Riverside, 4 Canning Road, Lowestoft, Suffolk,
NR33 0EQ

# Audit and Governance Committee	**Members:** Councillor Geoff Lynch (Chairman) Councillor Tony Cooper (Vice-Chairman) Councillor Judy Cloke Councillor Linda Coulam Councillor Louise Gooch Councillor Chris Mapey Councillor Mick Richardson Councillor Rachel Smith-Lyte Councillor Ed Thompson

Members are invited to a **Meeting of the Audit and Governance Committee** to be held in the Conference Room, Riverside, on **Monday, 12 December 2022** at **6.30pm**

This meeting will be broadcast to the public via the East Suffolk YouTube Channel at https://youtu.be/NwlS56HlCYM

An Agenda is set out below.

Part One – Open to the Public

Pages

---

1 Apologies for Absence

To receive apologies for absence and substitutions.

Part Two – Exempt/Confidential

Pages

12 Internal Audit Status of Actions

- Information relating to the financial or business affairs of any particular person (including the authority holding that information).

13 Internal Audit Reports Recently Issued (Exempt)

- Information relating to the financial or business affairs of any particular person (including the authority holding that information).

Close

Stephen Baker, Chief Executive

Filming, Videoing, Photography and Audio Recording at Council Meetings The Council, members of the public and press may record / film / photograph or broadcast this meeting when the public and press are not lawfully excluded. The Council cannot guarantee public seating areas will not be filmed or recorded. By entering the Conference Room and sitting in the public seating area, those present will be deemed to have consented to the possible use of filmed images and sound recordings. If you do not wish to be recorded, please speak to a member of the Democratic Services team at the earliest opportunity.
If you require this document in large print, audio or Braille or in a different language, please contact the Democratic Services Team on 01502 523521 or email: democraticservices@eastsuffolk.gov.uk
The national Charter and Charter Plus Awards for Elected Member Development East Suffolk Council is committed to achieving excellence in elected member development www.local.gov.uk/Community-Leadership

Unconfirmed

Agenda Item 3

Minutes of a Meeting of the **Audit and Governance Committee** held in the Deben Conference Room, East Suffolk House, on **Monday, 12 September 2022** at **6:30 PM**

Members of the Committee present:
Councillor Judy Cloke, Councillor Tony Cooper, Councillor Linda Coulam, Councillor Louise Gooch, Councillor Geoff Lynch, Councillor Ed Thompson

Other Members present:
Councillor Edward Back, Councillor Maurice Cook

Officers present: Matt Makin (Democratic Services Officer), Siobhan Martin (Head of Internal Audit Services), Marie McKissock (Finance Manager Compliance), Brian Mew (Chief Finance Officer & Section 151 Officer), Phillip Ridley (Head of Planning and Coastal Management), Lorraine Rogers (Deputy Chief Finance Officer), Alli Stone (Democratic Services Officer), Julian Sturman (Specialist Accountant – Capital and Treasury Management), Ben Woolnough (Planning Manager - Development Manager), Frances Wykes (Principal Auditor)

---

1 Apologies for Absence and Substitutions

Apologies for absence were received from Councillor Mick Richardson and Councillor Rachel Smith-Lyte. There were no substitutions.

2 Declarations of Interest

There were no Declarations of Interest.

3 Minutes - 25 July 2022

On the proposition of Councillor Coulam, seconded by Councillor Cloke with was by a majority vote

RESOLVED

That the Minutes of the Meeting held on 25 July 2022 be agreed as a correct record and signed by the Chairman.

4 Update from Ernst & Young

This item was removed from the agenda due to there being no significant change since the Committee's last meeting.

5 Treasury Management Outturn 2021/22 and Mid-Year 2022/23 Report

The Committee received report **ES/1271** of Councillor Maurice Cook, the Cabinet Member with responsibility for Resources, which provided a mid-year report on the Treasury Management function including prudential indicators for 2021/22 and a mid-year review of 2022/23.

Councillor Cook introduced the report and summarised the investments for 2021/22 which totalled £143.37million at 31 March 2022, borrowing which totalled £65.81million and £1.08million received in interest. Councillor Cook confirmed that East Suffolk Council had operated within its approved Prudential Indicator Limits for 2021/22.

Councillor Cook summarised activity for the first half of the 2022/23 year. As at 31 August 2022, investments totalled £147.5million and £0.30million had been received in interest. Councillor Cook noted that the Council continued to ensure security and make investments which met the ethical investment criteria.

The Chairman commented that whilst the Council was receiving more than expected in interest, there would be higher costs related to borrowing. With regards to investment, the Chairman asked if the table provided at Appendix A could be expanded to help the Committee make sense of where the Council was investing, as there had been some recent news stories about other Councils taking on a great deal of debt through inter authority loans. Officers confirmed they were aware of this and would amend this report going forward to provide the necessary detail.

There being no further questions, it was on the proposition of Councillor Coulam, seconded by Councillor Cooper and by a unanimous vote

RESOLVED

1. That having commented on the report, the Audit and Governance Committee note the Annual Report on the Council's Treasury Management activity for 2021/22 incorporating the Mid-Year review for 2022/23.
2. That having commented on the report, the Audit and Governance Committee note Prudential Indicators Outturn position for 2021/22 in Appendix B

6 Code of Corporate Governance

The Committee received report **ES/1272** of Councillor Maurice Cook, the Cabinet Member with responsibility for Resources and Councillor Edward Back, the Assistant Cabinet Member for Resources, which detailed the refreshed Code of Corporate Governance.

The Head of Internal Audit summarised the report and highlighted the seven core principles of public sector governance and how they related to one another. The Head of Internal Audit noted that the format of the Code of Corporate Governance had changed to show which of the Councils documents and governance arrangements supported each principle.

The Chairman stated that this was an important document for the Council to ensure good governance and invited questions and comments.

Councillor Gooch referred to the principle concerning openness and comprehensive stakeholder engagement and asked how the Council was engaging with stakeholders who did not have access to the internet or social media. Officers confirmed that the Council did not solely rely on online engagement, and action was being taken in this area particularly with regards to cost of living projects.

Councillor Gooch asked if the connection between these principles and the Nolan Principles could be made clearer. Officers confirmed that the Nolan Principles underpinned everything in the document, and they would amend the document to make this clearer.

There being no further questions, on the proposal of Councillor Cloke and seconded by Councillor Gooch it was by a unanimous decision

RESOLVED

That having commented upon the upon the refreshed Code of Corporate Governance, the Audit and Governance Committee recommend to Full Council that it adopts the refreshed Code of Corporate Governance attached at Appendix A to this report.

7 Internal Audit Reports Recently Issued

The Committee received report **ES/1273** of Councillor Maurice Cook, the Cabinet Member with responsibility for Resources and Councillor Edward Back, the Assistant Cabinet Member for Resources which related to recently issued Internal Audit Reports.

The Head of Internal Audit introduced the report and advised that one report had been issued regarding Key Financial Controls 2021/22, and an effective opinion had been given with one recommendation.

The Chairman invited questions and comments.

Councillor Cooper referred to the recommendation which had been made and asked how this was progressing. Officers confirmed that this had a completion date of the end of September, and audit would follow up after this date and report back to the Committee as appropriate.

Councillor Gooch referred to the lack of awareness from budget holders on variances and overspend and asked if this issue had been identified by budget holders themselves or audit. Officers confirmed that this had been raised by audit, and a training programme was being rolled out to bring all budget holders up to the same level of understanding.

Councillor Coulam questioned whether there was an end date for the review of housing rents. Officers responded that they did not have this at present but would follow up and confirm the end date.

There being no further questions, on the proposal of Councillor Cooper and seconded by Councillor Thompson, it was by a unanimous vote

RESOLVED

That having commented upon the Key Financial Controls 21/22 report, the Audit and Governance Committee note its contents.

8 Audit and Governance Committee's Forward Work Programme

The Chairman stated that the agenda for December was looking full at this point and asked that Officers be mindful of their workload and defer reports to other meetings as appropriate.

The Chairman stated that an extraordinary meeting would be considered for January to help manage the work programme if necessary.

9 Exempt/Confidential Items

On the proposal of Councillor Coulam, seconded by Councillor Thompson it was by a unanimous vote

RESOLVED

It is recommended that under Section 100A(4) of the Local Government Act 1972 (as amended) the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Act.

10 Exempt minutes - 25 July 2022

- Information relating to the financial or business affairs of any particular person (including the authority holding that information).

11 Update on the use of Purchase Orders

- Information relating to the financial or business affairs of any particular person (including the authority holding that information).

13 Internal Audit Status of Actions

- Information relating to the financial or business affairs of any particular person (including the authority holding that information).

14 Internal Audit Reports Recently Issued (Exempt)

- Information relating to the financial or business affairs of any particular person (including the authority holding that information).

The meeting concluded at TBC

…………………………………………..
Chairman

Agenda Item 4

ES/1371

EAST SUFFOLK COUNCIL

AUDIT & GOVERNANCE COMMITTEE

Monday, 12 December 2022

Subject	**CAPITAL STRATEGY 2023/24 TO 2026/27**
Report by	Councillor Maurice Cook Cabinet Member with responsibility for Resources
Supporting Officer	Brian Mew Chief Finance Officer and Section 151 Officer Brian.mew@eastsuffolk.gov.uk

Is the report Open or Exempt?	OPEN

Category of Exempt Information and reason why it is **NOT** in the public interest to disclose the exempt information.	Not applicable
Wards Affected:	All Wards

Purpose and high-level overview

Purpose of Report:
The Capital Strategy (***Appendix A***) gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services in East Suffolk, along with an overview of how associated risk is managed and the implications for future financial sustainability
Options:
To comply with the CIPFA Prudential code the report is required to be produced and presented to members, and consequently, no other options have been considered.

Recommendation/s:
That having reviewed and commented on the Capital Strategy 2023/24 to 2026/27 the Audit and Governance Committee recommends it to Full Council for approval.

Corporate Impact Assessment

Governance:
The report complies with the Charted Institute of Public Finance and Accountancy (CIPFA) Prudential Code to provide information and scrutiny on the Council's Capital Strategy.
ESC policies and strategies that directly apply to the proposal:
East Suffolk Council Strategic Plan
Environmental:
No impacts.
Equalities and Diversity:
No impacts.
Financial:
Management of the Council's capital budget plans and the impact on the council's cash flows transactions.
Human Resources:
No impacts.
ICT:
No impacts.
Legal:
No impacts.
Risk:
Non-compliance with CIPFA's Prudential Code

External Consultees:	None

Strategic Plan Priorities

Select the priorities of the Strategic Plan which are supported by this proposal: *(Select only one primary and as many secondary as appropriate)*		Primary priority	Secondary priorities
T01	**Growing our Economy**		
P01	Build the right environment for East Suffolk	☐	☐
P02	Attract and stimulate inward investment	☐	☐
P03	Maximise and grow the unique selling points of East Suffolk	☐	☐
P04	Business partnerships	☐	☐
P05	Support and deliver infrastructure	☐	☐
T02	**Enabling our Communities**		
P06	Community Partnerships	☐	☐
P07	Taking positive action on what matters most	☐	☐
P08	Maximising health, well-being, and safety in our District	☐	☐
P09	Community Pride	☐	☐
T03	**Maintaining Financial Sustainability**		
P10	Organisational design and streamlining services	☐	☐
P11	Making best use of and investing in our assets	☐	☒
P12	Being commercially astute	☐	☒
P13	Optimising our financial investments and grant opportunities	☐	☒
P14	Review service delivery with partners	☐	☐
T04	**Delivering Digital Transformation**		
P15	Digital by default	☐	☐
P16	Lean and efficient streamlined services	☐	☐
P17	Effective use of data	☐	☐
P18	Skills and training	☐	☐
P19	District-wide digital infrastructure	☐	☐
T05	**Caring for our Environment**		
P20	Lead by example	☐	☐
P21	Minimise waste, reuse materials, increase recycling	☐	☐
P22	Renewable energy	☐	☐
P23	Protection, education, and influence	☐	☐
XXX	**Governance**		
XXX	How ESC governs itself as an authority	☒	☐
How does this proposal support the priorities selected? Production of the Capital Strategy is a requirement under the CIPFA Prudential Code demonstrating the Council's governance of its capital plans.			

Background and Justification for Recommendation

1	Background facts
1.1	The Capital Strategy (Appendix A) gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services in East Suffolk, along with an overview of how associated risk is managed and the implications for future financial sustainability.

2	Current position
2.1	Section 2 of the Strategy outlines the draft Capital Programme 2023/24 to 2026/27 and the way in which it is to be financed. The overall planned expenditure is £461.30 million (General Fund £378.67m and HRA £82.63m) over 2022/23 to 2026/27. The 2023/24 planned capital expenditure is £121.04 million (General Fund £86.10m and HRA £34.94m).
2.2	Section 3 of the Strategy refers to the Asset Management Strategy, this highlights the treatment of asset disposals and the continuation of the prudent policy of not anticipating capital receipts before they are received.
2.3	Section 4 covers Treasury Management, including both borrowing and investments. Treasury Management is a well-established Council activity that operates within a tightly controlled framework.
2.4	Section 5 presents the Council's approach to Service Investments and the joint venture commitments with the Norse Group for a package of services including Refuse Collection, Cleansing and Maintenance.
2.5	Section 6 explores the Council's other financial liabilities, both in terms of existing commitments (e.g., the Pension Fund deficit) and guarantees.
2.6	Section 7 explores the in-built revenue implications within the Capital Programme, its financing costs and evaluates its overall "prudence, affordability and sustainability".
2.7	Section 8 explains how the Strategy is underpinned by a systematic approach to obtaining and maintaining the necessary knowledge and skills required, to operate effectively, whilst (simultaneously) adequately protecting the Council's financial risk exposure and wider interests.
2.8	The Strategy concludes in Section 9 which includes an explicit statement by the CFO in accordance with the Prudential Code, providing assurance to Members that the Capital Strategy as a whole is affordable, and that risk has been identified and is being adequately managed. It also provides an update on the proposed implementation in the revision to the Prudential Code which is currently completing the consultation stage.

3	How to address current situation
3.1	The Capital Strategy is a critical component in the delivery of many ambitions included within the Strategic Plan. It is not only essential to achieving one of the three overarching strategic priorities of the Plan ("Financial Sustainability") but is also vital in the delivery of a vast range of service development and delivery initiatives.

4	Reason/s for recommendation
4.1	To enable the Audit & Governance Committee to review the Capital Strategy, including obtaining a recommendation for approval to Full Council.

Appendices

Appendices:	
Appendix A	Capital Strategy 2023/24 to 2026/27

Background reference papers:
None

APPENDIX A

East Suffolk Council

Capital Strategy 2023/24 – 2026/27

1) Introduction

1.1 This Capital Strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services in East Suffolk, along with an overview of how associated risk is managed and the implications for future financial sustainability. It has purposely been written in an accessible style to enhance understanding of what can be very technical areas.

2) Capital Expenditure and Financing

2.1 Expenditure

2.1.1 Capital expenditure occurs when the Council spends money on assets such as property or vehicles, which will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example individual assets costing below £10,000 are not capitalised and are charged to revenue in year.

2.1.2 Further details on the Council's capitalisation policy can be found in the 2021/22 Draft Statement of Accounts:

- Note 1 (n)

2.1.3 In 2023/24, East Suffolk Council is planning total capital expenditure of £46.44 million (and £414.86 million over the next four years) as summarised in Table 1 below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure

	2022/23 budget	**2023/24 budget**	**2024/25 budget**	**2025/26 budget**	**2026/27 budget**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
General Fund Services	39,802	86,102	81,244	83,029	88,490
Council Housing (HRA)	6,639	34,941	15,672	12,690	12,690
TOTAL	**46,441**	**121,043**	**96,916**	**95,719**	**101,180**

2.1.4 The main General Fund capital projects scheduled for 2023/24 are as follows:

- *Felixstowe Beach Village (£1.5 million)* - Construction and development of Felixstowe Beach Village
- *Felixstowe North - Garden Neighbourhood Regeneration Project (£6.0 million)* - Provision within the programme to provide a new leisure centre and associated infrastructure. This project will require significant borrowing therefore a business case will be presented to Council in respect of further progression of the Leisure Centre element of the project and prior to any further commitment in tendering for construction and entering into new borrowing for the project.
- *Felixstowe South – public realm (£2.0 million)* - Development of South Seafront area in Felixstowe.

