**30.85**	
Asset Regeneration Schemes		
Property Purchases	62.5	
Property Development	15.9	
Equity	53.9	
Development Debt	262.7	
Sub-total	**395.0**	
TOTAL	**425.85**	Further information can be found in Capital Strategy Report February 2024

TRAFFORD COUNCIL

Report to: **Executive**
Date: **29th January 2024**
Report for: **Information**
Report of: **Executive Member for Finance, Change and Governance and the Director of Finance and Systems**

Report Title:

Budget Monitoring 2023/24 Period 8 (April 2023 to November 2023)

Summary:

The purpose of this report is to inform Members of the 2023/24 projected outturn figures relating to both Revenue and Capital budgets.

It also summarises the projected outturn position for Council Tax and Business Rates.

The report is divided into three parts:-

- **Part 1** – Provides at "At a Glance" high level summary of the key aspects of the budget monitoring position
- **Part 2** – An Executive Narrative of the Projected Outturn and Outlook
- **Part 3** – A list of annexes containing specific detail on the individual directorate positions, capital programme, savings programme, schools' budgets and Trafford's share of Council Tax.

The outturn forecast has improved from Period 6 £0.51m overspend to Period 8 £0.59m underspend. This is positive news which reflects the effectiveness of our financial management practices and those additional controls put in place to contain the forecast adverse outturn anticipated earlier in the year.

Recommendation(s)

It is recommended that the Executive:

a) note the report and the estimated revenue outturn position showing a budget underspend of £0.59m a positive movement of £1.09m since Period 6;
b) note the update on the Capital Programme as detailed in Section 6 and Annex 3.

c) Note that due to the positive movements in the estimated outturn since Period 6, that no new management actions are required at this point in 2023/24.

Contact person for access to background papers and further information:

David Muggeridge, Head of Financial Management   Extension: 4534

Background Papers: None

Relationship to Policy Framework/Corporate Priorities	Value for Money
Relationship to GM Policy or Strategy Framework	Expenditure is aligned to meet the priorities with the Corporate Plan which is aligned to the GM policy and strategy where required.
Financial	It is the responsibility of the Executive to operate within the budgetary framework set by the Council when it agreed the budget for 2023/24 at the Council Meeting on 15 February 2023. Revenue and capital expenditure to be contained within available resources in 2023/24.
Legal Implications:	Non arising out of this report
Equality/Diversity Implications	None arising out of this report
Sustainability Implications	None arising out of this report
Resource Implications e.g. Staffing / ICT / Assets	Not applicable
Risk Management Implications	Not applicable
Carbon Reduction	Not applicable
Health & Wellbeing Implications	Not applicable
Health and Safety Implications	Not applicable

PART 1 - At a Glance Executive Summary

This Period 8 report provides an "At a Glance Executive Summary" which focuses on a high level summary of the estimated outturn. Supporting annexes provide detailed explanations and movements.

At a Glance Sections

- Section 1 - Revenue Service Budget Outturn and Variance
- Section 2 - Revenue Funding General Fund Budget Outturn and Variance
- Section 3 - Collection Fund – Business Rates and Council Tax
- Section 4 - Earmarked Reserve movements
- Section 5 - Delivery of in-year savings programme
- Section 6 - Capital and Asset Investment Programme and Prudential Indicators
- Section 7 - Dedicated Schools Grant Outturn

Total Revenue Budget 2023/24

Approved Revenue Budget	Projected Outturn at Period 8
£209.81m (*)	**£0.59m Underspend**

Comprising of an Underspend on Revenue Service Budgets of **£2.09m** (see Section 1), offset by a shortfall on funding budgets (Business Rates) (see Section 2) of **£1.50m**

Movement since Prior Period

£1.09m Favourable

(*) The Net Revenue Budget increased since that agreed in February 2023 at Council from £209.38m to £209.81m as a result of a late notification of an increase in the Public Health Grant allocation of £430k. Full Council also approved delegated authority to the Director of Finance and Systems to vary the net Revenue Budget for any changes in the assumed level of this grant.

Section 1- Revenue Service Budget

Revenue Service Budget 2023/24

Approved Revenue Service Budget	Projected Outturn at Period 8
£209.81m	**£2.09m Underspend**

Comprising of

Overspend on Directorate Budgets	Underspend on Council Wide/Corporate Budgets
£1.35m	**£3.43m**

Movement since Prior Period

£1.09m Favourable

Table 1 - At a Glance – Variance by Service Directorate

Service Directorate	2023/2024 Budget £000	Outturn £000	Full Year Variance £000	Change from Prior Period £000
Children's Services	49,056	52,244	3,188	(222)
Adult Services	60,848	59,136	(1,712)	(814)
Public Health	13,381	13,206	(175)	(64)
Place	38,546	38,463	(83)	(170)
Strategy & Resources	10,637	10,366	(271)	(55)
Finance & Systems	9,516	9,665	149	(47)
Legal & Governance	3,575	3,827	252	75
Total Directorate Budget/Act/Variance	**185,559**	**186,907**	**1,348**	**(1,297)**
Council-wide budgets	24,247	20,813	(3,434)	203
Net Service Budget/Outturn/Variance	**209,806**	**207,720**	**(2,086)**	**(1,094)**

Directorate Budgets	Variance £000	Movement from Prior Period £000
Children's placements	1,936	(141)
Children's Home to School Transport	1,005	(4)
Running costs – S17 payments (Childrens)	793	268
Adult Social Care demand	(522)	(458)
Foster Parents Inflation pressures	252	0
Contribution from Inflation Risk Reserve Foster Parents Inflation	(252)	0
Market Sustainability & Improvement Fund (Adults)	(1,088)	(300)
Staffing (Children’s, Adults, Public Health)	(561)	(310)
Staffing (all other areas)	(1,394)	(159)
Strategic Property	148	360
Energy Costs	(986)	(239)
Planning Income	608	(23)
Other	1,409	(291)
Directorate Budget Sub-Total	**1,348**	**(1,297)**
Council Wide		
Treasury Management	(3,076)	394
Inflation 23/24 pay award	700	0
Contribution from Inflation Risk Reserve	(700)	0
Housing Benefit	490	(34)
Contribution from Housing Benefit Risk Reserve	(490)	34
Release of general contingency	(350)	(350)
Council Wide Other	(8)	159
Council Wide Sub-Total	**(3,434)**	**203**
Net Service Budgets	**(2,086)**	**(1,094)**

Further details on individual directorate positions are included at **Annex 1**.
A summary of major variances is included in the Executive Summary in **Part 2**.

Section 2 – Revenue Funding Budget – General Fund

Revenue Funding Budget 2023/24

Approved Revenue Funding Budget	Outturn at Period 8
Business Rates £81.48m	Business Rates **£1.5m adverse**
Council Tax £120.92m	Council Tax on budget
Reserves £7.40m	Reserves on budget
Total **£209.81m**	**£1.5m Adverse**

Uncertainty in timing of rates benefit from major refurbs at Trafford Centre.
Contribution to Business Rates Risk Reserve in 2023/24 by £1.5m

Uncertainty in Council Tax income due to increase in exemptions and discounts.
Council Tax Risk Reserve of £0.5m is available to smooth any impact

Movement since prior Period
£0m

The Revenue Funding General Fund Budget comprises of income from Business Rates, Council Tax and Reserves.

The General Fund budgets for Business Rates and Council Tax are fixed at the beginning of the year. In-year income from Business Rates and Council Tax is monitored through the Collection Fund (see next section). Any surplus or deficit on the Collection Fund is either distributed or collected in the following financial year. The Business Rate and Council Tax Risk Reserves are available to smooth the impact if a deficit is forecast.

The Business Rate Risk Reserve will be drawn down by £2.2m in 2023/24 to reflect a shortfall in income (see next section). In order to reflect the ongoing risk of any further downturn in rates income, the reserve has been **bolstered by £1.5m** from the General Fund.

Section 3 – Collection Fund Business Rates and Council Tax

Business Rates and Council Tax

Total Budget

Business Rates £81.48m
Council Tax £120.92m

Business Rates

Outturn **£2.20m deficit**

Underlying Outturn Themes

Overall reduction in rates income of **£2.20m** due to flagship stores being empty during refurbishment at the Trafford Centre

A surplus in the Collection Fund due to lower award of rates reliefs, offset by shortfall in Relief Grants in the General Fund.

Net shortfall of £2.2m will be met from the Business Rates Risk Reserve.

Business Rates Risk Reserve will be replenished by £1.5m from General Fund to reflect further risk associated with temporary closures/refurbishments and properties coming back on-line.

Council Tax

Outturn **£0.95m surplus**

Underlying Outturn Themes

Review of historic bad debt provision released **£1.2m**

Tax base shortfall due to higher level of Discounts (single person) and Exemptions **£0.88m**

Favourable lower level of Council Tax Support **£0.74m**

Cost of discretionary awards under the Council Tax Support Scheme **£0.34m** offset by a contribution from Support Fund Grant

Adverse pressure from backdated claims **£0.1m**

Council Tax

- There is a favourable outturn forecast of £0.95m of which Trafford's share is £0.78m (see Annex 4 for a breakdown of Trafford's share). Since P6 the outturn forecast has improved by £67k which is mostly due to a reduction in the number of backdated claims as a result of a backlog at the Valuation Office Agency.

- The favourable outturn forecast of £0.95m is largely due to a one off release of £1.2m from the bad debt provision following a review of assumptions relating to historic bad debt.

- There continues to be a shortfall in the taxbase due to a substantial increase in the number of claims for Council Tax Discounts (e.g., single person) and exemptions when compared with budget assumptions, resulting in a shortfall of £0.88m. The situation has improved as the year has progressed and our budget plans for 2024/25 which had assumed a recurrent impact will be adjusted accordingly.

- Favourable variance of £0.74m due to lower number of claims for Council Tax Support awards, partly as a result of higher claims for discounts above.

- The additional temporary discretionary support scheme introduced in 2023/24 to support claimants not already getting 100% CTSS discount has cost £0.34m. This has been fully compensated from an additional Government Grant, resulting in a neutral impact.

- £0.1m reduction in anticipated backdated claims (changes in banding appeals etc) leaves a pressure of £0.1m.

- **Outlook** – A recurrent shortfall of circa £600k was forecast at Period 4 largely as a result of the increase in discounts and exemptions and this was built into the draft budget plans for 2024/25. The improved position relating to a reduction in claims for discounts and lower awards of Council Tax Support will be reflected in the MTFP when setting the final 2024/25 budget.

- Trafford's share of the 2023/24 estimated outturn (£0.78m) will be released in the 2024/25 financial year and will be reflected in the final budget plans.

Business Rates

- Period 8 has seen an adverse net outturn of £2.20m, an adverse movement of £0.4m since Period 6. This consists of a surplus in the collection fund of £1.6m and a deficit in the general fund of £3.8m. The overall shortfall is due to a number of flagship stores at the Trafford Centre being empty whilst refurbishment works are undertaken. This shortfall will need to be met from the Business Rate Risk Reserve.

- To reflect the ongoing risk of a shortfall in rates income due to future refurbishments, the Business Rate Risk Reserve has been bolstered by £1.5m from the General Fund (see previous section).

- **Outlook** – As in previous years, there is a significant risk in forecasting the temporary pressures caused by major refurbishments, changes, and new sites at the Trafford Centre. During the year, these temporary reductions have caused a greater impact than previously anticipated due to the long delays in the VOA reinstating refurbished sites back into the Rating List. The Business Rate Risk Reserve will be utilised to smooth any timing issues in the delivery of benefits. Work is ongoing to look at the future health of rateable value and how ongoing developments may impact this as well as discussions with the VOA regarding the timeliness of entering sites onto the Rating List.

Section 4 – Earmarked Reserves

Earmarked Reserves (excluding COVID)	
Opening Balance April 2023 (pre audit)	Estimated Balance March 2024
£73.98m	**£66.84m**

Estimated decrease in the year at Draft Budget stage

£7.14m

There was a detailed review of reserves in preparation of the draft 2024/25 budget and a further review will be undertaken as part of the final 2024/25 budget. This will also take into account the movements identified in the period monitoring.

Section 5 – Delivery of in-year savings programme

Savings Programme 2023/24	
Savings Target	Savings Achieved
£11.76m	**£11.75m (99% Achieved)**
Below Target by **£10k**	

Further details in **Annex 2**

A forecast outturn of £11.75m, with only 2 schemes forecasting a shortfall of £110k. Mitigating action/ alternative savings have been identified on 1 scheme of £100k reducing the net shortfall to £10k.