- *Lowestoft Barnards Way (£2.75 million)* – redevelopment of site to provide start up units.
- *Lowestoft Corton & North Corton Hybrid Scheme (£7.0 million)* - works to part remove and part rebuild defences to the north of Corton Village in line with 2010 Shoreline Management Plan policy.
- *Lowestoft LUF £4.0 million)* – continuation of Lowestoft Seafront redevelopment and subject to grant funding being secured
- *Lowestoft Flood Risk Management/Tidal Barrier (£14.81 million)* – construction of tidal walls and barrier for the protection of Lowestoft against tidal surges.
- *Lowestoft Towns Fund (£9.89* million) - Towns Fund Grant investment of £24.9m in projects to regenerate the town, driving economic growth and acting as a catalyst for future investment
- *Newcombe Road, Lowestoft (£1.9 million)* – redevelopment of site to provide start up units to facilitate regeneration in Lowestoft.
- *Operational vehicles and Grounds Equipment (£5.25 million)* – replacement programme of operational vehicles and equipment.
- *Port Health – (£1.1 million)* – System investment for PRS/Neoma projects
- *Pakefield Coastal Resilience project (£1.79 million)* - Flood and Coastal Resilience Innovation Programme funded by the Environment Agency
- *Resilient Coast Projects £7.30 million)* - Flood and Coastal Resilience Innovation Programme funded by the Environment Agency
- *Railway Building, Lowestoft (£1.7 million)* – Purchase and development of building contained within the Railway site.
- *Southwold Caravan Site (£1.6 million)* – redevelopment and enhancement of the Caravan site.
- *Southwold Harbour Pier (£6.0 million)* – enhancement of the pier and subject to grant funding.

2.1.5 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that the Council's housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately.

2.1.6 Capital investments include loans and shares made for service purposes and property to be held primarily for financial return in line with the definition in the CIPFA Treasury Management Code.

2.2 Governance

2.2.1 The evaluation, prioritisation, and acceptance of capital schemes onto the Capital Programme is carried out in accordance with strict criteria that ensures that new schemes reflect Council priorities and can be delivered within available resources (e.g., due priority is given to schemes yielding savings and/or generating income as well as meeting a Council priority). Proposals are shaped by senior managers in consultation with councillors and considered at the Head of Service budget meetings (in October/November each year) which also includes the Strategic Director responsible for the service area, the Chief Finance Officer (CFO) and relevant members of the finance team. The Head of Housing budget meeting also considers the HRA capital programme.

2.2.2 The draft Capital Programme is then subjected to formal Scrutiny prior to setting the budget followed by Full Council approval.

2.3 Financing

2.3.1 All capital expenditure must be financed, either from external sources (Government grants and other contributions), the Council's own resources (revenue, reserves, and capital receipts) or debt (borrowing and leasing). The planned financing of the above expenditure is presented in Table 2 below.

Table 2: Capital Financing

	2022/23 budget	**2023/24 budget**	**2024/25 budget**	**2025/26 budget**	**2026/27 budget**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
External sources (Grants)	21,569	52,002	50,406	51,849	86,810
Revenue resources	12,675	43,166	17,577	12,745	13,495
Debt	12,197	25,875	28,933	31,125	875
TOTAL	**46,441**	**121,043**	**96,916**	**95,719**	**101,180**

2.3.2 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as "Minimum Revenue Provision" (MRP).

Table 3: Replacement of prior years' Debt Finance

	2022/23 Actual	**2023/24 budget**	**2024/25 budget**	**2025/26 budget**	**2026/27 budget**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Minimum Revenue Provision (MRP)	1,353	1,742	2,755	3,398	3,923

2.3.3 The Council's annual MRP statement can be found at Annex A below.

2.3.4 The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP. The CFR is expected to increase by £77.48 million between 2022/23 and 2026/27 which is due to capital projects being financed through borrowing. Based on the above figures for expenditure and financing, the Council's estimated CFR is presented in Table 4 below.

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement (CFR)

	2022/23 budget	**2023/24 budget**	**2024/25 budget**	**2025/26 budget**	**2026/27 budget**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
General Fund services CFR	70,442	95,545	122,026	150,578	158,880
Council housing (HRA) CFR	60,403	59,440	59,440	59,440	49,440
TOTAL CFR	**130,845**	**154,985**	**181,466**	**210,018**	**208,320**

3) Asset Management

3.1 Asset Management Strategy

3.1.1 The Council recognises the importance of ensuring that capital assets continue to be of long-term use especially against a rapidly changing operational and technological backdrop. Enhancing the management of the Council's existing asset base and looking beyond the traditional medium-term financial planning horizon is a major priority. An updated Asset Management Strategy (AMS) was approved in July 2019, broken down into four key components:

- Administrative Improvements.
- Compliance and Sustainability.
- A strategic approach to assets; and
- Reducing expenditure and increasing income.

The AMS takes a longer-term view comprising:

- 'Good' information about existing assets.
- The optimal asset base for the efficient delivery of Council objectives.
- The gap between existing assets and optimal assets.
- Strategies for purchasing and constructing new assets, investment in existing assets, transferring of assets to other organisations and the disposal of surplus assets; and
- Plans for individual assets.

3.2 Asset Disposals

3.2.1 When a capital asset is no longer needed, it may be sold so that the proceeds - known as capital receipts - can be spent on new assets or to repay debt. Repayments of loans and investments also generate capital receipts. Table 5 below summarises the overall budget projections for capital receipts.

Table 5: Capital Receipts

	2022/23 Actual	**2023/24 Budget**	**2024/25 Budget**	**2025/26 Budget**	**2026/27 Budget**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
General Fund Asset sales	-5,599	0	0	0	0
HRA Asset Sales	-1,860	0	0	0	0
TOTAL	**-7,459**	**0**	**0**	**0**	**0**
General Fund Loans repaid	160	160	1,720	160	160
HRA Loans repaid	0	0	1,440	0	10,000
TOTAL	**160**	**160**	**3,160**	**160**	**10,000**

3.2.2 The Council operates a deliberately prudent policy of not assuming future capital receipts within its General Fund capital income projections.

4) Treasury Management

4.1 Introduction

4.1.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

4.1.2 Due to decisions taken in the past, the Council currently (30th November 2022) has borrowing of £65.65 million at an average interest rate of 4.44% and £131.34 million in treasury investments at an average consolidated rate of 2.52%.

4.2 Borrowing

4.2.1 The Council's main objective when borrowing is to achieve a low but certain cost of finance while retaining flexibility should plans change in the future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between short-term loans (currently available at around 4%) and long-term fixed rate loans where the future cost is likely to be higher than the current 4.65%.

4.2.2 Projected levels of the Council's total outstanding debt (which comprises borrowing, leases and transferred debt) are shown below in Table 6, compared with the Capital Financing Requirement (Table 4 above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement

	2022/23 budget	**2023/24 budget**	**2024/25 budget**	**2025/26 budget**	**2026/27 budget**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Debt (incl. leases)	83,447	109,322	138,255	169,380	170,255
Capital Financing Requirement	130,845	154,985	181,466	210,018	208,320

4.2.3 Statutory guidance is that debt should remain below the Capital Financing Requirement, except in the short-term. As can be seen from Table 6, the Council expects to comply with this in the medium term.

Liability Benchmark

4.2.4 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the minimum amount of borrowing required to keep investments at minimum liquidity level. This assumes that cash and investment balances are kept to a minimum level of £10 million at each year-end. The Liability Benchmark shows that based on the current capital plans there is no requirement to borrow in 2024/25 and 2025/26, however the Council will need to borrow in 2024/25 to 2026/27 due to the reduction in financial resources available.

Table 7: Borrowing and the Liability Benchmark

	31.3.22 Actual £m	31.3.23 Estimate £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m
Loans CFR	119.91	129.34	149.81	176.27	206.92
Less: Balance sheet resources	-167.60	-167.60	-167.60	-167.60	-172.10
Net loans requirement	-47.69	-38.26	-17.79	8.67	34.82
Plus: Liquidity allowance	10.00	10.00	10.00	10.00	10.00
Liability benchmark	**-37.69**	**-28.26**	**-7.79**	**18.67**	**44.82**

Affordable Borrowing Limit

4.2.6 The Council is legally obliged to set an affordable borrowing limit (also termed the "Authorised Limit" for external debt) each year. In line with statutory guidance, a lower "Operational Boundary" is also sets as a warning level should debt approach the limit.

Table 8: Prudential Indicators: Authorised Limit and Operational Boundary for External Debt

	2022/22 limit	2022/23 limit	2023/24 limit	2024/25 limit	2025/26 limit
	£000's	£000's	£000's	£000's	£000's
Authorised limit – borrowing	168,380	168,380	168,380	168,380	168,380
Authorised limit – leases	6,620	6,620	6,620	6,620	6,620
Authorised limit – total external debt	175,000	175,000	175,000	175,000	175,000
Operational boundary – borrowing	166,380	166,380	166,380	166,380	166,380
Operational boundary – leases	6,620	6,620	6,620	6,620	6,620
Operational boundary – total external debt	173,000	173,000	173,000	173,000	173,000

4.2.7 Further details on borrowing are contained in the Treasury Management Strategy

4.3 Investments

4.3.1 Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

(Treasury Management) Investment Strategy

4.3.2 The Council's Investment Strategy is to prioritise security and liquidity over yield; focussing on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with other local authorities or selected high-quality banks, to minimise the risk of loss.

4.3.3 Table 9 below summarises the Council's current and forecast treasury investments.

Table 9: Treasury Management Investments

	2022/23 current	2023/24 forecast	2024/25 forecast	2025/26 forecast	2026/27 forecast
	£000's	£000's	£000's	£000's	£000's
Near-term investments	110,000	100,000	100,000	100,000	100,000
Longer-term investments	25,000	25,000	25,000	25,000	25,000
TOTAL	**135,000**	**125,000**	**125,000**	**125,000**	**125,000**

4.4 Risk Management

4.4.1 The effective management and control of risk are prime objectives of the Authority's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

4.5 Governance

4.5.1 Treasury management decisions are made daily and are therefore delegated to the CFO, who must act in line with the Treasury Management Strategy approved by the Council. Annual outturn reports on treasury management are also approved by the Council (following recommendation from Audit and Governance Committee), whereas mid-year updates are reported exclusively to the Audit and Governance Committee.

5) Investments for Service Purposes

5.1 As published in the Councils Draft Statement of Accounts 2021/22 at 31st March 2022, the Council held net investments as follows:

- Suffolk Coastal Norse Limited - the Council has held a 20% equity share since April 2009. The Council's share of Net Assets / (Liabilities) at 31st March 2022 was £312,000; and
- Waveney Norse Limited – the Council has held a 19.9% equity share since April 2008. The Council's share of Net Assets / (Liabilities) at 31st March 2022 was £563,000.

<u>*Governance*</u>

5.1.1 Decisions on service investments are made by the Council's Cabinet and require the support of a full business case. The Council is also represented on the boards of both Norse joint venture companies.

5.1.2 The Council has exercised its right not to renew the contract it holds with Norse for the provision of operational services, and therefore the contract will come to a natural end in July 2023.

5.1.3 East Suffolk Services, a Local Authority Trading Company (LATCo) will operate as an 'arms-length' commercial business, separate to the Council, following the conclusion of the Norse contract. The Council has set a loan provision of £1.9m as an investment for service purposes within the capital programme.

6) Other Liabilities

6.1.1 Outstanding Commitments

6.1.2 The Council also has the following outstanding commitments:

- A commitment to achieve a fully funded position on the Pension Fund (over a 20-year period from 2013 to 2033). The deficit was valued at £45.93 million as at 31st March 2022, from 2020/21 the deficit payment was incorporated into the primary employers' pension contribution rate rather than an annual lump sum payment; and
- The Council has also set aside £15.24 million (as at 31st March 2022) to cover the financial risk associated with Business Rates appeals lodged with the Valuation Office Agency (VOA).

6.2 Guarantees

6.2.1 The Council became "self-financing" in respect of its retained housing stock (in the former Waveney district) from April 2012. The self-financing regime applied to all authorities and replaced the former housing subsidy system whereby the Council made annual subsidy payments to the Government funded from its HRA. Its introduction entailed a one-off redistribution of 'debt' between local authorities, and locally this resulted in the Council taking on PWLB loans, which it is required to service (instead of making housing subsidy payments).

6.2.2 A 30-year Business Plan for the Council's HRA has been developed, which is currently generating sufficient rental income each year to run an efficient and effective housing management service, whilst at the same time servicing the outstanding debt (which is scheduled for repayment in full by March 2042 i.e., within the 30-year timeframe). However, if the HRA is unable to repay the outstanding debt at any point in the future, the Council (through its General Fund) is liable to repay any remaining balance. The remaining balance on HRA debt as at 31st March 2022 was £60.40 million.

6.3 Governance

6.3.1 Decisions on incurring new discretionary liabilities are taken by Directors and Heads of Service in consultation with the CFO. For example, in accordance with the Financial Procedure Rules (Part 3 of the Constitution, Paragraph 2.1.25), credit arrangements – such as leasing agreements – cannot be entered into without the prior approval of the CFO.

7) Revenue Implications

7.1 Financing Cost

7.1.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e., the amount funded from Council Tax, Business Rates, and general Government grants.

Table 10: Prudential Indicator: Proportion of Financing Costs to Net Revenue Stream (General Fund)

	2022/23 budget	**2023/24 budget**	**2024/25 budget**	**2025/26 budget**	**2026/27 budget**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Financing Costs (£m)	1,657	1,963	2,892	3,535	4,060
Proportion of Net Revenue Stream	8.30%	9.38%	12.66%	14.92%	16.77%

Table 11: Prudential Indicator: Proportion of Financing Costs to Net Revenue Stream (HRA)

	2022/23 budget	2023/24 budget	2024/25 budget	2025/26 budget	2026/27 budget
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Financing Costs (£m)	3,347	3,734	4,705	5,348	5,873
Proportion of Net Revenue Stream	16.84%	17.81%	21.27%	24.10%	26.40%

7.1.2 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for many [occasionally up to 50] years into the future.

7.2 "Prudence, Affordability and Sustainability"

7.2.1 The CFO is satisfied that the proposed Capital Programme (Section 2) is prudent, affordable, and sustainable based on the following:

Prudence

- Prudential indicators 10 and 11 presented above (Paragraph 8.1.1) are within expected and controllable parameters. Thus:
  - *Prudential Indicator 10 (General Fund) - Proportion of Financing Costs to Net Revenue Stream* – the growth in financing costs reflects the Council's ambitions for capital investment in its strategic priorities over the medium-term.
  - *Prudential Indicator 11 (HRA) - Proportion of Financing Costs to Net Revenue Stream* – the indicator profile mirrors the HRA 30-Year Business Plan, which is a fully-costed strategy that will see all outstanding debt repaid by 2042/43.
- *Underlying Prudent Assumptions* – a prudent set of assumptions have been used in formulating the Capital Programme. This is illustrated in the approach to capital receipts whereby the proceeds are not assumed within projections until the associated sale is completed and the money received by the Council; and
- *Repairs and Maintenance* – the approach to asset maintenance is professionally guided with assets maintained in a condition commensurate with usage and expected life, addressing those items that could affect ongoing and future maintenance, in the most appropriate and cost-effective manner.

Affordability

- The estimated general fund 'revenue consequences' of the Capital Programme (£11.82 million over four years) have been included in the draft 2022/23 Budget and Medium-Term Financial Strategy (MTFS), extending to 2026/27; and
- The MTFS is underpinned by a Reserves Strategy, which includes contingency funds in the event that projections are not as expected (further supported by CFO report to Council under Section 25 of the Local Government Act 2003 on the robustness of estimates and the adequacy of financial reserves and balances).

Sustainability

- Capital schemes that are expected to deliver long-term revenue savings and regenerate the area are given due priority. For example, the Lowestoft Tidal Barrier (unlocking brownfield development sites and providing a boost to future income from Business Rates and Council

Tax), the Towns Fund Project which will look to regenerate Lowestoft Town Centre and seek to attract external interest and investment in the Town.

- As explained in Section 3.1 above, the Asset Management Strategy represents an enhancement to the Council approach to asset planning through (especially) taking a longer-term view. This includes providing for future operational need, balancing the requirement to achieve optimal performance, whilst taking account of technological change and managing the risk of obsolescence.

8) Knowledge and Skills

8.1 Officers

8.1.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. Most notably:

- *Finance* - the Chief Finance Officer (CFO) is a qualified (CIPFA) accountant with many years of experience. The Council sponsors junior staff to study for relevant professional qualifications including AAT, CIPFA and ACCA. The Council also pays for (and ensures attendance on) training courses and conferences across all aspects of accounting, including (especially) Treasury Management to keep professional client status under "MIFID II" (the "Markets in Financial Instruments Directive", incorporated into UK law in November 2017); and
- *Property* – the Asset and Investment Manager (AIM) – a qualified (MRICS) surveyor, with many years of experience – is responsible for Asset Management within the Council. The Asset Management service comprises of, and performs the Estates Management, Building Services, Resorts, Capital Projects and Development functions of the Council. Each function is headed by an appropriately qualified professional within their individual specialism (e.g., the Building Services team is led by a MRICS Building Surveyor). As with Finance, the Council is strongly committed to supporting both professional and wider staff development within its Asset Management function, with a number of staff on the pathway to becoming qualified RICS surveyors and with apprentice opportunities within the Asset Management team. The AIM will also play a key role in the Council's approach to commercial investment and trading (highlighted above in Section 6).