Section 6 – Capital Programme

Capital Programme 2023/2026

Current Value of three year programme

£212.95m

Revised Capital Programme 2023/24 at P6	Revised Capital Programme 2023/24 at P8
£87.73m	**£87.76m**

Increase in 2023/24 programme.

£0.03m

Prudential Indicators

The objectives of the Prudential Indicators are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable and to support and record local decision making in manner that is publicly accountable.

Capital Expenditure Indicators – have been updated to reflect the revised programme.

External Debt Indicators - No limits or operational boundaries have been breached.

Affordability Indicators – Finance costs to Net Revenue Stream has been updated to reflect interest receipts from investments. This has resulted in a short-term improvement in affordability.

Further details in **Annex 3**

Since P6 further changes have been made to reflect current expectations along with the inclusion of new grants and contributions to support current and new schemes. These changes have resulted in the following:

Three Year Programme – A reduction of £1.36m. Largely due to: -

- The award of a new grant of £0.56m from DfE for Childcare Expansion Capital works.
- The removal of the scheme for the installation of two resomation cremators at the crematorium of £1.95m.

2023/2024 Programme

- The revised capital programme budget is £87.76m which is a net increase of £0.03m from P6 as a result of a grant award from TfGM.

Section 7 – Schools Related Expenditure

Dedicated Schools Grant

Schools, Central and Early Years Blocks - **Forecast Underspend £0.06m**

High Needs Block - **Forecast Overspend £7.21m**

Total Outturn

£7.15m adverse

Movement since previous Period

£0.68m adverse

DSG Reserve

Combined Deficit brought forward April 2023 overdrawn **£1.47m**

Of which High Needs overdrawn **£4.14m**

Estimated combined deficit at year end £9.98m

Of which High Needs overdrawn **£11.35m**

Details in **Annex 1**

Schools Related Expenditure (Dedicated Schools Grant is a separate ring-fenced account and not part of general outturn detailed above) – There is a net overspend across all four grant blocks of £7.15m. An overspend of £7.21m in the High Needs Block has been offset by an underspend of £65k on the remaining blocks.

The overspend in 2023/24 will result in a year end accumulated DSG deficit of £9.98m, consisting of a High Needs deficit of £11.35m, offset by a surplus on other blocks of £1.37m.

Funding for HNB was increased by £3.9m in 2023/24 and was a welcome recognition that the existing funding is not sufficient, however the overspend provides evidence that funding remains insufficient.

It is expected that LA's balance their in year spending by 2025/26, there is a real risk that Trafford will not be able to do that.

Work continues to take place on the DSG deficit management plan with proposals and options being discussed with the DfE. The plan has been scrutinised by the SEND Board and will be presented to Funding Forum and the Finance and Change Board at the next opportunity.

PART 2 – Executive Narrative Summary of Estimated Outturn and Outlook

Revenue Outturn Summary

1. There is a net projected outturn underspend of £0.59m for the year and a favourable variance of £1.09m since Period 6.

1.1. This monitor can be used with more certainty and to give a direction of travel of the potential final outturn and firm up any assumptions used in preparing the future budget.

1.2. The outturn forecast has improved from Period 6 £0.51m adverse to Period 8 £0.59m favourable. This is positive news which reflects the effectiveness of our financial management practices and those additional controls put in place to contain the forecast adverse outturn anticipated earlier in the year.

1.3. The positive estimated outturn reduces the likelihood of unplanned use of the limited earmarked reserves and also provides an opportunity to bolster the Budget Support Reserve to help address the significant budget gap in future years. The positive movement of £1.09m from Period 6 is largely due to improvements in adults demand (£0.46m), a release of general contingency (£0.35m) and staffing underspends (£0.47m).

1.4. It is fair to say that projecting the financial outturn in recent years has been challenging given the level of uncertainty in the economy from the conflict within Ukraine and the high levels of inflation. The escalating conflict in the Middle East has added an additional layer of uncertainty which could trigger further volatility in the inflation forecast if the recent fluctuations in oil prices continues over the medium term.

1.5. The additional pressures caused by inflation were recognised during 2022/23 and an opportunity was taken to bolster the Inflation Risk Reserve by £1.5m to £4.5m. In 2023/24 £0.95m of the reserve will be utilised to cover higher costs of the Local Government pay award and Foster Parent payments. These recurrent pressures have been added to our budget plans for 2024/25.

1.6. Inflation (CPI) has dropped significantly since Period 6 from 6.7% in September 2023 to 3.9% in November 2023 which provides some reassurance of the robustness of the 2024/25 budget assumptions such as, the Local Government pay award and contractual inflation. The reducing levels of inflation has given the opportunity to review the level of the Inflation Risk Reserve and our Draft Budget Report 2024/25 proposed a transfer of £2.5m to the Budget Support Reserve. This will leave a balance of circa £1.0m on the Inflation Risk Reserve at year end.

1.7. Inflation relating to energy costs has dropped significantly from the highs seen last year. The energy budget is forecast to underspend by £0.99m suggesting that the combined effect of the new energy contracts, energy saving measures and the growth built into the 2023/24 budget are sufficient to contain the impact. However, given the volatility in energy markets seen last year, and the more recent increases triggered by the conflict in the Middle East, it cannot be assumed that long term stability has returned.

1.8. With regard to the net outturn position, the following issues are worthy of being highlighted along with issues to consider on their impact on future plans :-

Service underspends include: -

- **Treasury Budget -** The interest rate at the time of setting the budget has increased significantly. This average investment rate has seen an increase in income, which along with careful cash management has enabled a delay in taking on new external borrowing until later in the year. This has generated additional investment income of **£3.08m above budget.** This is a £394k adverse variance from period 6, due to new borrowing now forecast in 2023/24 in order to provide financing for capital spending in year and reduce the Council's under-borrowed position.
- **Staffing budgets** net forecast **underspend of £1.96m**, due to delays in recruitment and service restructures. This underspend was a significant factor in the overall favourable outturn in the last financial year and it is possible that this figure will increase further as the year progresses due to difficulties in recruitment. Whilst significant underspends on staffing budgets are welcomed from a finance perspective, they should not become a recurrent theme if the recruitment exercises are successful.
- **Market Sustainability and Improvement Fund** - **£1.008m grant utilised to offset expenditure.** The Council was awarded an additional allocation of £1.438m during the year. £1.088m of the grant has been allocated to date, with £788k being used to offset the costs of provider uplifts applied at the start of the financial year and £300k being used on schemes including overtime for social workers to reduce a backlog of assessments. The remaining balance of £350k will be allocated against schemes in progress. All of this supports the three target areas.
- **Adults demand – underspend £522k** a favourable movement of £458k from P6 as a result of a decrease in the projection of care package costs. This budget remains high in complexity and volatility as it is in part driven by wider system pressures in health in addition to direct adult social care demands. Within this projection there is a contingency of £315k to mitigate rising costs as a result of increasing complexity of existing clients and demand from new clients.
- **Energy costs -** The property energy budget was increased by 200% in 2023/24 to address the escalating costs of inflation. Following an ongoing analysis of energy bills there is an estimated **favourable outturn of £986k** an improvement of £239k from P6. This indicates the new contract, energy saving measures and additional resources were sufficient to manage the ongoing impact.
- **Release of general contingency - £350k favourable outturn.** The Council-wide budget includes a general contingency of £1.9m used to offset a number of commitments currently totalling £1.2m, leaving an uncommitted balance of £0.7m, a decrease of £0.1m since Period 6. It is

therefore considered prudent at this stage in the financial year to release a proportion of this contingency to the value of £0.35m.

Pressures include:-

- **Children's placements £1.94m overspend** due to an increase in the number of children entering care. Although the number of children entering the system has reduced, the cost and complexities of children coming into care outweigh the costs of those leaving care. The savings programme includes £1.0m target to reflect activity aimed at children stepping down from care. Although the Step Down programme is expected to achieve its target, the fact that incoming placements have increased has placed the total budget under pressure.
- **Inflation** – The escalating levels of inflation caused significant pressure in the previous financial year and continues to be an area of concern. The earmarked Inflation Risk Reserve was bolstered during the 2022/23 closedown for this purpose and **£952k will be drawn down** in 2023/24 to neutralise the impact of the Local Government pay award and Foster Parent payments. These additional pressures have been added to our budget plans for 2024/25.
- **Home to School Transport - £1.005m overspend** (£4k favourable movement from P6) due to the continued increase in demand in passenger numbers and complexity of cases. Some savings have been realised due to the use of Q-routes, a system which helps automate route planning resulting in reducing passenger mileage and travel time. This is a part of a new system that was implemented to manage school runs from September 2023. It is anticipated that the benefits from the system will result in further efficiencies.
- **Planning Income - £608k overspend,** favourable movement of £23k due to a shortfall in planning applications. This pressure will be partly addressed in 2024/25 following an increase in planning fees and additional resource added to 2024/25 budget plans.
- **Running costs – S17 payments (Childrens) - £793k overspend,** adverse movement of £268k. Expenditure has increased on s17 due to an extensive support package for a child living at home costing the service £249k. Managers have been instructed to ensure that authorisation is sought for essential spend only within this area of the budget and close analysis of the spend continues.
- **Housing Benefit - £490k overspend**, favourable movement of £34k. At least £400k of the underlying pressure is caused by an increase in the number of tenants requiring to be housed in emergency/temporary accommodation which attracts a lower subsidy from the Government.
- **Strategic Investment Programme** budget was reduced by £1.5m in 2023/24 in recognition of the recurrent shortfall in this budget due to the downturn in the economy. The revised budget is £6.09m and there is an **adverse forecast outturn of £148k**. This is a £360k adverse movement from Period 6 which is mainly attributable to a slower than anticipated use of agreed debt facilities in 2023/24, with income hence being rephased into 2024/25. The Council continues to work to bring forward new investments to meet the challenge of those being repaid.

The Risk Reserve is forecast to be £3.8m at the end of this financial year. Opportunities will be considered to increase this over the coming year given current economic uncertainty.

- **Other net adverse movements of £1.41m across all areas,** favourable movement of £291k. There is a general service budget capacity/efficiency target of £1.0m across all service areas. This efficiency target was increased in the 2023/24 budget to reflect a general expectation that services will underspend in all areas as a result of vacancy management and reductions in general administration such as travel and stationery supplies. Additionally, there is a £200k overspend relating to a continuing increase in demand for Trafford Assist

- **Other considerations - Contingency Budgets**
  Within the estimated outturn there are several contingency budgets held back to absorb any unforeseen changes in demand for the remainder of the year. Contingency budgets of £302k and £315k remain in Children's and Adults client placement budgets. £350k remains of the general Council Wide contingency after releasing £350k in P8 and £1.2m of commitments have been made.

Revenue Budget Funding and Collection Fund

1.9. Council Tax

1.9.1. There is an estimated in year surplus of £0.95m, largely due to a one off release of £1.2m from the bad debt provision following a review of assumptions relating to historic bad debt. However, there is still a recurring pressure of £0.3m from a combination of an increase in discounts and exemptions, pressure from backdated claims and reduction in council tax support.

1.9.2. Compared to budget there is a substantial increase in the number of claims for Council Tax Discounts (e.g., single person) and exemptions resulting in a shortfall of £0.88m. The situation has improved as the year has progressed and our budget plans for 2024/25 which had assumed a recurrent impact will be adjusted accordingly.

1.9.3. A favourable variance due to lower number of claims for Council Tax Support awards of £0.74m, partly as a result of higher claims for discounts above.

1.9.4. The additional temporary discretionary support scheme introduced in 2023/24 to support claimants not already getting 100% CTSS discount has cost £0.34m. This has been fully compensated from an additional Government Grant, resulting in a neutral impact.

1.9.5. The ongoing impact of any recurrent shortfall will need to be considered when preparing the 2024/25 budget.

1.10. Business Rates

1.10.1. Period 8 has seen an adverse net outurn of £2.2m largely due to flagship stores at the Trafford Centre being empty whilst refurbishment works are undertaken. This shortfall will be met from the Business Rates Risk Reserve, however a top up of the reserve of £1.5m will be made from the General Fund to reflect the ongoing future risk of further delays.

1.10.2. As in previous years, there is a significant risk in forecasting the temporary pressures caused by major refurbishments, changes, and new sites at the Trafford Centre. The Business Rate Risk Reserve will be utilised to smooth any timing issues in the delivery of benefits. Work is continuing to look at the future health of rateable value and how ongoing developments may impact this.

1.11. Earmarked Reserves

1.11.1. A full review of all reserves was completed as part of the 2024/25 draft budget and a further update will be provided at the time of the final budget.

2. Outlook and Summary

2.1. The economic uncertainty will continue to be felt for some time to come and must be managed alongside a significant budget gap in our Medium Term Financial Plan. The draft budget plans for 2024/25 have included additional growth to reflect some of the recurrent pressures identified in the monitors, particularly around Childrens services. The final budget will be considered by the Executive on 21st February 2024 and will reflect any changes to assumptions informed by this monitor.

2.2. Although the outturn forecast is favourable, it is essential that a cautious approach is maintained in managing the budget given the size of the budget gap in our medium term plan and the fact that many positive contributing factors in 2023/24 are non-recurrent, such as the underspend on staffing, the benefits from the Treasury investments and the non-recurrent elements of the Market Sustainability and Improvement Fund Grant.

2.3. The additional Market Sustainability and Improvement Fund Grant of £1.438m, received after the budget was set was welcome news and its use in paying towards increased fee rates to care providers has been a significant factor in the overall favourable outturn. The December 2023 Provisional Local Government Financial Settlement confirmed that the 2023/24 grant of £1.438m would not continue in 2024/25 and would be replaced by a second tranche of £0.808m. It was hoped that the 2023/24 grant would continue, as the main principle of the grant was to stabilise the care provider market by covering recurrent cost pressures. The contribution made by the 2023/24 grant will not be a recurrent feature in 2024/25.

2.4. With respect to the 2024/25 budget, the small positive movements in Children's placements and Home to School Transport would not suggest that any change in assumptions on the growth added at draft budget stage. However, there are several evolving pressures which will need to be considered as part of the final budget plans for 2024/25. These include the pressures within the Housing Benefit budget which is due to additional costs of temporary/emergency accommodation and the growing shortfall in planning fee income.

2.5. The release of the central contingency is another area which has added to the overall favourable outturn; however, it should be noted that our plans for 2024/25 already include a significant reduction in this budget provision of £0.5m.

2.6. The positive outturn in the Treasury Management budget is a further significant factor of the favourable outturn. This is due to the high interest environment and the way the Council has managed its cash balances to limit costly borrowing while investing any surplus cash to generate investment income. As the Council continues to utilise its cash balances in meeting the revenue budget gap, the existing capital programme and externalises its new borrowing, the benefits experienced in 2023/24 will reduce significantly.

2.7. The increasing deficit on the High Needs Block within the schools DSG budget is an area of concern and which is forecast at £11.35m overdrawn by year end. It is expected that LA's balance their in year spending by 2025/26 and there is a real risk that Trafford will not be able to do that. This is a national issue and work continues to take place on the DSG deficit management plan with proposals and options being discussed on a regular basis with the DfE. Although it is currently treated as an issue held outside of the Council's General Fund, the fact that the council has been required to direct its own cash resources to make up the shortfall in grant is having an adverse impact on cashflow and investment returns.

2.8. At this stage in the year, no further management actions are recommended other than those previously agreed, as follows.

- The current management action, which included a policy on vacancy management and a review of all non-essential spend will remain in place for the foreseeable future.
- Significant staffing underspends have been evident in the last two financial years and the vacancy factor/general budget efficiency factor was increased to reflect this. As the staffing vacancies are filled, attention needs to be paid on the adverse impact this has on the delivery of the wider vacancy factor.
- As part of the work being undertaken by the Finance and Change Board, to provide additional focus and challenge on recurrent pressures within demand led budgets, such as Child placements and Home to School Transport. This will include a review of alternative delivery models.
- Delivery of the 2023/24 savings programme is progressing well with 99% estimated to be achieved, however vigilance should remain in ensuring that forecasts are achieved. Particularly in those areas classed as Red or Amber on delivery risk.

2.9. The scale of the challenge faced means that the Council must continue to, identify significant permanent savings, lobby the Government to address the unfairness of the funding formula and maintain prudent financial management.

Recommendations
It is recommended that the Executive:

a) note the report and the estimated revenue outturn position showing a budget underspend of £0.59m a positive movement of £1.09m since Period 6;
b) note the update on the Capital Programme as detailed in Section 6 and Annex 3;
c) Note that due to the positive movements in the estimated outturn since Period 6, that no new management actions are required at this point in 2023/24.

Other Options

No Applicable.

Consultation

Not Applicable

Reasons for Recommendation

To inform Members of the 2023/24 projected outturn figures relating to both Revenue and Capital budgets and summarise the projected outturn position for Council Tax and Business Rates.

Finance Officer Clearance *…DM……………*
Legal Officer Clearance *…….DS………*

DIRECTOR'S SIGNATURE ……GB……

PART 3 - Annexes

Annex 1

Main variances, changes to budget assumptions and key risks

The main variances contributing to the projected underspend of £0.94m, any changes to budget assumptions and associated key risks are highlighted below:

Table : Main variances	Forecast Variance (£000's)	Explanation/Risks
Children's Services	3,188	**Projected outturn variance £3.188m adverse, favourable variance from previous reporting period of £(222)k.** Below is the projected position on children's placements and other budget areas. • £1.936m over budget on Children's placements (note 1); • £(534)k under budget on staffing (note 2); • £1.005m over budget on home to school transport (note 3). • £781k over budget on other running costs and income across the service (note 4); **<u>Note 1</u>** Children's placements are expected to overspend by £1.936m. This is a favourable movement of £(141)k. The reasons for this movement are as follows: • £433k new placements • £221k new step ups • £156k delayed step downs • £104k price increases These are offset by £1.056m of step downs, children leaving care, additional grant income and contingency being utilised. There is £302k of contingency remaining for new placements between now and the end of the year. This overspend assumes that the £1m savings target will be met. 26 children who are expected to be stepped down have been identified and are being closely monitored. The numbers of children as at the end of November compared to those at the end of September are as follows:- • children in care 371, an increase of 14 • child protection 229, an increase of 4 • children in need 704, an increase of 1

Note 2
The favourable variance in staffing is £(534)k. This in a favourable movement of £(323)k from P6 due to the further delay of the Intensive Family Support, Trafford Team Together and Family Hubs restructure and a number of unfilled vacancies across the service. The service continues with its redesign and recruitment drive during 2023/24 and it has been assumed in the projections that this will be complete in the following financial year.

Note 3

The projected overspend on Home to School Transport is £1.005m, this is a favourable movement of £(4)k from P6.

Savings have been realised on a couple of the runs due to the use of Q-routes, a system which helps automate route planning resulting in reducing passenger mileage and travel time. This is a part of the new system that has been implemented to manage school runs from September. It is hoped that once the system is fully implemented, further efficiencies will be made.

Note 4
The adverse variance in running costs and income across the service is £781k, an adverse movement of £245k, as outlined below: -

- £125k adverse variance on Partington & Sanyu nurseries, an adverse movement of £17k;
- £1.026m adverse variance in running costs, an adverse movement of £259k due to: -
  - S17 – There has been an adverse movement of £268k within the s17 spend, the adverse variance is now £793k. Managers have been instructed to ensure that authorisation is sought for essential spend only within this area of the budget and close analysis of the spend continues.
  - Other running costs £233k adverse, a favourable movement of £(9)k.
- £(370)k favourable variance on income and minor variances, a favourable movement of £(30)k.

At present, there is a grant for Supporting Families (SF) of £811k within the Children's Services budget of which £755k has been allocated. The payment of this grant depends on meeting clear

		performance measures against 10 outcomes and 34 criteria being implemented alongside regression checks. Grant funding for future years is reliant on the achievement of outcomes and is therefore not guaranteed. Rigorous monitoring against the measures is in place.
Adult Services	(1,712)	Projected outturn £(1.712)m favourable variation a favourable movement of £(814)k from period 6. Below is the projected position on Adult clients and other budget areas. • £(522)k favourable variance on Adults Clients a favourable movement of £(458)k from period 6 (note 1); • £(102)k favourable variance on staffing and running costs £(56)k favourable movement (note 2); • Risks (note 3) • Market Sustainability and Improvement Fund £(1.088)m favourable variance a favourable movement of £(300)k from P6 (note 4). <u>Note 1</u> Adults Clients projected £(522)k favourable variation. This budget remains high in complexity and volatility as it is in part driven by wider system pressures in health in addition to direct adult social care demands • supporting the NHS with rapid discharges from hospitals as they deal with the backlog of patients waiting treatments • increased mental health support • assessing the impact of the cost of living and inflationary pressures on client contributions. • an aging population within the borough and demographic pressures • workforce pressures across the health and social care system. Packages of Care – The projected outturn position is a £(522)k favourable variance a favourable movement of £(458)k from P6. The favourable movement is due a reduction in projected expenditure on packages of care. Within this projection is a contingency of £315k to mitigate rising costs as a result of increasing complexity of existing clients and demand from new clients. Savings – The savings target for 23/24 is £1.131m and £754k has been achieved to date. It is assumed that the savings target will be achieved in full by the end of the financial year.

		Discharge to Assess –The government announced additional funding with effect from 1 April 2023 for Adult Social Care to enable local authorities to continue to expediate hospital discharges, the Trafford locality received an allocation of £2.197m to be utilised to maintain capacity in Discharge to Assess Beds and temporary homecare until the 31 March 2024. In addition, the Council has elected to direct a further £1.289m of funding towards this programme meaning the total budget for 23/24 amounts to £3.486m. It is anticipated that this budget will be utilised in full by the end of the financial year. <u>Note 2</u> The projected outturn position for staffing and running costs is a £(102)k favourable variance a favourable movement of £(56)k from period 6. The 23/24 budget included a vacancy factor target of £955k, the target has been overachieved by £(162)k at period 8. The £(102)k favourable variance is made up of:- • £162k adverse variance in the DOLS service due to forecasted expenditure above budget on external DOLS assessments. • £(190)k projected favourable variance on Assistive Technology and equipment based upon year to date activity. • £(74)k favourable variance on running costs and minor variations. Also included within the £102k net variance is £130k of funding from Homes for Ukraine, a £404k contribution from reserves in the Internal supported living service and £59k funding from the Urgent and Emergency Care Fund. Savings – The savings target for 23/24 is £50k. It is assumed that the savings target will be achieved in full by the end of the financial year. Internal Supported Living Service – Work to assess the cost of a safe staffing establishment aligned with the individual needs of the whole cohort for 2023/24 and future years has now been completed and the estimated financial envelope required has been included within the Medium Term Financial Plan from the 24/25 financial year. As at period 6 the service is forecasting an overspend of £404k this is mitigated by a planned contribution from reserves in this financial year. <u>Note 3</u> Ascot House is a Council owned building that is currently dual purpose. The Council operates a 9 bedded Discharge to Assess unit within the building, in addition to this there is a 36 bedded

		Intermediate care service operated by Manchester Foundation Trust and Commissioned by NHS Trafford Integrated Care Board. The Intermediate Care service is operated on a pass through arrangement, whereby a large proportion of the overall staffing costs are recharged to Manchester Foundation Trust (MFT) by the Council. Due to significant financial pressures MFT have signalled their intention to limit pass through costs from the Council to £1.854m in this financial year. Projections suggest that the Council will incur £2.267m in costs relating to the service leaving a pressure of £413k. This presents a risk to the Council as there is currently no agreement on how this is to be met, though mitigations have been applied to cap this figure. There has been no resolution to this matter and therefore the Council has been forced to reduce funding available to support Hospital discharge capacity to mitigate the pressure in this financial year. <u>Note 4</u> £1.088m favourable variance. The government announced the Market Sustainability and Improvement Fund (workforce) on the 28 July 2023. The announcement confirmed an additional allocation of £1.438m for the Council. The grant has target areas as part of the fund conditions, at least one of which must be identified for use of the funding: • increasing fee rates paid to adult social care providers in local areas • increasing adult social care workforce capacity and retention • reducing adult social care waiting times £1.088m of the grant has been allocated to date, with £788k being used to offset the costs of provider uplifts applied at the start of the financial year and £300k being used on schemes including overtime for social workers to reduce a backlog of assessments. The remaining balance of £350k will be allocated against schemes in progress. All of this supports the three target areas.
Public Health	(175)	Public Health is forecasting a £(175)k favourable variance as at period 8 a favourable movement of £(64)k from period 6. This is due to projected expenditure on staffing below budget of £27k and a favourable variation on running costs and activity related budgets of £(148)k.