8.1.2 The Council also has a separate Housing team that is responsible for overseeing social housing developments within the district.

8.2 External Advisors

8.2.1 Where the Council does not have the relevant knowledge and skills required, judicious use is made of external advisers and consultants that are experts/specialists in their field. The Council currently employs Arlingclose Limited as Treasury Management advisers, and the Asset Management team will appoint property advisors (e.g., development managers, valuers etc.) to support their work where required. The approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with risk.

8.3 Councillors

8.3.1 Specifically with regard to Treasury Management, the Council acknowledges the importance of ensuring that members have appropriate capacity, skills, and information to effectively undertake their role. To this end, newly elected East Suffolk councillors with Treasury Management responsibilities will receive tailored training sessions from the Council's Treasury Management advisors (Arlingclose), and regular refresher sessions will also be undertaken for the Audit and Governance Committee.

9) CFO Statement on the Capital Strategy

9.1 Prudential Code

9.1.1 Paragraph 24 of the Prudential Code determines that….” the Chief Finance Officer should report explicitly on the affordability and risk associated with the Capital Strategy”.

9.1.2 Accordingly, it is the opinion of the CFO that the Capital Strategy as presented is affordable, and associated risks have been identified and are adequately managed.

9.2 Affordability

9.2.1 The Capital Strategy is affordable and there is a range of evidence to support this assertion, including:

- *Capital Programme* – the Programme as presented above (in Section 2.1) is supported by a robust and resilient MTFS extending through until 2026/27 that contains adequate revenue provision, including sufficient reserves in the event that plans and assumptions do not materialise as expected.
- *Asset Management* – as presented above (in Section 3.1) the Asset Management Strategy is taking a strategic longer-term (i.e., beyond 2024/25) view of the Council's asset base. A fundamental aim of the Strategy is to achieve the optimum balance between future operational need and affordability, which is reflected in its component parts including strategies for purchasing and constructing new assets, investment in existing assets, transferring of assets to other organisations and the disposal of surplus assets; and

9.3 Risk

9.3.1 The risk associated with the Capital Strategy has been identified and is being adequately managed. Evidence to support this assertion includes:

- *Treasury Management Strategy* – the Council is in the process of formally approving its Treasury Management Strategy for 2023/24 in accordance with CIPFA's “Treasury Management in the Public Services: Code of Practice 2017”. That Strategy was developed by the Council's (professionally qualified and experienced) Finance team and informed by specialist advisors Arlingclose and other relevant and extant professional guidance.
- *Investment Strategy* – the Council is also formally approving an Investment Strategy for 2022/23 in accordance with MHCLG's “Statutory Guidance on Local Government Investments (3rd Edition) 2018”. As with the Treasury Management Strategy, the Investment Strategy was developed by the Finance team and informed by specialist advisors Arlingclose and other relevant and extant professional guidance; and

9.3.2 In addition, the CFO is satisfied that there are no major omissions – in terms of financial liabilities – from the Capital Programme in the medium-term.

9.4 Capital Strategy Updates

9.4.1 The Capital Strategy is a ‘living document’ and will be periodically – usually annually – updated to reflect changing local circumstances and other significant developments.

Annex A

Annual Minimum Revenue Provision Strategy

1. Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Council to have regard to the Ministry for Housing, Communities and Local Government's Guidance on Minimum Revenue Provision.
2. The broad aim of the Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.
3. The Guidance requires the Council to approve an Annual MRP Statement each year and recommends several options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.
4. For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the principal repayment on an annuity with an annual interest rate equal to the average relevant Public Works Loan Board rate for the year of expenditure, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.
5. Capital expenditure incurred during 2023/24 will not be subject to a charge until 2024/25.

Agenda Item 5

ES/1372

AUDIT & GOVERNANCE COMMITTEE

Monday, 12 December 2022

Subject	**TREASURY MANAGEMENT STRATEGY STATEMENT FOR 2022/23 & TREASURY MANAGEMENT INVESTMENT STRATEGY FOR 2022/23**
Report by	Councillor Edward Back Assistant Cabinet Member for Resources
Supporting Officer	Brian Mew Chief Finance Officer and Section 151 Officer Brian.mew@eastsuffolk.gov.uk

Is the report Open or Exempt?	OPEN

Category of Exempt Information and reason why it is **NOT** in the public interest to disclose the exempt information.	Not applicable
Wards Affected:	All Wards

Purpose and high-level overview

Purpose of Report: This report sets out the Council's Treasury Management Strategy for 2023/24 and the Treasury Management Investment Strategy for 2023/24 and covers: • the current treasury position; • treasury indicators which limit the treasury risk and activities of the Council; • prospects for interest rates; • the borrowing strategy; and • the investment strategy
Options: To comply with the CIPFA Treasury Management Code the report is required to be produced and presented to members, and consequently, no other options have been considered.

Recommendation/s: That having reviewed and commented upon the Treasury Management Strategy Statement and the Treasury Management Investment Strategy for 2023/24, the Audit and Governance Committee recommends it to Full Council for approval.

Corporate Impact Assessment

Governance: The report complies with the Charted Institute of Public Finance and Accountancy (CIPFA) Treasury Management code to provide information and scrutiny on the Councils Treasury Management function.
ESC policies and strategies that directly apply to the proposal: East Suffolk Council Strategic Plan
Environmental: No impacts.
Equalities and Diversity: No impacts.
Financial: Management of the Council's cash flows, banking and capital market transactions.
Human Resources: No impacts.
ICT: No impacts.
Legal: No impacts.

Risk: Treasury Management in Local Government is governed by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management in the Public Services and in this context is the "management of the Council's cash flows, its banking and its capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks". This Council has adopted the Code and complies with its requirements.

External Consultees:	None

Strategic Plan Priorities

Select the priorities of the Strategic Plan which are supported by this proposal: *(Select only one primary and as many secondary as appropriate)*		**Primary priority**	**Secondary priorities**
T01	**Growing our Economy**		
P01	Build the right environment for East Suffolk	☐	☐
P02	Attract and stimulate inward investment	☐	☐
P03	Maximise and grow the unique selling points of East Suffolk	☐	☐
P04	Business partnerships	☐	☐
P05	Support and deliver infrastructure	☐	☐
T02	**Enabling our Communities**		
P06	Community Partnerships	☐	☐
P07	Taking positive action on what matters most	☐	☐
P08	Maximising health, well-being, and safety in our District	☐	☐
P09	Community Pride	☐	☐
T03	**Maintaining Financial Sustainability**		
P10	Organisational design and streamlining services	☐	☐
P11	Making best use of and investing in our assets	☐	☒
P12	Being commercially astute	☐	☒
P13	Optimising our financial investments and grant opportunities	☐	☒
P14	Review service delivery with partners	☐	☐
T04	**Delivering Digital Transformation**		
P15	Digital by default	☐	☐
P16	Lean and efficient streamlined services	☐	☐
P17	Effective use of data	☐	☐
P18	Skills and training	☐	☐
P19	District-wide digital infrastructure	☐	☐
T05	**Caring for our Environment**		
P20	Lead by example	☐	☐
P21	Minimise waste, reuse materials, increase recycling	☐	☐
P22	Renewable energy	☐	☐
P23	Protection, education, and influence	☐	☐
XXX	**Governance**		
XXX	How ESC governs itself as an authority	☒	☐
How does this proposal support the priorities selected?			

Production of the Treasury Management Strategy Statement for 2023/24 & Treasury Management Investment Strategy for 2023/24 is a requirement under the CIPFA Treasury Management Code demonstrating the Council's governance of its investment and loans portfolio.

Background and Justification for Recommendation

1	Background facts
1.1	Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.
1.2	Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

2	Current position
2.1	The Treasury Management Strategy for 2023/24 set out in **Appendix A** covers: Treasury management issues: • the current treasury position. • treasury indicators which limit the treasury risk and activities of the Council. • prospects for interest rates. • the borrowing strategy; and • the investment strategy.

3	How to address current situation
3.1	The report recommends that the Treasury Management Strategy for 2023/24 and the Treasury Management Investment Strategy for 2023/24 be reviewed and commented upon and recommended for approval.

4	Reason/s for recommendation
4.1	The CIPFA Treasury Management code requires the strategies to be produced and presented at Full Council prior to the start of the financial year.

Appendices

Appendices:	
Appendix A	Treasury Management Strategy Statement 2023/24
Appendix B	Treasury Management Investment Strategy 2023/24

Background reference papers:
None

Treasury Management Strategy Statement 2023/24

Introduction

Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

Investments held for service purposes or for income are considered in the Investment Strategy.

External Context

Economic background: The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Authority's treasury management strategy for 2023/24.

The Bank of England (BoE) increased Bank Rate by 0.75% to 3.0% in November 2022, the largest single rate hike since 1989 and the eighth successive rise since December 2021. The decision was voted for by a 7-2 majority of the Monetary Policy Committee (MPC), with one of the two dissenters voting for a 0.50% rise and the other for just a 0.25% rise.

The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

The UK economy grew by 0.2% between April and June 2022, but the BoE forecasts Gross Domestic Product (GDP) will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024.

Credit outlook: Credit default swap (CDS) prices have followed an upward trend throughout the year, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic.

CDS price volatility has been higher in 2022 compared to 2021 and this year has seen a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them from to negative from stable.

There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability.

However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast (November 2022): The Authority's treasury management adviser Arlingclose forecasts that Bank Rate will continue to rise in 2022 and 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target.

While interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon despite looming recession. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher.

Yields are expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.6%, 3.7%, and 3.9% respectively over the 3-year period to September 2025. The risks for short, medium, and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate of 2.50%, and that new long-term loans will be borrowed at an average rate of 4.65%.

Local Context

At the end of November 2022, the Council held £65.65m of borrowing and £131.34m of investments and is set out in further detail at Appendix B. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. The Council expects to comply with this recommendation during 2023/24 and in the subsequent years.

Borrowing Strategy

The Council currently holds £65.65m of loans, a decrease of £160k on the previous year which is due to the principal repayment on one of current loans. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing.

Objectives: The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2023/24 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

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

Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. In addition, the Council may borrow short-term loans to cover unplanned cash flow shortages.

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board).
- any institution approved for investments (see below).
- any other bank or building society authorised to operate in the UK.
- any other UK public sector body.
- UK public and private sector pension funds (except local Pension Fund).
- capital market bond investors.
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues; and

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

- leasing.
- hire purchase.
- Private Finance Initiative; and
- sale and leaseback.

Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

LOBOs: The Council does not hold any LOBO's (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost.

Short-term and variable rate loans: These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

Debt rescheduling: The PWLB allows Council's to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Liability benchmark: To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts shown in the Capital Programme for borrowing, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

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

Prudential Indicator: Liability benchmark

	31.3.22 **Actual** **£m**	**31.3.23** **Estimate** **£m**	**31.3.24** **Forecast** **£m**	**31.3.25** **Forecast** **£m**	**31.3.26** **Forecast** **£m**
Loans CFR	119.91	129.34	149.81	176.27	206.92
Less: Balance sheet resources	-167.60	-167.60	-167.60	-167.60	-172.10
Net loans requirement	-47.69	-38.26	-17.79	8.67	34.82
Plus: Liquidity allowance	10.00	10.00	10.00	10.00	10.00
Liability benchmark	**-37.69**	**-28.26**	**-7.79**	**18.67**	**44.82**

Treasury Investment Strategy

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's treasury investment balance has ranged between £123.34 million and £163.45 million.

Objectives: The CIPFA Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Authority aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

Strategy: Given the increasing risk from short-term unsecured bank investments, the Council invest mainly in more secure and/or higher yielding asset classes and will continue to do so during 2023/24.

ESG policy: Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Authority's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Authority will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

Business models: Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved counterparties: The Council may invest its surplus funds with any of the counterparty types in table 1 below, subject to the cash limits (per counterparty) and the time limits shown. These limits exclude any interest payments which will be paid to the Council periodically.

Table 1: Treasury investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£25m	Unlimited
Secured investments *	25 years	£25 m	Unlimited
Banks (unsecured) *	13 months	£25 m	Unlimited
Building societies (unsecured) *	13 months	£15m	£15m
Registered providers (unsecured) *	5 years	£25m	£25m
Money market funds *	n/a	£20m	Unlimited
Strategic pooled funds	n/a	£20m	£50m
Real estate investment trusts	n/a	£10m	£25m
Other investments *	5 years	£5m	£10 m

*This table must be read in conjunction with the notes below.

Minimum credit rating: Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than [A-]. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £20m per counterparty as part of a diversified pool e.g., via a peer-to-peer platform.

Government: Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities, and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured): Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government, and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds: Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

Banks unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

Banks secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities, and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency although they are not a zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made either following an external credit assessment or to a maximum of £50,000 per company as part of a diversified pool in order to spread the risk widely.

Registered providers (unsecured): Loans and bonds issued by, guaranteed by, or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government, and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Pooled funds: Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity, and property funds offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

Real estate investment trusts (REIT): Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

Operational bank accounts: The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £20m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit, rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause investment return to fall but will protect the principal sum invested.

Investment limits: In order that investment balances are not put at too higher risk the maximum that will be lent to any one organisation (other than the UK Government) will be £25 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries, and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country since the risk is diversified over many countries.

Table 2: Additional Investment limits

	Cash limit
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£4m per country

Liquidity management: The Council uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

The Council will spread its liquid cash over at least two providers (e.g., bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

<u>**Treasury Management Indicators**</u>

The Council measures and manages its exposures to treasury management risks using the following indicators.

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

	2022/23 Q2	**Target**
Portfolio average credit score	4.8	4

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

	Target
Total cash available within 3 months	£30.00m

Interest rate exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£150,000
Upper limit on one-year revenue impact of a 1% fall in interest rate	£150,000

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

Maturity structure of borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower
Under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	75%	0%
5 years and within 10 years	75%	0%
10 years and within 20 years	75%	0%
20 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal sums invested for periods longer than one year: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2022/23	2023/24	2024/25	2025/26	2026/27
Limit on principal invested beyond year end	£10.0m	£5.0m	£5.0m	£5.0m	£5.0m

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

Operational Boundary	2022/2023 Limit £m	2023/2024 Limit £m	2024/25 Limit £m	2025/26 Limit £m	2026/27 Limit £m
Borrowing	173.00	173.00	173.00	173.00	173.00
Total Debt	173.00	173.00	173.00	173.00	173.00

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

Authorised Limit	2022/2023 Limit £m	2023/2024 Limit £m	2024/25 Limit £m	2025/26 Limit £m	2026/27 Limit £m
Borrowing	175.00	175.00	175.00	175.00	175.00
Total Debt	175.00	175.00	175.00	175.00	175.00

Related Matters

The CIPFA Code requires the Council to include the following in its treasury management strategy.

Financial Derivatives: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g., interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g., LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e., those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures, and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be considered when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating derivative exposures. An allowance for credit risk calculated using the methodology on Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Housing Revenue Account: On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g., premiums and discounts on early redemption) will be charged/credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the Council's average interest rate on investments, adjusted for credit risk.

Markets in Financial Instruments Directive (MiFiD): The Council has opted up to professional client with its providers of financial services, including advisers, banks, brokers, and fund managers, allowing it access to a greater range of services but with the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Chief Finance Officer believes this to be the most appropriate status.