Place	(83)	**Total forecast outturn variance £(83)k favourable, a favourable movement of £(170)k.** **Place Revenue Budget £(231)k favourable, a favourable movement of £(530)k:** • Energy costs are £986k below the figure predicted when the budget was set in February. This underspend is £239k higher than last reported which relates to street lighting. This follows ongoing analysis of bills from the Council's new energy contracts since April, and in particular bills from the early winter period. The new contracts includes a flexible buying strategy to take advantage of favourable market fluctuations across the year. There are also the effects of energy saving measures to reduce consumption. • There are increased property running costs of £51k (reduced by £29k) including Sale Waterside PFI and Trafford Town Hall security. All other running costs are £39k above budget (favourable movement of £29k). • There are projected shortfalls in income of £325k in Parking Services due to the delayed opening of Regent Road car park (increased by £96k), £181k Building Control (increased by £23k) and £63k from rental income at Altrincham Market and operational buildings (reduced by £17k). • Estates savings have now exceeded expectations by £149k due to a number of successful business rate appeals and backdated (improved by £194k). There is a £60k saving shortfall from the installation of EV points which has now been rephased to 2024/25. • Additional projected income above budget includes Altair £120k, Manchester Airport £51k and other let estate £19k (all unchanged), and outdoor media advertising £22k (increased by £22k) • Staff vacancies for the year are currently estimated at £429k (excluding the ringfenced Planning account) (increased by £89k), which is approximately 5.0% of the staffing budget. This is offset by a Directorate-wide efficiency saving of £346k. • The Planning service is a ringfenced account and has a shortfall in income of £608k, which is offset by an underspend of £128k in staffing, running costs and reserve contributions. This is a forecast net overspend of £480k for the year (reduced by £30k). **Strategic Investment Programme £148k adverse, adverse movement of £360k;** The forecast net outturn forecast is £5.94m, which is a shortfall of £148k against the net budget of £6.09m. This is an adverse change

		from the previous period of £360k which is mainly attributable to a slower than anticipated usage of agreed debt facilities in 2023/24, with income hence being rephased into 2024/25.
Strategy & Resources	(271)	**Total forecast outturn variance £(271)k favourable, a favourable movement of £(55)k.** • Staff costs are estimated to be £588k less than budget across the Directorate based on actual and forecast vacancies across the whole year, which is 5.8% of the total staffing budget. This is £15k higher than last reported. • Running costs are forecast to be £22k underspent, which is a favourable movement of £60k. • Income is projected to be £75k above budget and has reduced by £20k. The overall projection includes £58k additional income from Bereavement Services (increased by £1k), £15k from Flixton House (reduced by £2k) and £108k from the Music Service trading account (increased by £38k). These are offset by shortfalls of £55k in Catering and Cleaning trading services (increased by £30k) and £24k Waterside Arts Centre (increased by £5k). Other income is £27k below budget (increase by £22k). These are offset by the budgeted Directorate-wide efficiency saving target of £414k.
Finance & Systems	149	**Total forecast outturn variance £149k adverse, a favourable movement of £(47)k.** • Staff costs are estimated to be £257k less than budget across the Directorate based on actual and forecast vacancies for the whole year, which is 2.6% of the total staffing budget. This is a favourable movement of £50k. • Running costs are forecast to be overspent by £236k across all services (increased by £2k). The overspend includes £200k relating to Trafford Assist, as reported previously, which is due to continuing additional uptake in demand. Other running cost increases include for ICT system contract extensions. • Income is projected to be £79k above budget (reduced by £1k). The additional income includes £100k confirmed from CCG for ICT services which had been expected to reduce in the budget. These are offset by the budgeted Directorate-wide efficiency saving target of £249k.

Legal and Governance	252	**Total forecast outturn variance £252k adverse, an adverse movement of £75k.** • Staff costs are estimated to be £120k below budget (increased by £5k) and includes for agency costs covering vacancies and service demand. • Running costs are projected to be overspent by £345k and has increased by £100k which includes for additional court costs and legal fees based on updated forecasts of demand, particularly in social care. The overall overspend includes local election costs being £95k higher than expected associated with additional workload demand from the "all out" election in May. • There is a projected shortfall in income of £27k compared to budget. This has reduced by £20k, mainly due to additional land charges new burdens income. The overall shortfall includes £63k in land charges and £20k in capital fee income which is related to staff vacancies. This is offset by SLA and other income of £44k above budget assumptions and £12k from Registration Services.
Council-wide	(3,434)	**Projected Outturn variance, £3.434m favourable, an adverse movement of £203k since period 6.** **Pay Award** The 2023/24 Local Government pay award has been agreed. As previously reported this has resulted in an additional pressure of £0.7m which will be neutralised by a draw down from the Inflation Risk Reserve. **Treasury Management** Due to the continuing high interest environment, the Council has managed its cash balances to limit costly borrowing while investing any surplus cash to generate investment income to support the revenue budget. This careful cash management has allowed a saving of £3.076m in financing costs in 2023/24, a £394k adverse variance from period 6. This movement from the previous period is due to new borrowing now forecast in 2023/24 in order to provide financing for capital spending in year and reduce the Council's under-borrowed position, which was £93.9m at the 31 March 2023. **Housing Benefit** The Housing Benefit budget has a projected Outturn overspend (payments made, less subsidy and overpayment recovery) of £490k, a favourable movement of £34k since period 6. Work is now complete on the 2022/23 Subsidy claim where 'Technical errors' had been misclassified as 'LA Errors' and this has generated a small increase in Subsidy.

However, the current Housing Benefit Subsidy budget pressures being felt across all local authorities is having a significant impact within Trafford. As the percentage of emergency/temporary accommodation cases increase, and in particular within the Private Rented Sector, rents are significantly higher than the Governments Local Housing Allowance rate. This can lead to significant losses as these rents attract less subsidy.

In recognition of this national issue, an additional £400k was transferred to the Housing Benefit Overpayments Reserve at the end of 2022/23 to cover this, giving a total reserve of £900k to cover any pressure in the 2023/24 budget. Therefore, no impact on the Council-wide projected outturn figure above.

The on-going impact on future budgets will be included in the Medium-Term Financial Plan 2024/25.

Audit Fees £140k

Additional 'fee variations' above budget have already been incurred by the Council following a number of recent 'extended' audits, in particular the 2021/22 Statutory Statement of Accounts and the Housing Benefit Subsidy claims relating to 2019/20, 2020/21 and 2021/22.

Due to the delay in the completion of these audits it has also been necessary to estimate the likely 'fee variations' on subsequent audits up to and including 2023/24.

The impact on the 2023/24 budget is therefore a total worst case scenario estimated at £140k.

The on-going impact on future budgets will be included in the Medium-Term Financial Plan 2024/25.

Coroner's Budget

The projected costs of Trafford's share of the South Manchester Coroners' service is currently expected to be £41k higher than budget, no change since period 6.

Contingencies

The Council-wide budget currently includes a general contingency of £1.9m. There are currently a number of commitments totalling £1.2m, leaving an uncommitted balance of £0.7m, a decrease of £0.1m since period 6. It is therefore considered prudent at this stage in the financial year to release a proportion of this contingency to the value of £0.35m.

Enhanced Pension payments

Recurrent savings relating to enhanced pension costs were previously highlighted in the 2022/23 Outturn report. And these savings have been included in our budget plans for 2024/25.

		Estimated savings for 2023/24 of £150k are included in the Council-wide figures above, no change since period 6. **Government Grants** The final announcement for the 2023/24 Services Grant was received in June 2023 at £1,472,905, which is £58k above budget, no change since period 6. **Savings** The Council-wide budget includes a saving of £200k for Digital Strategy, which includes £100k not achieved in 2022/23. Timescales for the Council's Digital Strategy programme have been delayed pending further development of the platform. Mitigating savings have been identified within the CRM licenses budget and will be used to offset the savings shortfall in the current year. Other minor adverse variations of £19k.

<table>
<tr>
<td>Dedicated Schools Budget</td>
<td>7,146</td>
<td>
Projected Outturn variance, £7.146m adverse, an adverse movement of £679k since period 6.
<table>
<tr><th>P8 monitoring</th><th>Grant £000</th><th>Forecast outturn £000</th><th>P8 Variance £000</th></tr>
<tr><td>Schools Block</td><td>109,149</td><td>109,149</td><td>0</td></tr>
<tr><td>Central Schools Services Block</td><td>1,495</td><td>1,430</td><td>(65)</td></tr>
<tr><td>High Needs Block</td><td>34,428</td><td>41,639</td><td>7,211</td></tr>
<tr><td>Early Years Block</td><td>17,848</td><td>17,848</td><td>0</td></tr>
<tr><td>TOTAL DSG</td><td>162,920</td><td>170,066</td><td>7,146</td></tr>
</table>
The DSG allocation has been reduced by £17k. This is due to an adjustment to the CSSB due to an academy conversion and the HNB due to an import/export adjustment.
The High Needs Block (HNB) is expected to over spend by £7.211m, an adverse variance of £699k from P6.
This is analysed in more detail below :

Special Schools £391k adverse, an adverse movement of £63k due to the average cost of top up bandings for new places at The Orchards, Brentwood & Egerton being higher than anticipated due to having to fund outreach provision.
Education Health Care Plans (EHCPs) £1.538m adverse – this is an adverse movement from P6 of £213k due to higher than anticipated EHCP numbers in the Autumn term.
Out of Borough Placements £2.736m adverse – this is an adverse movement of £431k since P6. We have seen 16 children move into non maintained independent special schools, 14 of which have Social, Emotional and Mental Health (SEMH) needs, and 2 placements each with a cost of over £100k where local provision could no longer meet need. Work is continuing to be developed on strengthening the gatekeeping and scrutiny of all external placements; formalising the post 16 panel; and liaising with another North West local authority to share best practice.
£239k further education placements – no movement - funding an additional 40 placements at £6k each with no additional grant. Additional funding in the current formula is not provided by central government for any increases in 19-25 year olds.

</td>
</tr>
</table>

- This is offset by a favourable variance of £99k on Behaviour & Attendance, SEN Central Team and Sensory Impairment, a favourable movement of £8k.

There was a negative HNB reserve b/fwd of £4.138m, leaving an overall deficit of £11.349m at year end.

DSG Reserve	**1 April 2023 £000's**	**(Cont. to) / Draw down £000's**	**31 March 2024 Projection £000's**
Schools Block (SB)*	(2,329)	1,356	(973)
Central Schools Services Block (CSSB)	(335)	(65)	(400)
High Needs Block (HNB)**	4,138	7,211	11,349
Early Years Block (EYB)	1	0	1
TOTAL DSG Reserve (surplus)/deficit	**1,475**	**8,502**	**9,977**

* £772k is being utilised from the Growth Fund reserve as agreed by Schools Funding Forum to fund 23/24 school budgets, a further £397k from the Growth Fund reserve is being used for Growth in 23/24, £174k has been drawn down for Trafford Alternative Education Provision (TAEP) and £13k is required from the Redundancy reserve.

** £7.21m contribution to deficit reserve.

The annual cost to the Council of servicing the accumulated deficit is approximately £0.5m per annum.

There is the risk that the number of EHCPs will continue to grow and dependence on costly out of borough places will increase as capacity in borough is not sufficient, which will impact on our ability to reduce the deficit.

Work continues to take place on the DSG deficit management plan with proposals and options being discussed with the DfE. The plan has been scrutinised by the SEND Board and has been presented to Funding Forum.

The statutory override for the DSG ends in 2025/26 which means that if this is not extended, the deficit will transfer back to the Council's total Earmarked Reserves, which has serious financial implications for the authority.

Savings Programme

ANNEX 2

Theme/Title	Service Area	Budget 2023/24 £000's	Outturn Projection 2023/24 £000's	Gross Variance 2023/24 P6 £000's	Mitigating action undertaken in year £000's	Overall net variance in year after mitigating action £000's	Description of Saving	Financial RAG 23/24	Financial RAG 24/25	Financial RAG comments
Children Placements	Children's	(1,000)	(1,000)	0	0	0	A review of demand and placements for looked after children	GREEN	RED	The 2023/24 saving should be achieved as 26 young people have been identified to step down. However to note there is a pressure for new placements.
Staffing Efficiencies Children's Services	Children's	(45)	(45)	0	0	0	Review of staffing establishment outside of the main redesign programme	GREEN	GREEN	The saving has been identified.
Troubled Families Funding/Strengthening Families	Children's	(275)	(275)	0	0	0	Continuation of the service redesign	AMBER	AMBER	At present, there is a grant for Supporting Families (SF) of £811k within the Children's Services budget of which £766k has been allocated. The payment of this grant depends on meeting clear performance measures against 10 outcomes and 34 criteria being implemented alongside regression checks. Grant funding for future years is reliant on the achievement of outcomes and is therefore not guaranteed. Rigorous

										monitoring against the measures is in place.
VCSFE service/children's commissioning	Children's	(63)	(63)	0	0	0	Undertake strategic needs assessment of commissioned services and offer	GREEN	GREEN	The saving will be achieved.
Increase Vacancy Factor/Budget utilisation	Children's	(134)	(134)	0	0	0	Increase vacancy management period across all services	GREEN	RED	Although there are currently vacancies across the service, the next stage of the restructure will be completed this year so will make future savings unlikely.
Weight Management	Adults	(31)	(31)	0	0	0	Reduce the prevalence of community obesity and thereby reduce long-term health conditions that result and the support required.	GREEN	GREEN	Savings continue to be achieved.
Bad debt provision - Adults Social Care	Adults	(50)	(50)	0	0	0	Review level of contribution to bad debt provision	AMBER	AMBER	The ASC bad debt position is monitored on an ongoing basis and is subject to fluctuation. It will not be known until year end reviews whether the target is achievable.
Homecare	Adults	(1,000)	(1,000)	0	0	0	Rephase Council contribution once Transformation Funding ceases	GREEN	GREEN	Saving met
Demographic Growth Control	Adults	(100)	(100)	0	0	0	Demographic Growth Control	GREEN	GREEN	Saving currently met within the 2023/24 budget allocation.

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Electric vehicle (EV) charging points	Place	(10)	0	10	0	10	Expand number of EV charging points on a revenue share model	RED	AMBER	Installation progressing well. Profit share model re-phased to 24/25
Strategic Investment Income	Place	(1,800)	(1,800)	0	0	0	Investment Programme - Recycling of receipts to maintain net income at achievable levels	GREEN	AMBER	Savings delivered in 2023/24. Programme remains a risk in 24/25 given the wider economic uncertainty.
Review of operational and strategic estates	Place	(80)	(80)	0	0	0	Efficiency review of operational estate and lease/rent reviews to ensure full cost recovery across the Council's estate	RED	AMBER	Savings programme of works taking longer than expected - saving re-phased to 24/25
Regulatory Services - cost recovery	Place	(25)	(25)	0	0	0	The cost of safety certificates / recover more from taxi tests to increase.	GREEN	GREEN	
Reduce Place Contingency	Place	(30)	(30)	0	0	0	Removal of a contingency budget from an earlier restructure	GREEN	GREEN	
Housing Service	Place	(50)	(50)	0	0	0	Removal of temporary posts/vacancies	GREEN	GREEN	
Housing Service	Place	(100)	(100)	0	0	0	Better cost recovery from support grant	GREEN	GREEN	
Street Lighting	Place	(100)	(100)	0	0	0	Review option in relation to Trimming, 1hr warm up, cool down at start and end of day	AMBER	AMBER	Need to review impact on bills during year.

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Illuminated signs / bollards	Place	(40)	(40)	0	0	0	Invest to save to declutter and de-illumination to reduce energy cost impacts	AMBER	AMBER	Need to review impact on bills during year.
Street Lighting	Place	(200)	(200)	0	0	0	Look at further options to trim earlier / later and switch off street lighting in low risk areas	AMBER	AMBER	Need to review impact on bills during year.
Unadopted highways/access roads	Place	(50)	(50)	0	0	0	Reduce budget provision	GREEN	GREEN	
Increase Vacancy Factor/Budget utilisation	Place	(241)	(241)	0	0	0	Increase vacancy management period across all services	AMBER	AMBER	Review over the year
Traded Services	Finance & Systems	(56)	(56)	0	0	0	Traded Services income - increase in contributions to offset pay and cost inflation.	GREEN	GREEN	
Review of Subscriptions	Finance & Systems	(10)	(10)	0	0	0	A range of subscriptions for external services to be reviewed	GREEN	GREEN	
Increase Vacancy Factor/Budget utilisation	Finance & Systems	(98)	(98)	0	0	0	Increase vacancy management period across all services	AMBER	AMBER	Review over the year
Traded Services	Strategy & Resources	(390)	(390)	0	0	0	Review Traded Services income - increase in charges to offset pay and cost inflation.	AMBER	AMBER	Review over the year

Change Charging basis for Modernisation Team	Strategy & Resources	(850)	(850)	0	0	0	We already charge the majority of the team to the capital programme. The flexible use of capital receipts will be used to cover all team members to continue to support efficiency and change programmes across the council for a further two years.	GREEN	GREEN	
Review of Sale Waterside Arts Centre	Strategy & Resources	(25)	(25)	0	0	0	A review of the operational effectiveness of asset.	AMBER	AMBER	Review over the year
Review Music Service	Strategy & Resources	(30)	(30)	0	0	0	Continue to remove the remaining Corporate overhead subsidy and continue with expansion of offer with a view to broadening reach	GREEN	GREEN	
Increase Vacancy Factor/Budget utilisation	Strategy & Resources	(93)	(93)	0	0	0	Increase vacancy management period across all services	AMBER	AMBER	Review over the year
Treasury Management Budget	Councilwide	(4,682)	(4,682)	0	0	0	Realignment of the Treasury Management Budget to support the latest forecast position and activity relating to borrowing and Investments	GREEN	GREEN	Saving achieved

Review of Subscriptions	Councilwide	(2)	(2)	0	0	0	A range of subscriptions for external services to be reviewed	GREEN	GREEN	Budget saving achieved
Digital Strategy	Councilwide	(100)	0	100	(100)	0	Increased use of digital technology to deliver better and more efficient services.	AMBER	AMBER	Programme delayed pending individual business cases. Mitigating action to achieve saving in 23/24 through reduction in CRM licence costs.
TOTAL SAVINGS AND INCOME PROPOSALS		**(11,760)**	**(11,650)**	**110**	**(100)**	**10**				

CAPITAL PROGRAMME **Annex 3 (A)**

Approved Budget

1. The overall value of the indicative capital programme for 2023/24 to 2025/26 is £212.95m, which is a reduction from P6 of £1.36m. Which is mainly as a result of:
   - A new grant of £0.56m from DfE for Childcare Expansion Capital works.
   - The removal of the scheme at £1.95m for the installation of two resomation cremators at the crematorium.

2. The P6 budget for 2023/24 was £87.73m, a minor change during the current reporting period has resulted in this budget increasing by £0.03m to £87.76m.

2023/24 Capital Programme	
	£m
General Programme:	
Budget at Period 6	87.73
Current programme (Period 8)	**87.76**
Variance from Previous Period	0.03

3. The increase of £0.03m for 2023/24 in the General Programme is due to the award of a new grant, details of which are included in paragraph 4. The following table details the movement in the current year budget (2023/24).

General Capital Programme 2023/24	**P6 Revised Approved Programme £m**	**Current Revised Programme £m**	**Period Movement**	
			Change in Funding £m	**Re-Profiling to Future Years £m**
Service Analysis:				
- Schools	18.33	18.33	-	-
- Children Social Care	0.35	0.35	-	-
Children's Services	**18.68**	**18.68**		
Adult Social Care	**3.24**	**3.24**		
- Regeneration	15.82	15.82	-	-
- Corporate Landlord	1.25	1.25	-	-
- Leisure & Sports	18.85	18.85	-	-
- Highways	22.41	22.44	0.03	
- Environment & Green Space	0.88	0.88	-	-
- Housing Services	3.56	3.56	-	-
- Other	1.02	1.02	-	-
Place	**63.79**	**63.82**	**0.03**	
Finance & Systems	**2.02**	**2.02**	**-**	**-**
General Programme Total	**87.73**	**87.76**	**0.03**	**-**

4. The change in programme funding of £0.03m relates to;
   - Trafford Red Routes (CRSTS) - £0.03m. Development of a Red Routes scheme on the A56 (between the Trafford/Manchester CC boundary and the M60 junction 7) and on the A5081 (from M60 Junction 9 to and including White City Circle).

2023/24 Programme Funding

5. The general capital programme is resourced by a combination of both internal and external funding and is detailed in the table below. This shows a deficit in year of £3.39m, should actual expenditure breach the budget. In the event it does, this will need to be funded by short-term borrowing which will need to be repaid by a surplus in receipts in future years. The cost of any short term borrowing will need to be contained within the Treasury Management budget. This level of overprogramming is within the level agreed by Council in February 2023 of £3.52m:

Capital Programme Resources	Budget 2023/24 £m
General Programme Investment	**87.76**
Grants	56.99
External Contributions	4.92
Revenue and reserves	1.30
Prudential Borrowing	19.49
Forecast Capital Receipts	1.67
Total Funding	**84.37**
Surplus / (Deficit)	**(3.39)**

Asset Investment Fund

6. Asset Investment Fund currently stands at a maximum approved limit of £500m, supported by prudential borrowing, to support the Council's Investment Strategy. The transactions that have been agreed by the Investment Management Board (IMB) to date have a total current committed cost of £354.6m, of which £291.1m has currently been expended. The balance of the approved £500m which is available for further investment is £145.4m.

Asset Investment Fund	Prior Years Spend £m	Repayments £m	Actual Spend 2023/24 £m	Future Years Commitment £m	Total £m
Property Purchase	79.9	0.0	0.0	0.0	79.9
Property Development	19.7	(6.1)	0.8	1.5	15.9
Equity	41.0	0.0	3.8	9.0	53.8
Development Debt	167.3	(56.1)	28.8	53.0	193
Total Capital Investment	307.9	(62.2)	33.4	63.5	342.6
Treasury Investments	17.6	(5.6)	0.0	-	12.0
Total Investment	**325.5**	**(67.8)**	**33.4**	**63.5**	**354.6**

7. The forecast net budget is £5.94m, which is a shortfall of £148k against the targeted net budget of £6.09m. This is an adverse change from the previous period of £360k. This movement is mainly attributable to a slower than anticipated usage of agreed debt facilities in 2023/24, with income being rephased into 2024/25.

8. The Risk Reserve is forecast to be £3.60m at the end of this financial year. Opportunities will be considered to increase this over the coming year given current economic uncertainty.

Risk Reserve B/F	**£5.00m**
Town centre assets borrowing costs	(£0.84m)
Former GMP Site set up costs	(£0.64m)
Contribution to reserve	£0.08m
Risk Reserve C/F	**£3.60m**

Issues / Risks

9. A key risk is the ability to deliver the revised capital programme in 2023/24, and this will continue to be closely monitored and reported throughout the year and as any significant issues may arise.

10. In addition, there is the risk that the level of Capital receipts that will be realised in the year and in future will be insufficient to fund the relevant schemes in the capital programme. A prudent approach to estimating these asset receipts and development returns will continue to be taken with only receipts that have a significant level of certainty being included in the resource forecasts.

Prudential Indicators – 2023/24 **Annex 3 (C)**

The Prudential Code for Capital Finance in Local Authority was reviewed and updated following a consultation with Local Authorities in November 2021. The Code requires that the Council report and monitor Prudential Indicators on at least a quarterly basis during the financial year. The objectives of the Prudential Code and indicators are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable and to support and record local decision making in manner that is publicly accountable.

The prudential indicators cover the three areas in which the Council is required to report and monitor; Capital Expenditure, External Debt, and Affordability. The indicators are approved and set by the Council in February each year as part of the wider budget setting process. These indicators are then reviewed and restated during the year as part of the periodical budget monitoring.