Financial Implications

The budget for investment income in 2023/24 is £2 million, based on an average investment portfolio of £100 million at an average interest rate of 2%. The budget for debt interest paid in 2023/24 is £2.39 million, based on an average debt portfolio of £65.73 million at an average interest rate of 3.25%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

Where investment income exceeds budget, e.g., from higher risk investments including pooled funds, or debt interest paid falls below budget, e.g., from cheap short-term borrowing, then 50% of the revenue savings will be transferred to a treasury management reserve to cover the risk of capital losses or higher interest rates payable in future years.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Finance Officer, having consulted the Cabinet Member for Resources, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Annex A – Arlingclose Economic & Interest Rate Forecast November 2022

Underlying assumptions:

- UK interest rate expectations have eased following the mini budget, with a growing expectation that UK fiscal policy will now be tightened to restore investor confidence, adding to the pressure on household finances. The peak for UK interest rates will therefore be lower, although the path for interest rates and gilt yields remains highly uncertain.
- Globally, economic growth is slowing as inflation and tighter monetary policy depress activity. Inflation, however, continues to run hot, raising expectations that policymakers, particularly in the US, will err on the side of caution, continue to increase rates, and tighten economies into recession.
- The new Chancellor dismantled the mini budget, calming bond markets and broadly removing the premium evident since the first Tory leadership election. Support for retail energy bills will be less generous, causing a lower but more prolonged peak in inflation. This will have ramifications for both growth and inflation expectations.
- The UK economy is already experiencing recessionary conditions, with business activity and household spending falling. Tighter monetary and fiscal policy, alongside high inflation will bear down on household disposable income. The short- to medium-term outlook for the UK economy is bleak, with the BoE projecting a protracted recession.
- Demand for labour remains strong, although there are some signs of easing. The decline in the active workforce has fed through into higher wage growth, which could prolong higher inflation. The development of the UK labour market will be a key influence on MPC decisions. It is difficult to see labour market strength remaining given the current economic outlook.
- Global bond yields have steadied somewhat as attention turns towards a possible turning point in US monetary policy. Stubborn US inflation and strong labour markets mean that the Federal Reserve remains hawkish, creating inflationary risks for other central banks breaking ranks.
- However, in a departure from Fed and ECB policy, in November the BoE attempted to explicitly talk down interest rate expectations, underlining the damage current market expectations will do to the UK economy, and the probable resulting inflation undershoot in the medium term. This did not stop the Governor affirming that there will be further rises in Bank Rate.

Forecast:

- The MPC remains concerned about inflation but sees the path for Bank Rate to be below that priced into markets.
- Following the exceptional 75bp rise in November, Arlingclose believes the MPC will slow the rate of increase at the next few meetings. Arlingclose now expects Bank Rate to peak at 4.25%, with a further 50bp rise in December and smaller rises in 2023.
- The UK economy likely entered into recession in Q3, which will continue for some time. Once inflation has fallen from the peak, the MPC will cut Bank Rate.
- Arlingclose expects gilt yields to remain broadly steady despite the MPC's attempt to push down on interest rate expectations. Without a weakening in the inflation outlook,

investors will price in higher inflation expectations given signs of a softer monetary policy stance.

- Gilt yields face pressures to both sides from hawkish US/EZ central bank policy on one hand to the weak global economic outlook on the other. BoE bond sales will maintain yields at a higher level than would otherwise be the case.

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25
Arlingclose Central Case	3.00	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.50	3.50	3.50
Downside risk	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25
Arlingclose Central Case	3.00	3.90	4.40	4.40	4.40	4.35	4.30	4.25	4.00	3.75	3.75	3.75	3.75
Downside risk	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
5yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.36	3.65	3.90	3.90	3.90	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
10yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.46	3.70	3.75	3.75	3.75	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
20yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.88	4.00	4.00	4.00	4.00	4.00	3.90	3.90	3.90	3.90	3.90	3.90	3.90
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
50yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.24	3.40	3.40	3.40	3.40	3.40	3.30	3.30	3.30	3.30	3.30	3.30	3.30
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
UKIB Rate (Maturity Loans) = Gilt yield + 0.60%

Annex B – Existing Investment & Debt Portfolio Position

	Nov-22 Actual Portfolio £m
External borrowing:	
Public Works Loan Board	**65.65**
Local authorities	**0**
Other loans	**0**
Total external borrowing	**65.65**
Other long-term liabilities:	
Leases	5.60
Total other long-term liabilities	
Total gross external debt	**71.25**
Treasury investments:	
The UK Government	**30.00**
Local Authorities	**61.00**
Other Government entities	
Secured investments	
Banks (unsecured)	**10.00**
Building societies (unsecured)	
Registered providers (unsecured)	
Money Market Funds	**10.00**
Strategic Pooled Funds	**20.34**
Real Estate investment trusts	
Other investments	
Total treasury investments	**131.34**
Net debt	**-60.09**

Annex C – Summary of Existing Debt & Investment Portfolio Position as at November 2022

Debt Portfolio:

Type of Loan	Start Date	Maturity	Principal	Interest Rate	GF/HRA
Maturity Loans					
Fixed	30/11/1995	30/09/2024	2,000,000	8.375%	GF/HRA
Fixed	10/08/2007	31/03/2055	3,000,000	4.550%	GF/HRA
Fixed	28/03/2012	28/03/2039	10,000,000	3.470%	HRA
Fixed	28/03/2012	28/03/2036	10,000,000	3.420%	HRA
Fixed	28/03/2012	28/03/2027	10,000,000	3.010%	HRA
Fixed	28/03/2012	28/03/2041	10,000,000	3.490%	HRA
Fixed	28/03/2012	28/03/2032	10,000,000	3.300%	HRA
Fixed	28/03/2012	28/03/2042	8,000,000	3.500%	HRA
Equal Instalments of Principle (EIP)					
Fixed	15/05/2015	15/11/2035	2,640,000	3.69%	GF
Annuity					
Fixed	10/09/1968	26/08/2028	5,829.12	7.62%	GF/HRA
		Total	**65,645,829**		

Investment Portfolio:

Counterparty	Type of investment	Principal Balance	Duration	Start Date	Effective Maturity	Interest Rate
Bank 1 (Lloyds)	Instant Access	10,000,000	Overnight	N/A	N/A	2.15%
		10,000,000				
DMO (Central Government)	Fixed Term	5,000,000	5 Months (153 days)	23/09/2022	23/02/2023	2.83%
DMO (Central Government)	Fixed Term	5,000,000	4 Months (124 days)	28/09/2022	30/01/2023	3.27%
DMO (Central Government)	Fixed Term	5,000,000	2 Months (64 days)	03/10/2022	06/12/2022	2.42%
DMO (Central Government)	Fixed Term	5,000,000	3 Months (92 days)	17/10/2022	17/01/2023	2.91%
DMO (Central Government)	Fixed Term	5,000,000	1 Month (30 days)	01/11/2022	01/12/2022	2.45%
DMO (Central Government)	Fixed Term	5,000,000	2 Months (65 days)	01/11/2022	05/01/2023	2.70%
		30,000,000				
North Lanarkshire Council	Fixed Term	5,000,000	1 Year	21/02/2022	20/02/2023	0.70%
Blackpool Borough Council	Fixed Term	5,000,000	1 Year	16/03/2022	15/03/2023	0.75%
Fareham Borough Council	Fixed Term	5,000,000	1 Year	24/02/2022	23/02/2023	0.75%
Peterborough City Council	Fixed Term	5,000,000	1 Year	14/04/2022	13/04/2023	1.20%
London Borough of Croydon	Fixed Term	5,000,000	1 Year	29/06/2022	28/06/2023	1.35%
London Borough of Croydon	Fixed Term	5,000,000	1 Year	27/07/2022	26/07/2023	1.60%
Darlington Borough Council	Fixed Term	5,000,000	364 days	01/09/2022	31/08/2023	2.30%
Cheltenham Borough Council	Fixed Term	3,000,000	6 months	13/10/2022	13/04/2023	3.00%
Suffolk County Council	Fixed Term	5,000,000	1 year	30/09/2022	29/09/2023	3.15%
Epping Forest District Council	Fixed Term	2,000,000	6 months	03/10/2022	14/04/2023	3.55%
Epping Forest District Council	Fixed Term	4,000,000	9 months	18/10/2022	18/07/2023	4.10%
London Borough of Haringey	Fixed Term	5,000,000	6 months	14/11/2022	15/05/2023	3.40%
Wirral Borough Council	Fixed Term	2,000,000	3 months	17/11/2022	23/02/2023	3.00%
Watford Borough Council	Fixed Term	5,000,000	2 years	29/09/2021	29/09/2023	0.20%
		61,000,000				
Money Market Fund (MMF) - (CCLA)	Instant Access	10,000,000	Overnight	N/A	N/A	2.82%
		10,000,000				
Pooled Property Fund 1 (CCLA)	Notice - Long Term	10,818,950	N/A	29/11/2017	N/A	3.91%
Pooled DIF 1 (CCLA)	Notice - Long Term	4,774,348	N/A	25/11/2019	N/A	3.91%
Pooled DIF 2 (NinetyOne)	Notice - Long Term	4,749,478	N/A	17/10/2019	N/A	2.60%
		20,342,776				
	Total	**131,342,776**				

Investment Strategy Report 2023/24

Introduction

The Council invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments),
- to support local public services by lending to or buying shares in other organisations (service investments), and
- to regenerate and provide service delivery in the locality

This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.

Treasury Management Investments

The Council typically receives its income in cash (e.g., from taxes and grants) before it pays for its expenditure in cash (e.g., through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and Central Government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £100 million and £130 million during the 2023/24 financial year.

Contribution: The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.

Further details: Full details of the Council’s policies and its plan for 2023/24 for treasury management investments are covered in a separate document, the treasury management strategy.

Service Investments: Loans

Contribution: The Council may lend money to its subsidiaries, its suppliers, local businesses, local charities, housing associations, local residents and its employees to support local public services and stimulate local economic growth.

Security: The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Council, upper limits on the outstanding loans to each category of borrower have been set as follows

Category of borrower	31.3.2022 actual			2023/24
	Balance owing £000	Loss allowance £000	Net figure in accounts £000	Approved Limit £000
Subsidiaries	0	0	0	10,000
Suppliers	0	0	0	0
Local businesses	0	0	0	500
Local charities & Community Groups	0	0	0	500
Parish Councils	0	0	0	500
Housing associations	0	0	0	5,000
Residents	0	0	0	0
Employees	0	0	0	0
TOTAL	0	0	0	15,100

Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Councils statement of accounts are shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment: The Council assesses the risk of loss before entering into and whilst holding service loans by presenting a full business detailing.

- Market assessment – evidencing an independent assessment of the market that the Council is/will be competing in, the nature and level of competition, how the market/customer needs will evolve over time, barriers to entry and exit and any ongoing investment requirements
- External Advisor Assessment – All service loans will be subject to assessment by the Council's External Treasury Advisor and a report will be included within the business case.
- Any external advice will be presented to the Audit & Governance Committee, Cabinet, and Council Committees as appropriate.
- Credit Ratings may be used to assess the risk appetite and will be subject to regular monthly review.

Annual Reporting:

- Reporting – As a minimum Service departments will provide an annual report to the Audit & Governance Committee which will include an update on the investment, and an independent external review if appropriate.

Service Investments: Shares

Contribution: The Council may invest in the shares of its subsidiaries, its suppliers, and local businesses to support local public services and stimulate local economic growth.

Security: One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Category of company	31.3.2022 actual			2023/24
	Amounts invested £000	Gains or losses £000	Value in accounts £000	Approved Limit £000
Subsidiaries	0	0	0	5,000
Suppliers	0	0	0	500
Local businesses	0	0	0	500
TOTAL	**0**	**0**	**0**	**6,000**

Risk assessment: The Council assesses the risk of loss before entering into and whilst holding shares by presenting a full business detailing.

- Market assessment – evidencing an independent assessment of the market that the Council is/will be competing in, the nature and level of competition, how the market/customer needs will evolve over time, barriers to entry and exit and any ongoing investment requirements
- External Advisor Assessment – All service loans will be subject to assessment by the Council's External Treasury Advisor and a report will be included within the business case.
- Any external advice will be presented to the Audit & Governance Committee, Cabinet, and Council Committees as appropriate.
- Credit Ratings may be used to assess the risk appetite and will be subject to regular monthly review.

Annual reporting:

- Reporting – As a minimum Service departments will provide an annual report to the Audit & Governance Committee which will include an update on the investment, and an independent external review if appropriate.

Liquidity: The maximum period for which funds may be prudently committed is for 5 years, after which subject to satisfactory review this may be renewed annually for a 1-year period.

Non-specified Investments: Shares are the only investment type that the Council has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Councils upper limits on non-specified investments. The Council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition

Regeneration/Service Investments: Property

Contribution: The Council invests in local property to facilitate regeneration and provide service delivery. The income from these investments will repay any borrowing used in the purchase and to provide a maintenance budget without putting further pressure on the Councils finances.

Table 1: Property held for investment purposes in £ millions

Property	Actual	31.3.2022 Actual	
	Purchase cost £000	**Gains or (losses) £000**	**Value in accounts £000**
Investment Property – shop Lowestoft	166	34	200
Investment Property – shop Lowestoft	1,433	-1,113	320
Investment Property – shop Lowestoft	2,358	-1,438	920
Investment Property - Business Park Beccles	2,355	194	2,549
Investment Property - Business Centre Lowestoft	965	335	1,300
TOTAL	**7,277**	**-1,988**	**5,289**

Security: In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

The fair value of the Council's investment property portfolio is no longer sufficient to provide security against loss. However, the Council fully expects the fair value to increase following significant works to the adjoining car park, with the fair value expected to increase to that nearing the original purchase price.

Risk assessment: The Council assesses the risk of loss before entering into and whilst holding property investments by assessing the viability of the cost of financing the investment against the return on investment in terms of receivable income. Investments that are subject to short leases are unlikely to be considered due to the high risk of potential voids.

Liquidity: Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed; the Council ensures that borrowing is on an equal instalment basis and that revenue budgets cover the cost of the loan repayment.

Loan Commitments and Financial Guarantees

Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness.

The Council does not have any current financial guarantees and all loans are through the Public Works Loan Board (PWLB).

Capacity, Skills, and Culture

Elected members and statutory officers: It is important that the members and officers involved in the Treasury Management function have appropriate capacity, skills, and information to enable them to take informed decisions on specific investments, to assess the risk and strategic objectives and to ensure that the Council's risk exposure is managed. Periodically the Council's external Treasury advisors, Arlingclose will hold member training sessions which will provide members with a raft of technical advice specifically designed for the Council's environment. Additionally, Officers have a wide range of information available to them from various sources such as the Charted Institute of Public Finance and Accountancy (CIPFA), Arlingclose and Room 151. Officers will also attend a number of courses/seminars throughout the year and have periodical strategic meetings with the Council's treasury advisors.

Property Investment deals: Officers negotiating commercial deals are aware of the core principles of the prudential framework and of the regulatory regime within which local Authorities operate and have access to a number of external bodies who can provide specific advice and direction.

Corporate governance: All of the Council's procedures provide a corporate governance arrangement that ensure accountability and for decision making on investment activities and ensure that the Council's Chief Finance Officer/Section 151 Officer is fully briefed on the Council's investment position at any one time.

Investment Indicators

The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator shows the Council's total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to be drawn down and guarantees the Council has issued over third-party loans.

Table 2: Total investment exposure in £millions

Total investment exposure	**31.03.2022 Actual £000**	**31.03.2023 Forecast £000**	**31.03.2024 Forecast £000**
Treasury management investments	143.37	120.00	120.00
TOTAL INVESTMENTS	**143.37**	**120.00**	**120.00**
Guarantees issued on loans	65.81	65.65	65.49
TOTAL EXPOSURE	**-77.56**	**-54.35**	**-54.51**

How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

Table 3: Investments funded by borrowing in £millions

Investments funded by borrowing	31.03.2022 Actual £000	31.03.2023 Forecast £000	31.03.2024 Forecast £000
Property Investments	2.80	2.64	2.48

Rate of return received: This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 4: Investment rate of return (net of all costs)

Investments net rate of return	2021/22 Actual	2022/23 Forecast	2023/2024 Forecast
Short & Long Term Treasury Management investments	0.34%	1.89%	2.50%
Long Term Treasury Management property investments	4.49%	3.57%	3.50%
Long Term Treasury Management multi asset investments	3.59%	2.70%	2.70%
Property Asset Investments	10.91%	8.00%	8.00%
ALL INVESTMENTS	**19.33%**	**16.16%**	**16.70%**

Agenda Item 6

ES/1373

EASTSUFFOLK COUNCIL

AUDIT & GOVERNANCE COMMITTEE

Monday, 12 December 2022

Subject	**CORPORATE RISK MANAGEMENT UPDATE**
Report by	Councillor Maurice Cook, Cabinet Member with responsibility for Resources Councillor Edward Back, Assistant Cabinet Member for Resources
Supporting Officer	Stacey Ransby Performance and Risk Officer stacey.ransby@eastsuffolk.gov.uk 01394 444232

Is the report Open or Exempt?	OPEN

Category of Exempt Information and reason why it is **NOT** in the public interest to disclose the exempt information.	Not applicable
Wards Affected:	All Wards

Purpose and high-level overview

Purpose of Report:

The purpose of this report is to provide the Committee with an overview on how the Council's strategic and operational risks are managed. It provides details on existing corporate risks including an overview of the risks and what is being undertaken to mitigate and control the risks.

To build on effective corporate risk management across the Council, it is recommended that the Committee reviews current risk reporting to ensure the reports continue to be useful and in an effective format. Members are asked to review the key risks on the register at regular intervals and consider corporate risk management when they are planning any future work programmes.

Options:

There are no options to be considered in relation to this report.

Recommendation/s:

That having commented on the corporate strategic risks from the Council's current Corporate Risk Register, governed and monitored by Corporate Governance Group, the Audit and Governance Committee notes its contents.

Corporate Impact Assessment

Governance:

The corporate governance of the Council is supported by ensuring it has an effective and robust risk management process in place to manage and monitor all risks, including strategic risks. Overall responsibility of corporate risks and governance is the responsibility of CGG. Risks are monitored, reviewed and clearly aligned to the East Suffolk Strategic Plan, with Strategic Plan theme meetings regularly reviewing risks relevant to each theme. Robust procedures are in place to ensure increased risks can be escalated to CGG to consider and approve inclusion onto the corporate risk register. All corporate and theme risks are reported to the Strategic Plan Delivery Board which dedicates a meeting on each theme.

ESC policies and strategies that directly apply to the proposal:

- East Suffolk Risk and Opportunity Management Strategy
- East Suffolk Strategic Plan

Environmental:

There are no direct environmental impacts arising from this report, other than risks relating to the environment (e.g. flooding).

Equalities and Diversity:

An Equality Impact Assessment is not required as the recommendations of this report do not require changes in policy and service delivery.

Financial:

No specific impacts.

Human Resources: No specific impacts.
ICT: No specific impacts.
Legal: No specific impacts.
Risk: This report provides information on the risk management process and procedures within the Council and full details and progress on the Council's corporate risks.

External Consultees:	None.

Strategic Plan Priorities

Select the priorities of the Strategic Plan which are supported by this proposal: *(Select only one primary and as many secondary as appropriate)*		**Primary priority**	**Secondary priorities**
T01	**Growing our Economy**		
P01	Build the right environment for East Suffolk	☐	☐
P02	Attract and stimulate inward investment	☐	☐
P03	Maximise and grow the unique selling points of East Suffolk	☐	☐
P04	Business partnerships	☐	☐
P05	Support and deliver infrastructure	☐	☐
T02	**Enabling our Communities**		
P06	Community Partnerships	☐	☐
P07	Taking positive action on what matters most	☐	☐
P08	Maximising health, well-being and safety in our District	☐	☐
P09	Community Pride	☐	☐
T03	**Maintaining Financial Sustainability**		
P10	Organisational design and streamlining services	☐	☐
P11	Making best use of and investing in our assets	☐	☐
P12	Being commercially astute	☐	☐
P13	Optimising our financial investments and grant opportunities	☐	☐
P14	Review service delivery with partners	☐	☐
T04	**Delivering Digital Transformation**		
P15	Digital by default	☐	☐
P16	Lean and efficient streamlined services	☐	☐
P17	Effective use of data	☐	☐
P18	Skills and training	☐	☐
P19	District-wide digital infrastructure	☐	☐
T05	**Caring for our Environment**		
P20	Lead by example	☐	☐
P21	Minimise waste, reuse materials, increase recycling	☐	☐
P22	Renewable energy	☐	☐

P23	Protection, education and influence	☐	☐
XXX	**Governance**		
XXX	How ESC governs itself as an authority	☒	☐

How does this proposal support the priorities selected?

Governance

Risk management ensures good governance and assurance that risks are managed, identified and monitored in an effect manner. Mechanisms are established and embedded within the Council and responsibilities are clearly identified with management and processes allowing risks to be escalated, when required, onto the corporate risk register. All risks within the ESC Risk Register are assigned to a strategic theme within the East Suffolk Strategic Plan which ensures risks are managed effectively. The Risk Management Framework (Appendix B) clearly demonstrates the management of risks within the Council.

Risk management supports all themes and priorities of the Strategic Plan

Background and Justification for Recommendation

1	Background facts
1.1	**Audit and Governance Committee** The Audit and Governance Committee has responsibility for overseeing risk management for East Suffolk Council. Corporate risk management is the processes and structures by which the business and affairs of the Council are directed and managed. This is to improve long-term stakeholder confidence by enhancing corporate performance and accountability. An annual update on Corporate Risk Management is reported to Audit and Governance Committee.
1.2	**Overview** Corporate risk management is about building credibility, ensuring transparency and accountability as well as maintaining an effective channel of information disclosure that would foster good corporate performance. Risk management also covers opportunity management.

2	Current position
2.1	**Management of Risks** The Council's approach to corporate risk management is to embed risk management across the Council so that it is the responsibility of all managers and teams rather than side-lined to be managed by one team. Overall Risk Management sits within the Digital & Programme Management service area, it is aligned to the management of the Strategic Plan and includes providing risk management advice and support to all officers across all services. The Chief Finance Officer has specific responsibilities as Section 151 Officer, including ensuring assets are safeguarded and insurances in place, and the Head of Internal Audit takes an independent review of the governance of risks, however all Heads of Service ensure that risks within their area are recorded and managed appropriately, in line with the Risk Management Framework (Appendix B). This framework clearly identifies monitoring and reviewing risks; recording and reporting; and communication and consultation. CGG has overall responsibility to oversee the approach to risk management within the Council including its regular review and monitoring.
2.2	**Risk Management processes** Risk registers form part of performance reporting and are designed to be living documents, updated regularly. The CRR covers risks which affect our ability to achieve long-term Council objectives including those within the East Suffolk Strategic Plan and those which may affect service delivery or our district as a whole. Risks within the CRR state the cause, event and effect. For example, "as a result of bad weather, there is a risk that staff will not be able to get to the office and undertake their work which will result in unhappy service users and increased complaints."

	Governance arrangements for the East Suffolk Strategic Plan ensure that risks are identified for each theme and continue to be monitored and managed effectively ensuring high level risk reporting takes place across the Council. All risks within the ESC Risk Register clearly identify the Strategic Plan theme they relate to and are managed and monitored at the relevant Strategic Plan theme meeting. Risks can be escalated from service areas and Strategic Plan Theme meetings to CGG for consideration and inclusion in the CRR, this process also allows risks to be moved or lowered (e.g., a corporate risk to be moved to the theme risk register). The Risk Management Toolkit (Appendix A), developed with Zurich Insurance, is used to assess and manage corporate, operational, project and partnership risks. The Council's intranet has a dedicated Risk Management page containing useful information, including guidance, training presentations/documents, East Suffolk Risk and Opportunity Management Strategy, Corporate Risk Registers and CGG Terms of Reference.
2.3	**East Suffolk Risk and Opportunity Management Strategy** The East Suffolk Risk and Opportunity Management Strategy provides a clear purpose of risk management ensuring it is robust and provides comprehensive details on the governance and management of risks. The Strategy also includes opportunities arising from risk management and the risk management process is demonstrated including risk escalation, monitoring and review; roles and responsibilities; aims and objectives and the Council's risk appetite. Independent experts, Zurich Insurance, undertook a health-check of the Strategy at the end of 2021 which provided the Council with validation that the Strategy is fit for purpose and meets good practice. Audit and Governance Committee approved the Strategy on 13 December 2021. The Strategy will be reviewed by CGG in January 2023 and if significant amendments are required these will be reported to Audit and Governance Committee.
2.4	**Key Categories for Managing Risks** For the purposes of effectively managing risk, and in accordance with best practice, the Council manages risk within five categories: • **Corporate (also known as 'Strategic')** risks which affect our ability to achieve long-term Council objectives, such as those in the East Suffolk Strategic Plan. These are recorded in the Corporate Risk Register (CRR) and reviewed by Strategic Plan Theme Teams, Corporate Management Team and monitored by CGG. • **Service Level risks** are those that affect the ability to deliver each theme and its priorities within the East Suffolk Strategic Plan. Risks are identified, monitored and regularly reviewed as part of the framework to deliver objectives and corporate risks relevant to each theme are also reviewed. • **Operational risks** are those that affect the day-to-day business of a service; for example, staff absence and its impact on service delivery. These are recorded, identified and managed by service areas. Heads of Service are expected to report high level risks within their service area at the relevant Strategic Plan Theme meeting and/or CGG and, where relevant, these would be escalated to the CRR. • **Health and Safety** includes health and safety of service users as well as staff and councillors. This is overseen by Environmental Services and Port Health.

	Information, policies and risk assessments are available on the Council's intranet. • **Emergency Planning and Business Continuity** are the responsibility of the Head of Operations. Emergency Planning and internal Business Continuity Services for the Council are provided by the District Emergency Planning Officer and the Emergency Planning Officer, employed by the Suffolk Joint Emergency Planning Unit. This enables the Council to react effectively to infrequent Major Emergencies, in partnership with other agencies, as required by the Civil Contingencies Act 2004. Further information is available on the Council's Intranet, while general information on the multi-agency response to Major Emergencies, together with plans available for public scrutiny are available at www.suffolkresilience.com
2.5	**Project Risks** Project risks are managed according to the risk management process toolkit. Details of risks are included in document templates for projects and business case appraisals. Links to the relevant documents are included in the Project Management Framework. Each significant project should have its own risk register allowing Project Managers to actively manage risks and Project Boards to monitor those risks.
2.6	**DEVELOPMENT AND PROGRESS IN MANAGING RISK** **Risk Management E-learning Module** The Risk Management e-learning module continues to form part of the induction process and is mandatory for all new staff to undertake training within one month of employment. Further training or guidance on risk management is available. **Risk Management Training Programme** As part of the Risk Management Training Programme the Council's insurance providers and advisors, Zurich Insurance Group, facilitated the annual 'Horizon Scanning and Corporate Risk Challenge' session for CMT (and nominated senior officers) on 31 October 2022. It clearly demonstrated that risks relevant to the Council, and identified within the global risk report, are captured within the Corporate Risk Register. The session reviewed and challenged existing corporate risks and any potential risks the Council needed to identify. Zurich Insurance provided assurance that the Council has a mature risk process in place and good management of risks. **Risk Appetite:** The next stage is to further strengthen risk appetite across risks and work will continue on all corporate risks. **Project Management Framework Review** A full review of the existing Project Management Framework (including business case appraisals) is underway and risk management will continue to be a core element.
2.7	**CORORATE RISKS** This section provides details on progress being undertaken to achieve specific targets, meet risk scores of existing corporate risks and includes new risks. There are currently 24 risks on the Corporate Risk Register. • 6 red risks • 14 amber risks • 4 green risks

	The risk management toolkit/matrix (Appendix A) is used to assess risk scores and monitor and manage all risks. **Red Risks:** **Cost of living crisis (Red B3, high likelihood, major impact)** A significant risk to the Council is the cost-of-living crisis impacting on individuals, families and communities in East Suffolk. The Council is already experiencing increasing pressure on existing resources to meet increasing demand to support all those in need. This pressure is particularly on services of communities, housing and revenues and benefits, and there is also pressure on council finances to meet needs through hardship grants and other forms of support. There is potential for increased rent debt (impacting on ESC incomes) and house repossessions leading to increasing levels of homelessness and more deprivation across the district. Universal credit changes and sanctions will lead to more people seeking help to access emergency support (food, energy and financial). One way ESC is supporting communities with the cost-of-living crisis is through the Community Partnership Board and eight Community Partnerships. The CPB has identified tackling inequalities as one of its priorities with a specific focus on financial inequality. A far-reaching Ease the Squeeze programme has been established with £100k allocated by the CPB to the programme and each member has allocated £1k from their community budget to the cost-of-living crisis which, combined with other funding has created a programme worth more than £700k. The programme includes twelve projects including Warm Rooms, Community Pantries, Cooking on a Budget classes and Field to Fork community growing space grants. Seventeen Ease the Squeeze roadshows have been delivered across the district and a dedicated webpage set-up providing information and advice, along with a ‘help with money’ form for people to complete who require additional focused support (more than 200 referrals received in ten weeks). Other initiatives in place include warm homes advice and grants, and ongoing support is provided to tenants. Grant schemes are in place for council tax discounts, housing benefits, discretionary housing payment and one-off hardship support. ESC works in partnership with other organisations such as DWP, other local authorities, community organisations, voluntary sector and police. The target risk score is C3 (amber) and will continue to be monitored by the Council and at Communities Theme meetings. **Failure to deliver the East Suffolk Strategic Plan due to appropriate capacity (Red B2, high likelihood, critical impact)** Risk relates to increasing pressure on resources to ensure delivery of aims and ambitions identified within the Strategic Plan to meet its priorities and the risk on the Council if these are not delivered. Contributing factors of this risk relate to pressure to meet aspirations identified; the number of significant projects which have the same timeframe and require the same officers to deliver; and additional finance. Increasing prices, supply chain issues and the need for additional staff/ resources could potentially require use of reserves are also impacting on this risk. It had also been identified that in order to deliver Strategic Plan ambitions there is potentially short-term pain but long-term gain (e.g. to meet environmental aspirations significant funding required but long term benefits on the environment and savings). Each Strategic Plan Theme had identified risks relating to the delivery of the Strategic Plan. Risks are continuing to be monitored including at the Financial

	Sustainability Theme meetings. Target risk score is C3 (amber) and work continues to mitigate this risk. **Risk to effectively manage and control the Council's finances due to ongoing and uncertain significant increase in inflation rates (Red B2, high likelihood, critical impact)** New risk relating to pressure on council finances due to increasing inflation rates which are continuing to rise. Significant supply chain issues impacting on delivery of services and projects across the Council. Delays for work impacting on housing for reoccupation and new schemes. Increase on energy consumption for council's buildings, assets and implications of facilities operated by third parties (e.g. leisure centres). Fuel increases impacting on vehicles, particularly refuse freighters. If risk not managed effectively could result in budget gap increases and additional pressure to use reserves. The Council has controls in place and financial management and processes established. Medium Term Financial Strategy, Treasury management and capital programme are regularly reported to Cabinet and a Procurement Strategy is in place. Regular meetings are also held with local government organisations. Target is D4 (green). **Failure to deliver import checks required in new Target Operating Model (TOM) (Red B2, high likelihood, critical impact)** Risk relates to required EU import checks that are no longer required (as of April 2022) and a new Target Operating Model (TOM) is being designed for all future import controls (EU and third country). Funding for all staff recruited for EU import checks have been withdrawn from central government. SCHPHA cannot continue to fund 12-hour staff recruited for EU checks as there is now no income stream for this work before the implementation of the new TOM. The specification of the TOM has not been published, this was due in Autumn 2022, for implementation in late 2023. The details of the TOM will determine staff levels required, income, training requirements, timeframe to get legislative changes operationalised. This will have a significant impact on the delivery of Port Health controls. Controls and mitigations are in place to manage the impact of this risk. The target score is B4 (amber) and will continue to be reviewed and monitored. **Coastal Management – Incident management – flood risk (Red B1, high likelihood, catastrophic impact)** Potential of flooding and tidal surges in the short-term and the long-term remains high, particularly as the Council has a large coastline and the impact this would have on properties, communities and businesses. There is also a possibility of more frequent flooding and tidal surges due to the impact of climate change. ESC is part of Suffolk Resilience Forum and continues to work with other agencies. Work was undertaken to develop crisis response plans which will also involve regular review in future. Targeted actions include Coastal Partnership East producing an incident response protocol with incident response 'Civil Contingencies, Environmental Health and Building Control' (as appropriate with local authorities) and with others depending on flood risk sources. Due to the nature and uncertainty of this risk it cannot be eliminated, however, work continues to monitor and manage its impact. Target risk is B4 amber. The aim is to ensure the impacts and effects of all coastal management risks reduce on those affected through either improved defences, improved warning or by adaptation measures, the target risk review date is 2025

which will allow time to see the outcome of our Resilient Coast project pilots and progress on Lowestoft which will be advanced.

High profile or major coastal erosion or coastal incident (Red B2, high likelihood, critical impact)

There remains a high possibility for major erosion, slip or a tidal surge incident along the East Suffolk coastline which could be catastrophic to life or loss of public or private assets. Monitoring of weather and surge reports is undertaken with appropriate engagement with civil contingencies team, East Anglia and Suffolk and Norfolk Resilience Forums. Out of office cover and emergency plans are in place. 'Peace-time' work is due to be undertaken with wider local authority teams to establish resources and responsibilities in an erosion event. Work continues on incident management with Building Control, Housing and Communities teams with the wider Council impacts from erosion requiring multi-team/agency response with homeowners, utilities and public. An emergency event plan is to be developed in conjunction with other relevant service areas and external partners e.g. Coastguard, Utilities, Police and implemented in key erosion locations. Funding from our IRF bid will help with awareness raising and community planning. Target risk score is C3 (amber).