Summary as at Period 8

Capital Expenditure Indicators

Since February, the updated indicators for Capital Expenditure show a decrease of £46.28m in capital spend in 2023/24. This is in-line with the reprofiling of spend within the programme, as detailed within this report, as certain schemes will now incur costs in later years. The expenditure for the Investment Strategy shows a similar movement as investments have been reprofiled to match the cashflows of ongoing property developments which the Strategy is funding, in addition to the new investments, approved by IMB, having the majority of their expenditure in the later years of the programme.

External debt indicators

The External Debt indicators for Period 8 are confirmations that the Council is operating within the agreed boundaries for Treasury Management activity as set by Council in February 2023. The forecast debt levels have increased since previous reporting due to the anticipation that the Council will borrow funds before the end of the financial year to address the level of internal borrowing, as reported in the Mid-Year Treasury Update, and to also support any new borrowing requirements required for 2023/24.

Affordability indicators

The 'Finance Costs to Net Revenue Stream' forecast for 2023/24 is a negative 1.0% due to the inflow of interest payments to the Council, i.e., investment income, being higher the outflow of interest payments, i.e., the cost of external borrowing. This is likely to change in future years as the Council's ability to utilise surplus cash balances to avoid additional borrowing will be reduced as the Capital Programme and Asset Investment Strategy commitments increase.

Capital expenditure indicators:

- **Estimates of capital expenditure**; Actual total capital expenditure for previous financial year and estimates of spend for the following three years. Variances found here from the approved indicator level to the current forecast level are due to revisions to the programme, reported through the regular Capital Budget Monitoring and approved by the Executive.
- **Estimates of capital financing requirement;** this reflects the estimated need to borrow for capital investment (i.e., the anticipated level of capital expenditure not financed from capital grants and contributions, revenue or capital receipts).

Prudential Indicators – Capital Expenditure	2023/24			2024/25	2025/26
Period 8 2023/24	Original Forecast	Current Forecast	Variance	Forecast	Forecast
	£m	£m	£m	£m	£m
Capital Expenditure					
Capital expenditure - General Programme	91.49	87.76	(3.73)	78.36	48.22
Capital expenditure - Investment Strategy	109.09	66.54	(42.55)	47.32	34.04
Capital expenditure - Total	**200.58**	**154.30**	(46.28)	**125.04**	**81.51**
Capital Financing Requirement (CFR)	**579.09**	**479.13**	(99.96)	**465.18**	**492.55**

External debt indicators

- **Authorised limit for external debt;** This is a key prudential indicator and represents a control on the maximum level of external debt that the Council will require for all known potential requirements. It includes headroom to cover the risk of short-term cash flow variations that could lead to temporary borrowing and any potential effects arising from bringing “off balance sheet” leased assets onto the balance sheet in compliance with IFRS 16.
- **Operational boundary for external debt;** calculated on a similar basis as the authorised limit but represents the likely level of external debt that may be reached during the course of the year and is not a limit.
- **Gross debt and the capital financing requirement;** The Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and

the following two financial years. This allows some flexibility for limited early borrowing for future years **but ensures that borrowing is not undertaken for revenue or speculative purposes.**

Prudential Indicators -	**2023/24**			**2024/25**	**2025/26**
Period 8 2023/24	**Approved Limit**	**Current Forecast**	**Variance to Limit**	**Approved Limit**	**Approved Limit**
	£m	**£m**	**£m**	**£m**	**£m**
External Debt					
Authorised limit for external debt - Capital Programme	240.00	179.20	60.80	250	260
Authorised limit for external debt - Investment Strategy	375.00	193.90	181.10	450	475
Authorised limit for external debt - Other long-term liabilities	3.40	3.38	0.02	3.0	2.6
Authorised limit for external debt - Total	**618.40**	**376.48**	**241.92**	**703.0**	**737.6**
Operational boundary for external debt - Capital Programme	220.00	179.20	40.80	230	240
Operational boundary for external debt - Investment Strategy	375.00	193.90	181.10	450	475
Operational boundary for external debt - Other long-term liabilities	3.40	3.38	0.02	3.0	2.6
Operational boundary for external debt - Total	**598.40**	**376.48**	**221.92**	**683.0**	**717.6**
Forecast capital financing requirement (CFR)		**479.13**			
Actual external debt (£m): at 30/11/23		**306.48**			
Over-borrowed/(Under-borrowed)		(172.65)			
Forecast Over-borrowed/(Under-borrowed)		(102.65)			
Is Actual Debt below the CFR?		**YES**			

<u>Affordability indicators</u>

- **Estimates of financing costs to net revenue stream;** This indicator shows the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the Council's net revenue stream. This demonstrates the affordability and proportionality of that borrowing by comparing it to the Council's net revenue stream as a whole.
- **Estimates of net income from commercial and service investments to net revenue stream;** This indicator compares income from commercial investments to the Council's net revenue stream. As before, this comparison allows for consideration for the Council reliance on that income and its proportionality.

Prudential Indicators - Period 8 2023/24	2023/24			2024/25	2025/26
	Forecast	P8 Forecast	Variance	Forecast	Forecast
	%	%	%	%	%
Affordability					
Financing Costs to net revenue stream - Recalculation*	0.6%	-1.0%	-1.6%	1.3%	2.1%
Net Income for commercial and service investments to net revenue stream	8.5%	7.9%	-0.6%	7.1%	6.8%

*The 'Finance Costs to Net Revenue Stream' PI has been reassessed and calculated on a different basis than the figures presented in the February Budget Report. This recalculation has been done to bring the indicator in-line more accurately with the intention of the Prudential Code.

Affordability - Financing Costs to Net Revenue Stream (Detailed Table)	2023/24 P8 Forecast
Net Revenue Stream (£k)	201,972
Net Financing Costs * (£k)	(1,994)
Net Financing Costs to NRS (correct Prudential Indicator)	**(1.00)%**
Gross Financing Costs (£k)	13,609
Gross Investment Interest Income (£k)	(15,603)
Net Financing Costs (£k)	**(1,994)**
Using **Gross** Financing Costs to NRS	6.74%

The forecast for 2023/24 is negative due to the inflow of interest payments to the Council, i.e., investment income, being higher the Gross Financing Costs (interest payments and MRP), i.e. cost of external borrowing. This is likely to change in future years as the Council's ability to utilise surplus cash balances to avoid additional borrowing will be reduced as the Capital Programme and Asset Investment Strategy commitments increase.

The prudential indicator requires a comparison between Net Financing Costs and the Net Revenue Budget, however this does not demonstrate fully the risk due to the high levels of investment income that the Council generates. The Gross Investment Interest Income and Gross Financing Costs are more appropriate measure of risk as this is the amount of exposure the council needs to meet.

Local indicators

Local Indicators are indicators that are not statutorily required but are included in the Council's suite of capital indicators to provide additional transparency and reporting information. The indicators below relate to forecast activity and performance in the Council's Asset Investment Strategy (AIS). The rolling investment nature of the AIS means that income is forecast to decrease in later years as investments mature, to be replaced by new investments within the pipeline yet to be agreed.

The Council has previously used income from its investments to contribute to a Risk Reserve, which had a balance of £5.0m at the end of 2022/23. Over the next three years, this reserve will be used to mitigate against income shortfalls from the Stretford Mall and Stamford Quarter LLPs as trading is impacted by the ongoing regeneration works. Once work is complete, income is forecast to recover, and surpluses can be used to replenish the fund.

Local Indicators 2023 to 2026	2023/24 £m	2024/25 £m	2025/26 £m
Asset investment Strategy			
Gross Income	14.4	11.8	11.3
Financing Costs	8.6	8.3	7.6
Risk Reserve			
Net contributions to/(from) Risk Reserve	(1.4)	(0.7)	(0.2)
Forecast Risk reserve balance at year end	3.6	2.9	2.7

COUNCIL TAX

In year Council Tax movements	Council Tax Collection Fund P6 (£000's)	Council Tax Collection Fund P8 (£000's)	Trafford's Share P8 (£000's)	Movement in Trafford's share since P6 (£000's)
Shortfall in Tax Base	949	881	716	55
Local Council Tax Support Scheme	(836)	(739)	(601)	(79)
Release from bad debt provision following a review of historic debt	(1,200)	(1,200)	(975)	0
Other Movements (Backdated discounts etc.)	200	104	85	78
Discretionary awards under Council Tax Support Scheme*	347	347	277	0
Contribution from Support Fund Grant	(347)	(347)	(277)	0
Total In Year Position (Surplus)/Deficit	**(887)**	**(954)**	**(775)**	**54**

(*) Cost of discretionary awards under the Council Tax Support Scheme are offset by a contribution from Support Fund Grant.

TRAFFORD COUNCIL

Report to: Accounts and Audit Committee
Date: 7 February 2024
Report for: Information
Report of: Audit and Assurance Manager

Report Title

Audit and Assurance Report for the Period October to December 2023.

Summary

The purpose of the report is:

- **To provide a summary of the work of Audit and Assurance during the period above.**
- **To provide ongoing assurance to the Council on the adequacy of its control environment.**

Recommendation

The Accounts and Audit Committee is asked to note the report.

Contact person for access to background papers and further information:

Name: Mark Foster – Audit and Assurance Manager
Email: mark.foster@trafford.gov.uk

Background Papers: None

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Audit and Assurance Service Report October to December 2023

Date: **January 2024**

1. Purpose of Report

This report summarises the work of the Audit and Assurance Service between October 2023 and December 2023 and highlights progress against the 2023/24 Internal Audit Plan to date. At the end of the year, these update reports will be brought together in the Annual Head of Internal Audit Report which will give the opinion on the overall effectiveness of the Council's control environment during 2023/24.

2. Planned Assurance Work

Key elements of the 2023/24 Work Plan, produced in March 2023, include:

- Fundamental Financial Systems reviews.
- Input to the Annual Governance Statement
- Continued input to and review of risk management arrangements and provision of guidance.
- Review of corporate procurement and value for money arrangements.
- Audit reviews in respect of ICT and information governance.
- Anti-fraud and corruption work, including the National Fraud Initiative.
- School audits and other establishment audit reviews.
- Grant claim certification work
- Audit reviews of other areas of business risk including audits of services and functions.
- Provision of guidance and advice to services across the Council.

3. Main areas of focus – October to December 2023

Work in the quarter included completing or progressing a number of planned financial system audits, service audits and school audits. There was also work completed to sign off the Disabled Facilities grant claim. All audit opinion reports and grant sign offs completed in the period are listed in Section 5 and other key areas of audit work undertaken (including in relation to the National Fraud Initiative) are referred to in Section 6.

4. Summary of Assurances October to December 2023

There were 9 internal audit opinion reports produced in the period (6 final reports and 3 draft reports).

In respect of the 6 final reports issued, "Substantial" or "Reasonable" levels of assurance were provided for all reviews (3 of which were Substantial and 3 Reasonable). Where any recommendations have been made, agreed action plans are in place to implement these.

Audit also completed checks in relation to 1 grant claim providing assurance from the Council that the grant conditions had been complied with. In addition, 1 advisory report was issued.

(See Section 5 for a listing of reports issued and grant checks completed, together with a summary of findings).