Amber Risks:

Cost of living crisis on Council's income streams (Amber B3 , high likelihood, major impact)

This is the second risk relating to the current cost of living crisis. This risk relates to the significant pressure on council finances due to the crisis and uncertainty of the full impact on its communities requiring support and the direct financial impact to the authority (e.g. non-payment of council tax/business rates, increase in benefits, rents not paid, etc). ESC has robust financial management controls in place including the MTFS and regular reporting to Committees. Grant schemes are also in place including council tax discounts, housing benefits, discretionary housing payment and one-off hardship support. The target score is C3 (amber) and work will continue to mitigate this risk.

Failure to protect lives and properties against from flooding/tidal surges (Lowestoft) (Amber C2, significant likelihood, critical impact)

Due to ESC having a large coastline the threat of flooding and tidal surges is a risk for the Council. National flood warnings and measures are in place, including procedures to warn people to vacate properties. Overall risk is relatively low, however, Lowestoft remains a higher risk. At present, there is a temporary barrier in Lowestoft, regularly tested and deployed in significant tidal surges to protect Lowestoft central, and work is underway to construct the tidal flood walls and tidal barrier by 2029. The target score is green D4 (low likelihood, marginal impact) and although the project is progressing the risk will not be reduced until the scheme is in place.

Recruitment of staff to key positions resulting in failure to deliver services (Amber C3, significantly likelihood, major impact)

Risk identified following ongoing issues to recruit staff to key and specialist positions within the Council which is significant and will increase if no action is taken. For some positions there had been a lack of applications for vacancies with positions remaining unfilled. In some instances, threshold/calibre required to undertake roles had not been met with successful candidates requiring additional support and

	training and positions having to be readvertised resulting in additional time required for recruitment process. Recruitment is also a national issue and local authorities and other public sector bodies are unable to compete with competitive salaries offered by the private sector. Work continues to monitor this risk and a new People Strategy was implemented in 2022 and addresses succession planning, career development and retention of existing staff. Liaison continues to take place with CMT and managers across the council and job descriptions are regularly reviewed and job evaluations undertaken every three years. Within the Horizon Risk/Challenge session, facilitated by Zurich Insurance, this risk was discussed and noted that there are many benefits working for local authorities including being rewarding and a good environment to work. Target score of D4 (green) and work will continue to monitor at senior level. **Failure to deliver consultants recommendations to effectively manage environmental impact of oil deposits on Gunton Beach (Amber C3, significant likelihood, major impact)** Due to increased exposure of oil deposits on Gunton Beach following oil spill from a collision between an oil tanker and an ore carrier 43 years ago. Part removal of contamination carried out at the time, the remainder was left in situ. Coastal erosion likely to further expose oil deposits with situation likely to worsen over next two years. Remediation work could potentially accelerate erosion and exacerbate the risk of Anglian Water sewer pipes becoming exposed to damage by the sea. Also implications if WWI/II bombs/ mines present. A further survey of the beach was undertaken in July 2022 and the results will inform any further action required. Target score green F5 (almost impossible likelihood, negligible impact). **Housing Regulation – Breach of the Rent Standard and the 'Home' Consumer Standard (Amber C3, significant likelihood, major impact)** ESC was found to be non-compliant with the Rent Standard and 'Home' Consumer Standard following self-referral to the Regulator for Social Housing. Rental charges dating back to ESC's predecessor authority WDC did not meet requirements set out in 'Rent Standard', with tenants who moved in after 2014 being charged higher rents. The review also included aspects of health and safety of properties, including fire risk assessments, asbestos management water safety, gas and electrical safety, etc. A number of controls and mitigating actions have now been undertaken including forensic audit of potential overpayments of rents which is due to be completed December 2022. A permanent Housing Health and Safety Board has been created and provides senior level monitoring, control and direct. A full asset review of St Peter's Court is underway. Report on progress will be taken to Full Council in January 2023. Regular monthly meetings being held with Housing Regulator. Target risk is D4 (green) and will be monitored on a regular basis, until the Regulatory Notice is withdrawn. **Failure to manage impact of Sizewell C (Amber C3, significant likelihood, major impact)** Risk relates Sizewell C and its impact on the area including environmentally, to the local economy and housing. Concerning the planning status, the decision on the DCO application was approved by Government. Deed of Obligation signed with the applicant to ensure there is a mitigation and compensation package in situ. This involves the need to recruit staff to various posts. Concerns on the recruitment to these posts if the consent is granted and the developer wishes to commence preparatory works in early 2023 with a view to comment the DCO following the Final

Investment Decision in late 2023. The target score is green D4 (low likelihood, marginal impact) and senior officers and members are working with communities to maximise potential whilst minimising the impacts. This includes ensuring economic advantages to the local economy relating to the creation of jobs and training and infrastructure. Construction is due to start in late 2023. A hothouse involving Planning, Economic Development and Regeneration, Communities and Housing is also due to be held early in 2023 to consider impacts of development within East Suffolk.

Risk to life from fire spreading through St Peter's Court (Amber D1, low likelihood, catastrophic impact)

Risk relates to external cladding at St Peter's Court tower block. Whilst it is considered a low risk at present, due to non-compliance with manufacturer's installation requirements, it was agreed to procure the complete replacement of the exterior cladding. Remedial works to eliminate breaches in compartmentation throughout the building was commissioned. In October 2022, Cabinet approved virement of capital budget to ensure sufficient financials are available. Also improved and continuous communication with tenants relating to fire safety is taking place. The target score is F4 green is expected to be achieved following work identified from the full asset review of St Peter's Court which will be undertaken to provide robust data for decision-making about the future of the building with a report expected at the end of November.

Failure to produce and deliver a sustainable Medium-Term Financial Strategy (MTFS) including delivery of balanced Annual Budget (Amber D2, low likelihood, critical impact)

Risk continues to reflect uncertainty around national Government initiatives and their potential financial impact, delivery of key projects, and economic outlook.
'Financial Sustainability' is one of the key themes within the East Suffolk Strategic Plan, and the group overseeing this theme has focus on savings and income generation projects. The annual budget is approved by Full Council annually and the MTFS position is reviewed continuously. CMT works with Cabinet to develop and implement plans to deliver a sustainable balanced position. This risk also incorporates the delivery of a balanced annual budget and financial governance. Work continues to identify savings and income generation, and delivery and monitoring of key projects to achieve and maintain financial sustainability. Ongoing update of MTFS assumptions and variances. Updated draft MTFS was reported to Cabinet on 1 November 2022. Target score is D4 green (low likelihood and marginal impact).

Cyber-attacks including failure of ICT (Cyber security/resilience) (Amber D2, low likelihood, critical impact)

ICT resilience remains a key priority with ongoing review and updating of infrastructure, systems and processes to mitigate against evolving ICT risks. Specific measures are in place to address cyber security risks and Cloud facilities solutions continue to provide additional resilience. PSN accreditation provides assurance that ICT infrastructure, systems and processes are operating to industry best practice. Regular monitoring of the network takes place by including 24 hour/7 days a week monitoring which raises alerts when any abnormal incidents/threats occur resulting in immediate action to be taken. Target score D2 amber (low likelihood and critical impact) is being achieved.

	Failure to deliver against our 2030 Carbon Neutral target (Amber D3, low likelihood, major impact) Risk relates to failure to deliver against carbon neutral target. As part of this risk climate change is recognised as a high-level priority for the Council and is specifically identified within the Environment Theme in the East Suffolk Strategic Plan. The Climate Change Action Plan includes milestones to work towards the Council becoming carbon neutral by 2030. ESC is part of the Suffolk Climate Change Partnership and is working towards the aspiration of making Suffolk carbon neutral by 2030 with SCC and other partners across the county and region, including LEP and Public Sector Leaders. ESC continues to work with Government to deliver its 25-year Environmental Plan and increase the powers and resources available to local authorities in order to make the 2030 target achievable. It is also measuring renewable energy generated on the Council's own estate. The target score is green D4 which will continue to be monitored as work progresses on the delivery of the Climate Change Action Plan. **Safeguarding – Failure to protect most vulnerable in our communities and ensure they receive appropriate help from relevant authorities/organisations when safeguarding concerns are identified (Amber D3, low likelihood, major impact)** Risk remains amber but had improved from amber C2 (significant likelihood, critical impact). This is due to ongoing partnership working with other local authorities/ agencies through the Safeguarding Partnership. A safeguarding lead has also been recruited to work with the Head of Communities to ensure policies, processes and training continues to be effective. There is a risk that those who are vulnerable are unable to receive help needed due to not meeting the high threshold criteria of the Multi Agency Safeguarding Hub or MASH and other organisations despite being vulnerable and in need of safeguarding for a variety of reasons. Priority is to ensure all safeguarding concerns are appropriately reported and feedback is received on the outcome of referrals. ESC continues to liaise with other Suffolk authorities to try to address the gap in terms of thresholds and feedback loops. A corporate Services for All Group provides oversight of safeguarding and Equality and Diversity, and training had been delivered to staff and councillors to ensure compliance with policy and legislation and awareness of reporting procedures. It has been identified additional resources are required to ensure ESC is tackling this risk effectively. The target score is green D4 (low likelihood, marginal impact) and will be reviewed to assess progress. **Failure to meet legal requirements of Health and Safety of employees and others (Amber D3, low likelihood, major impact)** Statutory duty of the Council to ensure legal requirements relating to health and safety are complied with and met. Health and safety management audits are currently being carried out across all service areas to ascertain current compliance and identify areas where further support is required, a report will be taken to corporate Governance group once complete. A council wide health and safety training programme is also being developed to utilise the corporate online training platform as well as technical/practical training as required. Following analysis and further work relating to the audits the target risk of green D4 (low likelihood and marginal impact) should be achieved.

Loss of public confidence due to failure to adhere to member and officer code of conduct and promote and maintain Ethical Standards (Amber D3, low likelihood, major impact)

Due to the importance of maintaining and promoting Ethical Standards this risk remains a corporate risk. The Council's Audit and Governance Committee has a statutory duty to promote and maintain high standards of behaviour. Regular reports are made to the Committee about Standards. Declarations of interests, gifts and hospitality are made and monitored. The target score is E4 (green).

Ability to deliver the Capital Programme within timeframes and its continued affordability (Amber D3, low likelihood, major impact)

Risk had increased due to future uncertainty to deliver and on budget. Also due to ESC capacity to not be able to meet the Strategic Plan ambitions. A Capital Strategy is in place and reported annually to Cabinet. The East Suffolk Asset Management Strategy had been approved by the Council. Asset Management Investment Strategy implemented and used to inform decision making processes. For example, the purchase of a business park in Beccles was informed by the investment criteria set out in the Asset Management Strategy. The Strategy codifies and rationalises the basis for the Council's asset management decisions in a single adopted document. The target score is green D4 (low likelihood and marginal impact) which the revised Project Management Framework will help to mitigate.

Green Risks:

Failure to successfully implement, exploit development and business opportunities by creating LATCOs (Green D4, low likelihood, marginal impact)

Council unable to develop and exploit commercial opportunities including activation of Local Authority Trading Companies (LATCOs) and other in-house commercial opportunities. Risk that Government and professional sectoral guidance places restrictions on Council's ability to finance and deliver assets generating new income streams. Risk lowered from amber C3 due to LATCOs in place and significant work to ensure smooth transition to the new trading company, East Suffolk Services, in 2023 which has systems in place including a robust work programme and a new Managing Director and senior managers appointed. Target score is D4 green (low likelihood, marginal impact) is being achieved but will remain on register.

Physical and mental health wellbeing (staff and members) (Green D4, low likelihood, marginal impact)

Mental and physical wellbeing of staff and members continues to be a significant risk and included as a corporate risk. Controls and mitigations are in place to ensure support and counselling is available for all, including comprehensive details held on the Council's intranet and mental first aiders. The target score of D4 green has been achieved and this risk will continue to be reviewed.

Impact of potential pandemic outbreaks on service delivery (Green D4, low likelihood, marginal impact)

Risk updated to cover any potential pandemic outbreak (previously related to coronavirus). Risk will remain a corporate risk. Business continuity plans are in place and constantly reviewed to ensure that services operate effectively. Target risk is green D4 (low likelihood, marginal impact).

Frontline services not delivered if significant delivery contracts/partnerships fail (Green D4, low likelihood, marginal impact)

Risk score had reduced from amber C2 (significant likelihood, critical impact) to green D4 due to various factors including leisure contracts reviewed and in place and being managed effectively. Norse transition is also underway and a new LATCO has been established, East Suffolk Services, which will come into effect from June 2023 and extensive programme is in place to ensure a smooth transition of services. Partnership boards are established for all significant partnerships. Target score of Green D4 is being met and this risk sits within the Financial Sustainability Theme where is continues to be regularly monitored and managed.

Overview of Risk Ratings:

A summary of the current and target risk scores along with the projected direction of travel is detailed below. Work on risk appetite on all corporate risks will be undertaken which will also include review of target scores to ensure these are achievable.

Risk	Theme	Current	Target	Direction of Travel
Delivery of East Suffolk Strategic Plan	Governance	Red	Amber	↑
Incident management – flooding / tidal surges	Environment	Red	Amber	→
Major coastal erosion or coastal incident	Environment	Red	Amber	→
Failure to deliver import checks required in new Target Operating Model	Governance	Red	Amber	→
Inflation – uncertainty of inflation rates	Financial Sustainability	Red	Green	↑
Cost of living crisis (Communities)	Enabling our Communities	Red	Amber	↓
Cost of living crisis (Financial)	Financial Sustainability	Amber	Amber	↓
Capital Programme	Financial Sustainability	Amber	Green	↑
Medium Term Financial Strategy (MTFS) including delivery of balanced Annual Budget	Financial Sustainability	Amber	Green	↓
Cyber-attacks (Cyber Security Resilience)	Digital	Amber	Amber	→
Ethical Standards	Governance	Amber	Green	↓
Safeguarding – Failure to protect the most vulnerable in our communities	Enabling Our Communities	Amber	Green	↑
Flooding / tidal surges (Lowestoft only)	Environment	Amber	Green	→
St Peter’s Court	Governance	Amber	Green	→
Carbon Neutral target (2030)	Environment	Amber	Green	→
Sizewell C	Economy	Amber	Green	→
Oil deposits on Gunton Beach	Environment	Amber	Green	→
Health and Safety	Governance	Amber	Green	→
Recruitment and retention	Governance	Amber	Green	→
Housing Regulation – Breach of the Rent Standard and the ‘Home’ Consumer Standard	Governance	Amber	Green	→
Potential pandemic outbreaks delivery	Governance	Green	Green	↑
Creation of LATCOs	Financial Sustainability	Green	Green	↑
Significant contracts/partnerships	Financial Sustainability	Green	Green	↑
Physical and mental health and wellbeing	Governance	Green	Green	↑

	RISKS MOVED TO STRATEGIC THEMES: **Failure to deliver Housing Development Programme (Amber D3, low likelihood, major impact)** Risk relating to inadequate funding available to deliver the Housing Development Programme aspirations and manage increased costs and land supply availability is being managed and regularly reviewed within the Enabling Communities Theme. A significant amount of work has been undertaken including the implementation of the Housing Strategy which was approved by members along with the HRA Business Plan. Project management is also in place to ensure projects are managed effectively. The target score is green D4 (low likelihood, marginal impact) and work is continuing to deliver against the Housing Development Programme. **Failure to control escalating cost of waste collection/services (Amber C3, significant likelihood, major impact)** Risk is managed at Environment Theme level. There is some uncertainty on how waste services will continue to be managed effectively due to increased recycling charges, staff costs and disposal of materials which may result in significant costs to the Council. If costs escalate the Council may need to make radical decisions to remodel the service (for example, moving to less frequent black bin collections). In addition, there are areas of concern in the existing service that are causing cost pressures in the waste collection budget – for example, impact of contamination in central Lowestoft. A new Waste Manager is in post to assist with delivering improvements to processes such as round collections, and to lead on the council's response to the RAWS Strategy. Target score is green D4. **COMPLETED / CLOSED Risk:** **Failure to effectively support 'communities and businesses' in recovery phase and future outbreaks of Covid-19 (Amber C3, significant likelihood, major impact)** Risk relating to Covid-19 pandemic is now closed. A corporate risk relating to future pandemic outbreaks remains and will be monitored. Through the pandemic communities and businesses were supported fully including focus on supporting the vulnerable and providing support to businesses through the delivery of grants. **Failure of Other (smaller) Service Delivery Contracts/Partnerships (Green D4, low likelihood, marginal impact)** Risk relating to the impact of smaller service delivery contracts/ partnerships no longer identified as a corporate risk. Target score of green D4 achieved.