5. Summary of Audit & Assurance Opinions Issued – October to December 2023

(See Appendix 2 for details of Audit opinion levels, report levels and report status)

REPORT NAME (DIRECTORATE) / (PORTFOLIO) by Coverage Level (1-4)	-OPINION R/A/G -Date Issued	COMMENTS
FINAL REPORTS ISSUED		
Level 4 Reports:		
Accounts Payable (Finance and Systems) / (Finance, Change and Governance)	Reasonable* (15/11/23)	The review covered processes regarding the Council's Accounts Payable system covering controls in respect of the ordering and payments for goods and services, reconciliation processes and IT system controls. Audit testing found overall that processes were found to be working effectively. Of the 8 actions outstanding from the previous audit review, 2 have been implemented and 6 are in progress or have been met in part. As part of the planned system upgrade, there are plans to roll out user training. There is ongoing improvement work taking place to streamline accounts payable processes where possible to reduce manual processing. Audit will consider coverage of further developments in future audit plans.
Purchase Cards (Finance and Systems / Finance, Change and Governance)	Reasonable* (5/11/23)	Purchase cards are used across a number of services, generally to enable one-off or low value purchases, online purchasing or from suppliers where payment is required upfront. The RBS purchase cards are administered by the Accounts Payable Team. It was noted that whilst progress has been made regards each of the previous 6 recommendations, the Authority is planning to migrate to the Lloyds Purchase Card system later in 2024 and as part of this consideration is being given to the recommendations as part of the implementation of the new system. This includes developments in management reporting information, review of transaction limits and training and guidance available. Audit will consider coverage of further developments in future audit plans.
Level 3 Reports:		
Safety at Sports Grounds (Place) / (Communities and Safety)	Substantial (24/11/23)	The objective of the audit was to assess the arrangements the Council has in place for effective management of safety at sports grounds. It was reported that the Council could demonstrate appropriate responsibilities and procedures were in place to fulfil its statutory requirements, including the Safety at Sports Ground Act 1975 and the Fire Safety & Safety at Places of Sport Act 1987. A recommendation made to enhance existing arrangements was to publish the Council's Safety at Sports Grounds Policy on the website which has been implemented recently.
Level 2 Reports		
Cleaning Services (Strategy and Resources) / (Finance, Change and Governance)	Substantial (3/11/23)	The review of Cleaning Services covered performance management arrangements, financial management arrangements including budget monitoring; the arrangements for the use of purchase cards, including monitoring and control of expenditure; and control of equipment / assets and supporting records. It was noted that the introduction of the Quality Assurance Officer post and subsequent monitoring processes in January 2023, has been a positive factor in improving the performance management arrangements and ensuring that standards are being maintained. The Service is working to improve processes for maintaining inventories of equipment to ensure these are accurate and up to

		date.
Level 1 Reports:		
Oldfield Brow Primary School (Children's Services) / (Children and Young People)	**Reasonable** (5/12/23)	Overall, a good standard of internal control and governance was found to be in place across most areas covered by the audit. The school faces a challenging budgetary position, but it was noted that actions are being taken to address risks. A number of recommendations were made. These included in relation to procurement processes including in respect of obtaining quotes and tenders and the ordering and payment of goods and services.
Broomwood Primary School (Children's Services) / (Children and Young People)	**Substantial** (12/12/23)	A good standard of governance and internal control arrangements were found to be in place. A The school has a detailed financial procedures manual setting out its processes. A small number of recommendations were made which included ensuring all governors regularly complete a declaration of interests and also ensuring there are periodic checks of the inventory of IT assets and other equipment.
DRAFT REPORTS		
Level 3 Reports:		
Adults Social Care Payments (Adult Services) / (Health and Care)		A draft report setting out findings was shared with the Service in December 2023 with a view that a final report will be issued in the final quarter of 2023/24 and reported as part of the January to March 2024 Audit and Assurance update.
Level 1 Reports:		
Lostock High School (Children's Services) / (Children and Young People)		A draft report setting out findings from the review was shared with the Headteacher in December 2023. A final report is to be issued and is due to be reported as part of the January to March 2024 Audit and Assurance update.
St. Ann's RC Primary School (Children's Services) / (Children and Young People)		A draft report setting out findings from the review was shared with the Headteacher in December 2023. A final report is to be issued and is due to be reported as part of the January to March 2024 Audit and Assurance update.
OTHER REPORTS	**DATE COMPLETED**	**DESCRIPTION / COMMENTS**
GRANT CERTIFICATION: Disabled Facilities Grant (Adults' Services) / (Health and Care)		The purpose of the grant is to enable funding for providing adaptations to disabled people who qualify under the scheme. The grant allocation for 2022/23 was over £2.4m. Further to audit checks being undertaken, Audit and Assurance submitted a declaration to the Department for Levelling Up, Housing and Communities to state based on work undertaken that the conditions attached to the 2022/23 Disabled Facilities Grant had been complied with.
ADVISORY REPORT: STAR Procurement – Risk Based Sourcing	(9/10/23)	This advisory work focussed on procedures for risk based sourcing which applies to below threshold contracts aimed at identifying and encouraging local organisations who are capable of delivering such contracts. This was undertaken at the request of STAR Procurement and a findings report was shared and actions agreed with STAR. This has included the introduction by STAR of updated processes for the assessment of risks in respect of individual contracts, with the use of a contract criticality tool.
**Denotes this final report is a follow up audit – i.e. the main focus of the review was a follow up of recommendations made as*		

part of a previous internal audit review.

6. <u>Other Audit and Assurance Work</u>

In addition to the progression of internal audit reviews, other work undertaken during the period has included the following:

- Ongoing support to facilitate the review of the Council' strategic risk register (an update report was provided to CLT and the Accounts and Audit Committee in November 2023).
- Information provided to Financial Management in support of preparations for the tender of the insurance programme in April 2024.
- Advice provided to Exchequer Services regards controls in place in respect of applications made for funds from the Household Support Fund.
- Ongoing work in relation to the National Fraud Initiative as described below:

National Fraud Initiative (update as at January 2024)

The Audit & Assurance Service continues to co-ordinate the Council's participation in the statutory National Fraud Initiative (NFI) exercise. The NFI is a nationwide data matching exercise, designed to help participating bodies identify possible cases of error or fraud and detect and correct any consequential under or overpayments from the public purse. The exercise is a mandatory requirement for Local Authorities, which is co-ordinated by the Cabinet Office. The main exercise is carried out once every two years.

The Service has co-ordinated the submission of data, in liaison with other services across the Council. As part of the most recent major exercise, a number of datasets had been submitted through 2022/23. Following the release of these data matches from these submissions, work has been ongoing during 2023/24 to investigate these further.

As at 16 January 2024, a total of 1062 matches had been reviewed by officers covering data in relation to Payroll, Housing Benefit, Council Tax, Council Tax support, Creditor Payments and Blue Badges. A further 45 matches are currently being actively reviewed and further matches are expected to be reviewed over the coming months.

Of the matches reviewed to date, errors in payments have been identified in relation to 5 cases which amount to just under £16k. These have been in relation to Council Tax Support. These amounts are subject to recovery. Once the ongoing cases have been completed, it is anticipated that there will be an increase in the level of overpayments identified. The Audit & Assurance Service will continue to liaise with services across the Council and details of outcomes up to the end of the 2023/24 will be reported within the Annual Head of Internal Audit Report in June 2024.

7. <u>Impact of Audit Work – Improvements to the Control Environment</u>

Key indicators of the impact of Audit and Assurance are: (a) Acceptance of Recommendations (b) Implementation of them.

<u>Acceptance of Recommendations</u>

From the final audit opinion reports produced and issued by the Audit and Assurance Service during the quarter, all 30 recommendations made have been accepted. For the year to date up to 31 December 2023, 60 of the 61 recommendations made have been accepted. A number of other audits were in progress during the period and levels of acceptance of recommendations made in the subsequent reports will be reflected in the next Audit and Assurance update.

Implementation of Audit Recommendations

Internal audit reports are followed up to assess progress in implementing improvement actions identified through audit recommendations.

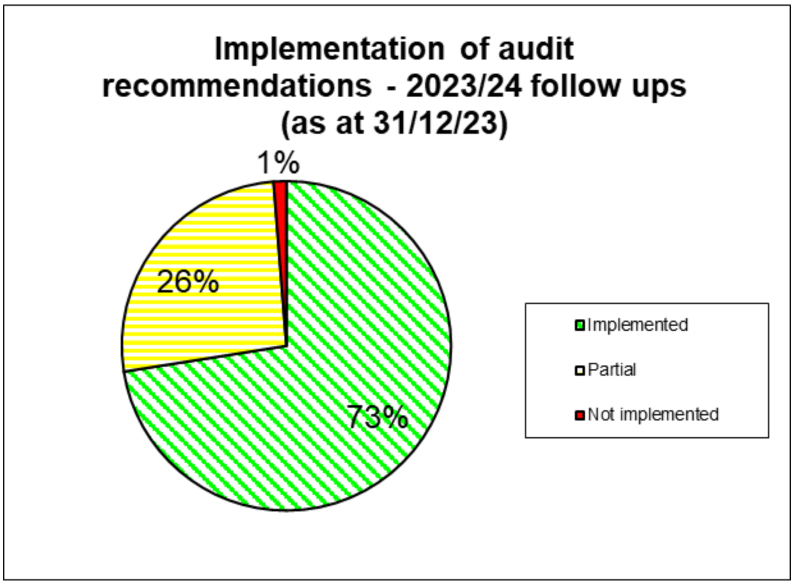
Final reports for 2 audits which included follow up of previous recommendations were produced (See Section 5 – Accounts Payable and Purchase Cards).

In respect of a previous audit of Council tax, 2 of the 3 previous recommendations had been implemented with 1 lower priority recommendation to be actioned.

In respect of 3 school audits previously completed , the relevant schools were requested to provide an update on progress in implementing audit recommendations made. The following details were reported:

- St. Anne's C of E Primary School - All of the 4 previous recommendations had been implemented.
- Well Green Primary School – All of the 3 previous recommendations had been implemented.
- Sale High School – All of the 4 previous recommendations had been implemented.

An overall analysis of audit recommendations followed up in 2023/24 to date is shown on the following chart. This is based on follow ups up to 31 December 2023, covering a total of 80 recommendations.



8. Performance against Audit & Assurance Annual Work Plan

Progress to date:

Appendix 1 shows a summary of work completed as at 31 December 2023 against planned in respect of the 2023/24 Operational Internal Audit Plan.

As part of the Internal Audit Plan, a target of 30 audit reports was set (comprising opinion reports, advisory reports and grant sign-offs) to be completed in 2023/24 to final or draft stage. Based on progress to date, it is expected that this target is on track to be achieved - As at the end of the 3rd quarter of the year, a total of 23 reports (77% of the annual target) had been produced to final or draft stage (17 final audit opinion reports, 4 draft audit opinion reports, 1 advisory report and 1 grant sign-off). A further 7 reviews were in progress.

The next update on progress against the 2023/24 Internal Plan, including reports issued, will be included in an update for Quarter 4 which will be included in the 2023/24 Annual Head of Internal Audit Report to be shared with CLT and the Accounts and Audit Committee in June 2024. This will also include an analysis of client survey responses to internal audit work.

9. <u>Planned Work for January to March 2024</u>
Areas of focus include :
• Issue of final reports for audits in progress including Business Rates, Adults Social Care Payments, Adults' Direct Payments, Children's Social Care Payments, Licensing, IT Service management application (Freshservice), Lostock High School, St. Ann's RC Primary School and Blessed Thomas Holford Catholic College. • 2024/25 Internal Audit Plan to be presented to CLT and the Accounts and Audit Committee for approval in March 2024. Where appropriate, this will include any audits rescheduled from the current year in agreement with relevant services. • In liaison with CLT, report on a further update of the strategic risk register with an update report due to be shared with the Accounts and Audit Committee in March 2024. • Commence a recruitment exercise following the departure of a Principal Audit and Assurance Officer in January 2024.

APPENDIX 1

2023/24 Operational Plan: Planned against Actual Work (as at 31 December 2023)

Category	Planned work	Work completed (as at 31/12/23)	2023/24 IA Plan
Financial Systems Page 154	**Completion of fundamental financial systems audit reviews** **Audit Opinion Reports planned to be issued per 2023/24 Plan:** **- Treasury Management** **- Adult Social Care Payments** **- Children's Social Care Payments** **- Business Rates** **- Accounts Receivable/Debt Recovery** **- Budgetary Control** **- Accounts Payable** **- Adult Direct Payments** **Other work completed:** **- Purchase Cards**	 -Final report issued 20/4/23 -Draft findings shared -Draft findings shared -In progress -In progress - -Final report issued 15/11/23 -In progress -Final report issued 15/11/23	 -Completed -Final report to be issued Q4 -Final report to be issued Q4 -Draft report to be issued Q4 -Findings to be shared Q4 -Planning to commence Q4 -Completed -Final report be issued Q4. Completed
Governance	**Corporate Governance / AGS – to liaise with Legal and Governance, including providing comment on processes supporting the AGS, and its content with reference to the CIPFA/SOLACE Governance framework and guidance.** **Advice / assurance in respect of governance issues and ongoing liaison with services to consider further audit reviews.**	-Work to date has included liaising with Legal and Governance providing feedback on, and input to, the content of the Final AGS issued in September 2023.	-Support in Q4 to planning AGS process for 2023/24. Other advice as required.
Corporate Risk Management	**Facilitating, and reviewing the effectiveness of, the maintenance of the Council's strategic risk register.** **Actions to support the Council's Risk Management Strategy including provision of guidance, independent review of existing risk management arrangements and, where applicable, recommend areas for development.** **Audit Opinion Reports to be issued include the following:**	-Facilitated strategic risk update report presented to Accounts and Audit Committee meetings in June and November 2023. (See Service Advice/Project Support below re risk management guidance)	-Further strategic risk update to the March 2024 Accounts and Audit Committee.