3	How to address current situation
3.1	Ensure that robust risk management procedures and processes meet the needs of the Council in continuing to provide good governance, ensuring risk processes continue to manage risks and allow for identification of new and emerging risks.
3.2	Ongoing review and monitoring of corporate risks.
3.3	Continue to deliver training on risk management as and when required.

4	Reason/s for recommendation
4.1	To provide assurance to members that good governance arrangements are in place to manage and monitor risks within the Council. Risks are reported regularly at Strategic Plan Delivery Board meetings. Training continues to be delivered on risk management including a Horizon Risk/Challenge session delivered by Zurich Insurance.
4.2	Members are fully informed of the current corporate risks within the Council and provided with information on what has been achieved and reasons as to why they are strategic risks, including current risks scores and target risk scores.

Appendices

Appendices:	
Appendix A	Risk Management Process/Toolkit
Appendix B	Risk Management Framework

Background reference papers:
None

Risk – and opportunity - management process and toolkit

This process is used to manage corporate, service, project, business case, and partnership risks and opportunities.

Roles
All members and officers have a responsibility to manage risk in their work. There are also specific responsibilities:

Cabinet	Consider risk when making decisions. Review key risks
Audit & Governance	Review strategy
CMT/SMT	Manage corporate risks. Escalate risks to CGG. Move corporate risks into team or service registers. Raise risks at meetings.
Team Leaders	Manage own risks. Update senior managers Escalate risks

Step 1: Identify

Do this at least once a year

- Look at the Strategic plan/business plans, especially priorities. What might stop your team delivering the Council's priorities – or delivering your service plan?
- Consider the types of risk
- Brainstorm with colleagues
- Examine trends; Analyse last year's problems
- Review information from other councils / situations
- Be aware of new initiatives / agendas & regulations
- What opportunities are there?

Do this frequently

- What might stop you delivering your service?
- Review situation. Brainstorm with team.

Step 2: Analyse - Capture the main elements to a risk or opportunity

Cause	If / As a result of…	**As a result of** bad weather
Event	Then / There is a risk that…	**there is a risk that** staff will not be able to get to the office to do their work
Effect	So / Which will result in…	**which will result in** unhappy service users and increased complaints

Step 1: Types of risk / opportunities (with examples): *What if…?*

Political	Change of political control locally or nationally
External	Changes outside the council's control
Assets	Property – land, buildings, and equipment
Economic & Social	Recession, deprivation, population growth, ageing population, changing demographic of area
Social	Population growth; aging population
Governance	Compliance requirements; controls
Communication & Relationships	Failure of systems; potential new partnerships
Legislative or Regulatory	Fail to meet requirements; law changes, legislation
Customers	Changing needs and expectations; poor quality/reduced service delivery
Partnerships	New initiatives, ways of working, policies/procedures, new relationships
Financial	Impact on budget; financial management regulations; interest rate change; financial loss; arrangements
Strategic / operational	Fail to meet Strategic Plan or team objectives
Resources (incl. HR, IT, Finance)	Staff illness; succession planning; system failure; new software; budget cut
Legal	Breach of contract; improved terms
Environmental	Extreme weather events; floods; good summer
Roles & Responsibilities	Using staff skills; lack of qualified staff
Stakeholders & Relationships	Disagreements; changed priorities
Change Management	Low staff morale; improved efficiency

For information on risk management, performance & policy, contact Stacey.ransby@eastsuffolk.gov.uk 01394 444232, Digital and Programme Management
Updated: Sept 2021

Risk – and opportunity - management process and toolkit

Step 5 - Monitor

Review the Register with colleagues (for example, as part of your Service Plan) at least quarterly

- What has changed?
- New risks or opportunities?
- Need to report or escalate risks?
- Have rankings changed?

Step 4 – Mitigate

- Assess current actions and controls: Are they adequate or more needed?

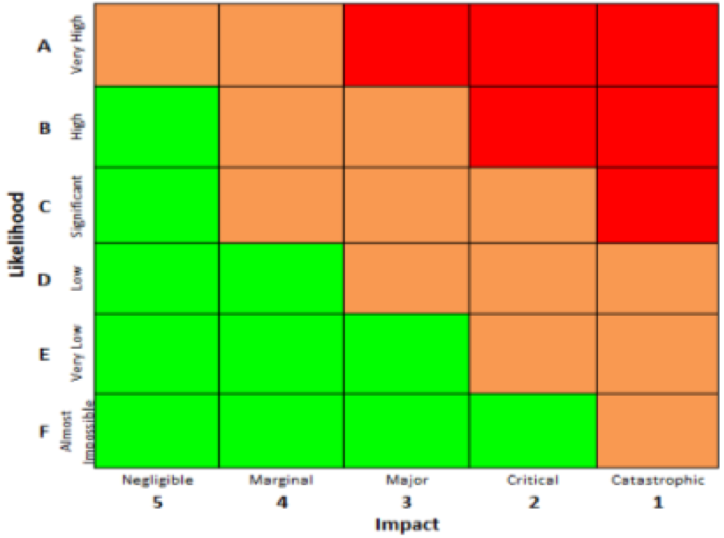
Treat – Accept -Terminate - Transfer

- Within your Service Plan - develop specific SMART actions that will either reduce the likelihood of the risk or minimise the impact – or maximize an opportunity and increase its likelihood.
- What should score be after taken action taken?
- Should this risk be escalated?

	Likelihood	%	Description	Proximity/ Timing
A	Very High	90%	Event is very likely to occur.	Within current financial year
B	High	60% - 90%	Strong possibility the event will occur.	Will occur at least once per year
C	Significant	30% - 60%	Will probably occur in most circumstances	Will occur within next 4 years
D	Low	15% - 30%	Risk event likely to occur at some time.	Likely to occur once in 4 to 6 yrs
E	Very Low	5% - 15%	Risk event could occur at some time.	Likely to occur within 6 to 10yrs
F	Almost Impossible	0% – 5%	May occur only in exceptional circumstances. Extremely unlikely or virtually impossible.	May occur once within 10 to 50 yrs

Step 3 – Prioritise using the matrix below

- How likely is this? How soon might it happen?
- How big an impact will it have?

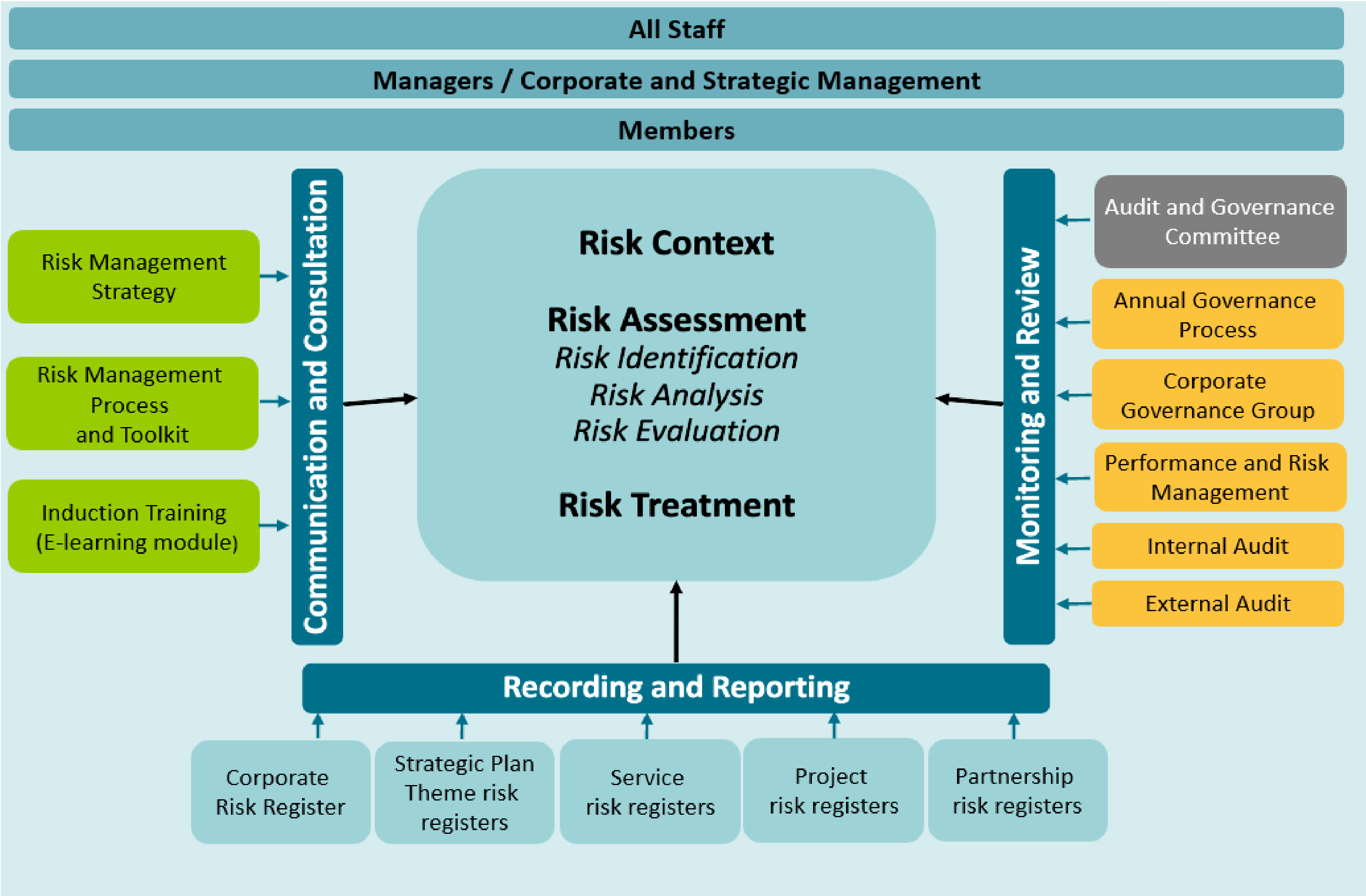


	Impact	Service / Operational	Project or programme	Strategic	Financial	Opportunity
1	Catastrophic	Service suspended long-term or taken over. Statutory duties not delivered.	Milestones missed; key deliverables not achieved.	Corporate objectives not met; Mass staff leaving/unable to attract staff. Remembered for years, mentioned in Parliament.	In excess of authority's available balances, finances/ reserves wiped out.	Significant performance improvement, savings or income of 70%, service transferred.
2	Critical	Service suspended medium-term or taken over temporarily. Key objectives missed.	Project reduced/suspended in the medium-term. Major milestones & KPIs missed (red)	Statutory requirements not met. Industrial action, adverse national publicity.	£5m and above	Service transferred, savings/income 50%-70%
3	Major	Service reduced / suspended short-term / taken over for a minimal period. Key objectives or KPIs missed (annual - red) within one team/ service, or more than one service affected.	Project delayed / suspended short-term. Some major milestone, or KPIs missed (red).	Industrial action, adverse local and national publicity.	Over £1m less than £5m	Part of service transferred savings/income 30%-50%.
4	Marginal	Service slightly reduced Within one team/service some objectives or KPIs missed (amber annual, red quarter).	Project slightly delayed Some objectives or KPIs missed (amber).	Adverse local media, impact on an external inspection (s), some hostile relationships and minor non-co operation.	Over £½m less than £1m	Positive local media, financial impact 10%-30%, all PIs met, some partnership working.
5	Negligible	No impact on annual service, performance or team objectives.	No impact on: final project due date, performance or objectives.	No effect on morale No effect on reputation or partnership. No media attention.	Less than £½ m	No impact on team objectives or performance. Financial impact below 10%.

Risk Management Framework

In accordance with ISO 31000:2018 guidance

EASTSUFFOLK COUNCIL



Agenda Item 7

ES/1374

AUDIT & GOVERNANCE COMMITTEE

Monday, 12 December 2022

Subject	Revised Internal Audit Plan 2022/23
Report Champions	Councillor Maurice Cook, Cabinet Member with responsibility for Resources Councillor Edward Back, Assistant Cabinet Member for Resources
Supporting Officer	Siobhan Martin Head of Internal Audit siobhan.martin@eastsuffolk.gov.uk 01394 444254

Is the report Open or Exempt?	OPEN

Category of Exempt Information and reason why it is **NOT** in the public interest to disclose the exempt information.	N/A
Wards Affected:	All Wards

Purpose and high-level overview

Purpose of Report:
This report presents the proposed revised Internal Audit Plan for East Suffolk Council 2022/23. Each Head of Service has been informed of the amendment to the plan in their relevant area.
Options:
The use of consultants or agency staff to undertake some of the planned work has been considered, but at this stage is deemed as not a viable option. Utilising partner Council resources is not feasible since they are also facing staff vacancy issues.

Recommendation:
That having commented upon the revisions made the Audit and Governance Committee approve the Internal Audit Plan 2022/23.

Corporate Impact Assessment

Governance:
Internal Audit reports, advice, and recommendations all aim to create and foster a robust corporate governance foundation to support sustainable services for all stakeholders. As a consequence, the Internal Audit Service aims to mitigate the risk of losses arising from error, irregularity, and fraud. In addition, efficiency, effectiveness, and economy reviews form part of the work undertaken, and this represents a fundamental function in delivering the Council's corporate governance responsibilities.
ESC policies and strategies that directly apply to the proposal:
The Audit and Governance Committee is directly responsible for supporting good governance arrangements and practices at the Council, which underpin the Council's entire strategic and operational workings including the East Suffolk Strategic Plan. The Internal Audit Plan of work provides independent, fact-based evidence to senior management and the Audit and Governance Committee on the actual effectiveness of Council activities which support the East Suffolk Strategic Plan. The implications and benefits of agreed recommendations produced by the Internal Audit Service contribute to the Council's overall objectives by improving controls and processes, which contribute towards efficient and effective management of services.
Environmental:
This report does not require a Sustainability Impact Assessment.
Equalities and Diversity:
This report does not require an Equality Impact Assessment.
Financial:
The Local Government Act 1972 and the Accounts and Audit Regulations 2015 require principal local authorities to '…undertake an adequate and effective internal audit of its

accounting records and of its systems of internal control in accordance with the proper practices in relation to internal control’.
Human Resources: There are no direct human resources implications to this report.
ICT: There are no direct ICT implications to this report.
Legal: The Local Government Act 1972 and the Accounts and Audit Regulations 2015 require a relevant authority to ‘…undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance’.
Risk: A crucial element within the Council’s risk environment is the implementation of the recommendations put forward by Internal Audit and agreed by Management.

External Consultees:	No external parties were consulted in the preparation of this report.

Strategic Plan Priorities

Select the priorities of the Strategic Plan which are supported by this proposal: *(Select only one primary and as many secondary as appropriate)*		Primary priority	Secondary priorities
T01	**Growing our Economy**		
P01	Build the right environment for East Suffolk	☐	☐
P02	Attract and stimulate inward investment	☐	☒
P03	Maximise and grow the unique selling points of East Suffolk	☐	☒
P04	Business partnerships	☐	☐
P05	Support and deliver infrastructure	☐	☐
T02	**Enabling our Communities**		
P06	Community Partnerships	☐	☐
P07	Taking positive action on what matters most	☐	☒
P08	Maximising health, well-being and safety in our District	☐	☒
P09	Community Pride	☐	☐
T03	**Maintaining Financial Sustainability**		
P10	Organisational design and streamlining services	☐	☒
P11	Making best use of and investing in our assets	☐	☒
P12	Being commercially astute	☐	☒
P13	Optimising our financial investments and grant opportunities	☐	☒
P14	Review service delivery with partners	☐	☒
T04	**Delivering Digital Transformation**		
P15	Digital by default	☐	☐
P16	Lean and efficient streamlined services	☐	☒
P17	Effective use of data	☐	☐
P18	Skills and training	☐	☐
P19	District-wide digital infrastructure	☐	☐
T05	**Caring for our Environment**		
P20	Lead by example	☐	☒
P21	Minimise waste, reuse materials, increase recycling	☐	☐
P22	Renewable energy	☐	☐
P23	Protection, education, and influence	☐	☐
XXX	**Governance**		
XXX	How ESC governs itself as an authority	☒	☐
How does this proposal support the priorities selected? Internal Audit supports a robust corporate governance framework. The work of Internal Audit Service via the Internal Audit Plan represents a fundamental function in delivering the Council's Corporate Governance responsibilities.			