	- **Corporate health and safety (Strategy and Resources/Authority-Wide)** - **Business Continuity Follow-up review (Authority-wide)**	- Final report issued 8/6/23 - Ongoing liaison with Service re progress on previous recommendations.	-Completed -Further time to be allocated in 2024/25 Internal Audit Plan to review progress.
Anti-Fraud and Corruption	**Co-ordinate the Council's activity in respect of the National Fraud Initiative (NFI)) in accordance with Cabinet Office requirements.** **Contributing to investigations of referred cases of suspected theft, fraud or corruption.** **Other work to support the Anti-Fraud and Corruption Strategy, including working with other relevant services to review existing strategy, policies and guidance.**	-Ongoing progress in liaison with other services in relation to NFI and any associated investigation work. Outcomes to date reported in Section 6 of this report. -Liaison between Internal Audit and Counter Fraud teams to review and update internal guidance re investigation procedures	-Outcomes from NFI and associated investigative work to be reported in the 2023/24 Annual Head of Internal Audit Report (June 2024). -Awareness raising regards anti-fraud to be included in 2024/25 Internal Audit Plan
Procurement / Contracts/ Value for money	**Review of procurement / contract management arrangements including systems in place and associated arrangements to secure value for money (Work will include liaison with the STAR Procurement Service and partner authority auditors).** **Audit Opinion Reports to include:** **STAR:** - **STAR billing and income collection procedures (Lead Council – Tameside Council)** - **Social Value (Lead: Trafford Council)** - **Risk Based Sourcing (Lead: Trafford Council)** **Other:** - **Parking Enforcement** - **Joint Ventures (Bruntwood)**	-In progress - - Advisory report shared with STAR Procurement 9/10/23 - -	-Final report to be issued Q4 -Rescheduled at request of Service. To commence planning at end of Q4. -Completed. -Rescheduled to 2024/25 at request of Service. -Liaison with service in Jan. 2024 with scope of any work to be agreed in Q4.
Information Governance / Information, Communications	**ICT and Information governance audit reviews and advice.** **Planned audit coverage is subject to review. Currently planned:** **- Post implementation review of the IT Service Management application,**	-In progress	-Final report to be issued Q4.

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and Technology	**Freshservice.** **- See Service Advice below re cyber security in schools** **(Other reviews to be added to audit plan later in liaison with IT in early 2024)**		
Schools Page 156	**Providing assurance on the control environment within schools, supporting schools in ensuring awareness of requirements within the DfE Schools' Financial Value Standard. Audit reviews of schools:** **At least 10 school audits to be undertaken during the year (Children's Services). Audits include:** **- Brentwood** **- Broadheath Primary** **- Springfield Primary** **- Oldfield Brow Primary** **- Broomwood Primary** **- Lostock High School** **- St. Ann's RC Primary** **- Blessed Thomas Holford** **- Templemoor Infant** **- All Saints Catholic Primary** **Follow-up of progress for school audits completed in 2022/23:** **Follow-up audit:** **-Trafford Alternative Education** **Management updates to be received from 10 schools on progress made in implementing previous recommendations.**	 -Final report issued 29/9/23 -Final report issued 25/9/23 -Final report issued 4/8/23 -Final report issued 5/12/23 -Final report issued 12/12/23 -Draft findings produced -Draft findings produced -In progress - - -Final report issued 22/6/23 -Follow-up progress updates completed for 9 schools to date (See Section 7 and previous Q1 and Q2 update reports). (Also see Service Advice/Project Support below)	 -Completed -Completed -Completed -Completed -Completed -Final report to be issued Q4 -Final report to be issued Q4 -Draft report to be issued Q4 -Audit to commence Q4 -Audit to commence Q4 -Completed -Updates to be received from 1 other school in Q4.
Assurance – Other Strategic and Service Risks	**Audits selected on the basis of risk from a number of sources including senior managers' recommendations, risk registers and internal audit risk assessments. Reviews include authority wide issues and areas relating to individual services, establishments and functions. Includes new audit reviews, follow up audits and gaining assurance from service updates.** **Audit opinion reports to include the following:** - **Supporting Families (Children's**	 -Final report issued 28/4/23	 -Completed

	Services)		
	- **Home to School Transport (Children's Services)**	- Liaison with Service re progress on previous recommendations.	-Further work to be considered as part of 2024/25 Planning
	- **Adult Safeguarding (Adult Services)**	-	-Timing to be considered as part of 2024/25 Audit Planning.
	- **Deprivation of Liberty Safeguards (Adult Services)**	-	-Timing to be considered as part of 2024/25 Audit Planning
	- **Safety at Sports Grounds (Place)**	-Final report issued 24/11/23	-Completed
	- **Outdoor Advertising (Place)**	-Final report issued 25/5/23	-Completed
	- **Let Estates (Place)**	-Final report issued 13/4/23	-Completed
	- **Building Control (Place)**	-	-Planning to commence Q4
	- **Housing Standards (Place)**	-	-Planning to commence Q4
	- **Tree Unit (Place)**	-	-Rescheduled to 2024/25 at request of Service.
	- **Licensing (Place)**	-In progress	-Final report to be issued Q4
	- **Sale Waterside Arts Centre (Strategy and Resources)**	-Final report issued 24/8/23	-Completed
	- **Bereavement Services (Strategy and Resources)**	-Final report issued 17/5/23	-Completed
	- **Cleaning Services (Strategy and Resources)**	-Final report issued 3/11/23	-Completed
	- **Schools' Catering (Strategy and Resources)**	-	-Planning to commence Q4
	- **Blue Badges (Strategy and Resources)**	-	-Planning to commence Q4
	- **Recruitment Services (Strategy and Resources)**	-	-Rescheduled to 2024/25 at request of Service
	Other reviews planned to commence by the end of Q4 2023/24 with reports to be issued in 2024/25:		
	- **School Places/Admissions (Children's Services)**	-	-Planning to commence Q4
	- **Hayeswater Contact Centre (Children's Services)**	-	-To be considered as part of 24/25 Internal Audit Plan
	- **Section 106 / Community Infrastructure Levy (Place)**	-	-Rescheduled to 2024/25 at request of Service
Grant claims checks / Data Quality	**Internal audit checks of grant claims / statutory returns and other checks as required.** **Audit and Assurance to be advised through the year of grant claims, review work and other returns to be checked/signed off. To include:** **- Disabled Facilities Grant**	-Grant check/sign off completed 18/10/23	-Completed

	- Other	**-**	-To be advised of other returns during the remainder of 2023/24.
Service Advice / Project Support	**General advice and guidance, both corporately and across individual service areas. Support and advice to the organisation in contributing to working groups and projects in relation to governance, risk and control issues.**	Work undertaken up to 31/12/23 includes: -Cyber Security guidance issued to schools through the Trafford school's weekly newsletter in July 2023. -Risk management guidance updated on intranet in April 2023 to reflect updates to the strategic risk register reporting format. -Advice provided to Exchequer Services regards controls in place in respect of applications made for funds from the Household Support Fund.	 -Completed -Completed -Advisory report to be issued January 2024

APPENDIX 2

POINTS OF INFORMATION TO SUPPORT THE REPORT:

Audit Opinion Levels (RAG reporting) :

Opinion – General Audits

Substantial Assurance	**Green**
Reasonable Assurance	**Green**
Limited Assurance	**Amber**
Low or No Assurance	**Red**

An opinion is stated in each audit report to assess the standard of the control environment.

Report Status:

Draft reports:
These are issued to managers prior to the final report to provide comments and finalise agreed responses to audit recommendations.

Final reports:
These incorporate management comments and responses to audit recommendations, including planned improvement actions.

Breadth of coverage of review (Levels 1 to 4)

Provides an indication as to the nature / breadth of coverage of the review in terms of which aspects of the organisation's governance and control environment it relates to. Levels are as follows:

- **Level 4: Key strategic risk or significant corporate / authority wide issue** - Area under review directly relates to a strategic risk or a significant corporate / authority wide issue or area of activity.
- **Level 3: Directorate wide** - Area under review has a significant impact within a given Directorate.
- **Level 2: Service wide** - Area under review relates to a particular service provided or service area which comprises for example a number of functions or establishments.
- **Level 1: Establishment / function specific** - Area under review relates to a single area such as an establishment.

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TRAFFORD COUNCIL

Report to:	**Accounts and Audit Committee**
Date:	**7 February 2024**
Report for:	**Information**
Report of:	**Audit and Assurance Manager**

Report Title

Accounts and Audit Committee – Work Programme – 2023/24

Summary

This report sets out the work plan for the Committee for the 2023/24 municipal year.

It outlines areas to be considered by the Committee at each of its meetings, over the period of the year. The work programme helps to ensure that the Committee meets its responsibilities under its terms of reference and maintains focus on key issues and priorities as defined by the Committee.

The work programme is flexible and can have items added or rescheduled if this ensures that the Committee best meets its responsibilities.

Recommendation

The Accounts and Audit Committee is asked to note the 2023/24 work programme.

Contact person for access to background papers and further information:

Name: Mark Foster – Audit and Assurance Manager
Email: mark.foster@trafford.gov.uk

Background Papers: None

Committee Meeting Dates	Areas of Responsibility of the Committee					
	Internal Audit	**External Audit**	**Risk Management**	**Governance (including Annual Governance Statement)**	**Anti- Fraud & Corruption Arrangements**	**Accounts / Financial Management**
21 June 2023	Agree Committee’s Work Programme and consider training in 2023/24					
	- 2022/23 Head of Internal Audit Annual Report -External Assessment of Internal Audit	- External Audit Progress Report	- Strategic Risk Register Report	- 2022/23 Draft Annual Governance Statement - Accounts and Audit Committee 2022/23 Annual Report to Council		-2022/23 Revenue Budget Monitoring Outturn and Capital Investment Programme Outturn Reports
27 September 2023	Training briefing – Understanding the Prudential Indicators.					
	- Internal Audit Monitoring Report (Q1 2023/24)	- 2021/22 Audit Completion Report	- Strategic risk update: School Places.	- 2022/23 Annual Governance Statement	- Counter Fraud Team Update Report	-Annual Statement of Accounts 2021/22 -Treasury Management update (Annual Performance Report 2022/23) - 2023/24 Budget Monitoring, project updates and Prudential Indicator Reports (Period 4)

Committee Meeting Dates	Areas of Responsibility of the Committee					
	Internal Audit	**External Audit**	**Risk Management**	**Governance (Including Annual Governance Statement)**	**Anti- Fraud & Corruption Arrangements**	**Accounts/Financial Management**
23 November 2023	- Internal Audit Monitoring Report (Q2 2023/24)	- 2021/22 Auditor's Annual Report - 2021/22 Audit Completion Follow-up Letter	- Strategic Risk Register Report. (See Financial Management – Insurance Performance 2022/23)			- Treasury Management : 2023/24 Mid-Year Performance Report - 2022/23 Insurance Performance Report -Financial Management Code Update - 2023/24 Budget Monitoring, project updates and Prudential Indicator Reports, Period 6

Committee Meeting Dates	Areas of Responsibility of the Committee					
	Internal Audit	**External Audit**	**Risk Management**	**Governance (Including Annual Governance Statement)**	**Anti- Fraud & Corruption Arrangements**	**Accounts/Financial Management**
7 February 2024	Treasury Management (Briefing session arranged on 23 Jan 2024, ahead of the February 2024 Committee meeting)					
	- Internal Audit Monitoring Report (Q3 2023/24)	-External Audit Update	- Strategic risk update: Cyber Security		(National Fraud Initiative update, within Internal Audit monitoring report)	- Asset Investment Strategy Update - Treasury Management Strategy - 2023/24 Budget Monitoring, project updates and Prudential Indicator Reports (Period 8) - Procurement update (STAR)
1[illegible] March 2024						
	- 2024/25 Internal Audit Plan - Internal Audit Charter and Strategy	- External Audit Update	- Strategic Risk Register Report - Strategic risk update: Climate change	- Update on arrangements for 2023/24 Annual Governance Statement		- 2023/24 Budget Monitoring, project updates and Prudential Indicator Reports (Period10) -Accounting Policies -Briefing on High Needs Funding Block