Background and Justification for Recommendation

1	Background facts
1.1	This report is being presented to the Audit & Governance Committee in accordance with the Committee's terms of reference which stipulate that the Committee is to 'approve, (but not direct) internal audit's work plan.' Also 'to promote the value of the audit process.'
1.2	The Audit and Governance Committee is responsible for overseeing the application of audit resources and monitoring performance of the audit function.
1.3	Internal Audit Services acts in accordance with the Accounts and Audit Regulations (2015) and aims to follow the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (2019). This report has been prepared in accordance with our Audit Charter.
1.4	The work of the Internal Audit Service is to provide independent assurance and report upon the effective and efficient application of internal controls, governance arrangements and value for money at the Council. All Internal Audit reports form part of the crucial evidence to enable the Chief Executive and Leader of the Council to sign the Annual Governance Statement (the obligatory statement along with the Annual Accounts.) External Audit may also consider Internal Audit work to ensure that system controls are adequate and effective.
1.5	Internal Audit work aims to ensure services comply with the Council's Constitution and Code of Corporate Governance. Internal Audit reports make recommendations to address any weaknesses identified and give direction on how to support continual improvement by providing professional advice and guidance.

2	Current position
2.1	This report presents a revised risk-based Internal Audit Plan for 2022/23 as reviewed with the Chief Executive and relevant Senior Officers.
2.2	The risk based Internal Audit Plan is influenced by the resources made available by the Council for Internal Audit work. A careful balance must be achieved in terms of keeping audit costs at a realistic level, whilst recognising that there is a minimum level of coverage that must be undertaken to ensure good governance and internal controls are in operation. In this respect, the Internal Audit Plan for 2022/23 that was agreed by Audit & Governance Committee on 14 March 2022 was at that time considered to have been a realistic plan of action.
2.3	Since the Internal Audit Plan 2022/23 was approved a number of amendments have needed to be accommodated due to external factors impacting on service areas, new emerging risks, and changes to available resources.
2.4	**Factors impacting on service areas** The Internal Audit Plan 2022/23 is designed to engage with service areas at an appropriate time, aligning with their work plans and risks whilst ensuring that the audit process has minimal impact on their day-to-day operation. Where service area work plans are affected by factors that were not anticipated when the audit plan was developed and the timing of an audit would be detrimental to service delivery, the Head of Internal Audit will consider the assurance benefit of

	the proposed audit and the need for assurance to support the Annual Audit Opinion. The following are recognised factors that may impact on a service area in-year: • Impact on key staff or teams within a service area due to exceptional circumstances or increased workload, e.g. where staff are currently heavily involved in priority corporate projects such as the Local Authority Trading Company/s (LATCo) development and would be unable to support an audit in addition to their other commitments. • Absence of key staff within the service area, e.g. due to recruitment • Internal self-assessment quality and improvement reviews where internal audit assurance would be more beneficial later in the program. • Delays in project implementation • Changes in government or corporate policy, e.g. deregulation Where possible internal audit will work with services areas to agree a timescale so that even if temporarily delayed the audit can be completed within the current year. Where this is not possible and the balance of risk and good governance allows, the Head of Internal Audit may recommend the deferral of an audit review.
2.5	**Emerging risks and requirements** The Internal Audit Plan 2022/23 is a dynamic plan, designed to recognise that changes in service delivery and risks occur. Where processes are introduced or changed Internal Audit will engage with service areas to ensure any impact on service risk is reassessed in the context of the Internal Audit Plan. Where service area experiences change in-year, e.g. by the introduction of new legislation or regulations, introduction of new government or corporate policy, or the introduction of new schemes or assurance requirements, the Head of Internal Audit will consider the assurance benefit of the proposed audit and the need for assurance to support the Annual Audit Opinion. Where appropriate and necessary the Head of Internal Audit may recommend the addition of an audit review. In order to support any essential new audits within the finite resources available to the internal audit team the Head of Internal Audit will consider the balance of risk and may recommend the deferral of an audit review previously included within the Internal Audit Plan. Deferrals made in order to release resources for a new audit on an emergent risk will generally only be recommended at year end once it is clear that no opportunities to retain a given audit in the Internal Audit Plan are available.
2.6	**Staff resources** IT auditing is provided as part of the contract arrangement between Ipswich Borough Council and East Suffolk Council. The role of IT Principal Auditor has been vacant since April 2020 due to unsuccessful recruitment. Internal audit successfully recruited two senior auditors in 2022/23 and once induction and training is completed will be fully resourced. However, resources are reducing from January 2023 due to a senior member of staff leaving the organisation. It is unlikely that this role will be filled until at least the new financial year and there will be a vacancy of a senior FTE for the remaining of the Internal Audit Plan 2022/23.

2.7	The Head of Internal Audit, using a risk-based approach, has revised the 2022/23 Internal Audit Plan by deferring several assurance audits. These will all be proposed as potential audits for the 2023-24 risk-based audit plan. The revised Internal Audit Plan coverage detailed in the table below ensures that the Audit Plan addresses current risks and is sufficient for the Head of Internal Audit to issue an annual opinion upon the governance arrangements at the Council for 2022/23.

Revisions to the Internal Audit Plan since April 2022 (Service Area Assurance and Consultancy Activity)

Service Area	Audit	Status	Comments
Corporate and Cross-Cutting	COVID-19 Business Grant counter-fraud support	In Progress	
	BEIS Post payment assurance (Round 1)	Completed	Non-opinion and no report required
	BEIS Post payment assurance (Round 2)	Addition (Completed)	Additional requirement received in August 2022 Non-opinion and no report required
	Payroll (system migration)	In Progress	
	Grant Funding	Pending	
	Strategic and Commercial Partnerships	Completed	Non-opinion and no report required
	Safeguarding	Pending	
	Use of Consultants	Deferred	Risk reassessed for the reasons given in sections 2.4-2.6
	Local Authority Trading Company (LATCO) Hothouse 2022/23	Addition (Completed)	Attendance at the Hothouse event Non-opinion and no report required
Economic Regeneration	Towns Fund Governance (Lowestoft)	Pending	
	UK Shared Prosperity Scheme	Addition (In Progress)	New grant funding scheme launched in 2022/23 Audit will support the development of the scheme
Environmental Services and Port Health	Port Health PRS Project due diligence	In Progress	
	Port Health Income Collection	In Progress	
	Port Health Fee Setting and Income Budget	Addition (In Progress)	Split from the original Port Health Income audit based on service area needs
	SCC COVID-19 Test and Trace Support COMF (Certification)	Completed	Assurance opinion: Effective
	Port Health Cyber Essentials	Deferred	Awaiting recruitment of a qualified IT Auditor
Financial Services	Key Financial Controls	Pending	
	Implementation of the CIFPA Code of Practice	Deferred	Risk reassessed for the reasons given in sections 2.4-2.6
	Budget Monitoring	Pending	

Service Area	Audit	Status	Comments
	Council Tax and Recovery of Benefits Overpayments	In Progress	
	Council Tax Billing and Housing Benefits	In Progress	
	Bailiff Services	In Progress	
	Business Rates (NNDR)	In Progress	
	COVID-19 Test and Trace Self-Isolation Grant Certification	Completed	Assurance opinion: Reasonable
	COVID-19 ad hoc sign off for grants across the Council	Pending	Time allocated to this audit has been drawn down and re-allocated where new certification audits have been identified as additions to the plan. This audit's budget will be held until the end of the year as contingency for any signoffs that may be required but have not yet been identified.
	COMF Certification (31/5518) Certification 2022/23	Addition (Completed)	Assurance opinion: Effective
Housing	Disabled Facilities Grant Certification	Completed	Assurance opinion: Effective
	Disabled Facilities Grant (Governance) Home Improvement Agency	In Progress	
	Housing Repair and Maintenance (Planned Compliance)	Pending	
	Housing Repair and Maintenance (Planned Building Work)	Pending	
	Housing Rents – Monitoring and Setting	Deferred	Risk reassessed for the reasons given in sections 2.4-2.6
	Housing Rents – Service Charges	Deferred	Risk reassessed for the reasons given in sections 2.4-2.6
	Housing Rents – CORE Lettings	Deferred	Risk reassessed for the reasons given in sections 2.4-2.6
	Homelessness Prevention Grant (Uplift) certification	Completed	Assurance opinion: Non-opinion
	Homelessness Prevention Grant Initial Funding Allocation for 2021/22 (31/5546) Certification 2022/23	Addition (Completed)	Assurance opinion: Effective

Service Area	Audit	Status	Comments
ICT	Remote Access and Security	Deferred	Awaiting recruitment of a qualified IT Auditor
	Service Desk Management (Starters and Leavers process)	Deferred	Awaiting recruitment of a qualified IT Auditor
	Users Access Management (Key Financial Systems)	Deferred	Awaiting recruitment of a qualified IT Auditor
	PSN Self-Assessment	Deferred	Awaiting recruitment of a qualified IT Auditor
	PCI DSS Follow-up	Deferred	Awaiting recruitment of a qualified IT Auditor
Legal and Democratic	Licensing (Taxi)	Pending	
	Gifts and Hospitality (Officers)	Pending	
	Declaration of Interests (Officers)	Pending	
Operations	Commercial Investment Strategy	Deferred	Risk reassessed for the reasons given in sections 2.4-2.6
	Contracts and Contract Management	Pending	
	Commercial Rents (Income)	Addition (In Progress)	
Planning and Coastal Management	Coastal Management Partnership	Deferred	Risk reassessed for the reasons given in sections 2.4-2.6

Glossary				
Pending	In Progress	Addition	Deferred	Completed
These audits were part of the original 2022/23 Audit Plan and will be started in Q3/Q4	These audits were part of the original 2022/23 Audit Plan and are being tested and/or reported	Addition to the 2022/23 Audit Plan due to emergent requirement and risk-based need	Risk reassessed for 2022/23 and audit will be considered (subject to risk analysis) for the 2023/24 Audit Plan	These audits were part of the original 2022/23 Audit Plan and have been completed

3	How to address current situation
3.1	The revised Internal Audit work plan is aligned to the East Suffolk Business Plan – 'East Suffolk Means Business,' where the vision is to maintain and sustainably improve the quality of life for everyone growing up in, living in, working in, and visiting East Suffolk. Planned and emerging Internal Audit exercises will directly support the good governance and risk management approach to the Council's priorities: Enabling Communities; Economic Growth and Financial Self Sufficiency described in detail in the East Suffolk Business Plan.

4	Reasons for recommendation
4.1	To support the Council's overall governance arrangements and to ensure that the Audit and Governance Committee fulfils its terms of reference by reviewing the appropriateness of the refreshed risk based strategic Internal Audit Plan for 2022/23

Appendices

Appendices
None

Background reference papers:		
Date	**Type**	**Available From**
March 2022	Internal Audit Plan 2022/23 (Original)	Head of Internal Audit siobhan.martin@eastsuffolk.gov.uk
2020 - 2024	East Suffolk Strategic Plan	
March 2017	Public Sector Internal Audit Standards	
2019	Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards	

EASTSUFFOLK COUNCIL

AUDIT & GOVERNANCE COMMITTEE

Monday, 12 December 2022

Subject	**INTERNAL AUDIT REPORTS RECENTLY ISSUED**
Report by	Councillor Maurice Cook Cabinet Member with responsibility for Resources Councillor Edward Back Assistant Cabinet Member for Resources
Supporting Officer	Siobhan Martin Head of Internal Audit siobhan.martin@eastsuffolk.gov.uk 01394 444254

Is the report Open or Exempt?	OPEN

Category of Exempt Information and reason why it is **NOT** in the public interest to disclose the exempt information.	Not applicable.
Wards Affected:	All Wards

Purpose and high-level overview

Purpose of Report:
Internal Audit reports are issued to the Audit and Governance Committee to enable the Committee to fulfil its Terms of Reference: 'To consider reports from the Head of Internal Audit….'
Options:
There are no options to be considered in relation to this report.

Recommendation:
That having commented upon the attached Internal Audit reports, the Audit and Governance Committee notes their contents: • Disabled Facilities Grant Certification 2022/23 (Relating to the 2021/22 financial year)

Corporate Impact Assessment

Governance:
Each Internal Audit report details any applicable governance implications.
ESC policies and strategies that directly apply to the proposal:
The findings within each Internal Audit report are linked to good governance arrangements and practices at the Council, which underpin the Council's strategic and operational workings including the East Suffolk Strategic Plan.
Environmental:
There are no environmental implications.
Equalities and Diversity:
There are no equalities and diversity implications.
Financial:
Each Internal Audit report details any applicable financial implications.
Human Resources:
There are no human resources implications.
ICT:
There are no ICT implications.
Legal:
The Local Government Act 1972 and the Accounts and Audit Regulations 2015 require a relevant authority to '…undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, considering public sector internal auditing standards or guidance.'

Risk:

1. The Internal Audit reports presented to this Committee set out the main risks associated with the scope and objectives of that individual audit. A mechanism exists, including meetings between the Head of Internal Audit and Senior Management Team, to ensure that any remaining uncovered risks are fed back into the Audit risk model to ensure these are covered within the Strategic Audit Plan.
2. Any significant findings within individual reports will clearly state the associated risk that the Council is exposing itself to.
3. A crucial element within the Council's risk environment is the implementation of the recommendations put forward by Internal Audit and agreed by Management.

External Consultees:	No external parties were consulted in the preparation of this report.

Strategic Plan Priorities

Select the priorities of the Strategic Plan which are supported by this proposal: *(Select only one primary and as many secondary as appropriate)*		**Primary priority**	**Secondary priorities**
T01	**Growing our Economy**		
P01	Build the right environment for East Suffolk	☐	☐
P02	Attract and stimulate inward investment	☐	☐
P03	Maximise and grow the unique selling points of East Suffolk	☐	☐
P04	Business partnerships	☐	☐
P05	Support and deliver infrastructure	☐	☐
T02	**Enabling our Communities**		
P06	Community Partnerships	☐	☐
P07	Taking positive action on what matters most	☐	☐
P08	Maximising health, well-being, and safety in our District	☐	☐
P09	Community Pride	☐	☐
T03	**Maintaining Financial Sustainability**		
P10	Organisational design and streamlining services	☐	☐
P11	Making best use of and investing in our assets	☐	☐
P12	Being commercially astute	☐	☐
P13	Optimising our financial investments and grant opportunities	☐	☒
P14	Review service delivery with partners	☐	☐
T04	**Delivering Digital Transformation**		
P15	Digital by default	☐	☐
P16	Lean and efficient streamlined services	☐	☐
P17	Effective use of data	☐	☐
P18	Skills and training	☐	☐
P19	District-wide digital infrastructure	☐	☐
T05	**Caring for our Environment**		
P20	Lead by example	☐	☐
P21	Minimise waste, reuse materials, increase recycling	☐	☐

P22	Renewable energy	☐	☐
P23	Protection, education, and influence	☐	☐
XXX	**Governance**		
XXX	How ESC governs itself as an authority	☒	☐

How does this proposal support the priorities selected?

1 Internal Audit recommendations and advice support a robust corporate governance framework. The work of Internal Audit Services represents a fundamental function in delivering the Council's Corporate Governance responsibilities.

2 The implications and benefits of agreed recommendations produced by Internal Audit affect all areas by improving controls and processes, which contribute towards efficient and effective management of services.

3 The primary function of Internal Audit reports is to provide independent and objective assurance, supporting the Council's governance, risk management and control processes. Where Internal Audit reports provide assurance on the achievement of business objectives by service areas and within the agreed scope of audit work, these have been recognised as secondary priorities in the above list.

Background and Justification for Recommendation

1	Background facts
1.1	Internal Audit reports are independent, evidence-based documents that provide assurance on the level of governance in operation and a clear roadmap for improvement if required.
1.2	The Internal Audit reports attached have recently been issued to those listed on the report distribution list.

2	Current position
2.1	The conclusion and assurance level of each Audit is set out in each individual Internal Audit report.
2.2	Full copies of Internal Audit reports are forwarded to the Chief Executive and relevant senior officers, including the Section 151 Officer where appropriate. Full reports are also sent to the relevant Portfolio Holder and all Members of the Audit and Governance Committee once the reports are finalised.
2.3	All agreed recommendations are recorded on a database maintained by Internal Audit. This database provides the Head of Internal Audit with the mechanism to both track and follow up outstanding recommendations. Overdue recommendations which have poor governance implications are reported regularly to the Audit and Governance Committee.

3	How to address current situation
3.1	Recommendations relating to the findings arising from each Internal Audit can be seen on the reports, for the consideration of relevant lead officers.

4	Reasons for recommendation
4.1	To ensure that this report is considered within the overall control environment operated within the Council.
4.2	To enable the Audit and Governance Committee to assure itself that the coverage by Internal Audit as outlined in the Audit Plan is adequate, and to enable the Committee to comment upon the contents of the attached Internal Audit Report in support of effective corporate governance.

Appendices

Appendices:	
Appendix A	Disabled Facilities Grant Certification 2022/23

Background reference papers:		
Date	**Type**	**Available From**
2017	Public Sector Internal Audit Standards	Chartered Institute of Public Finance and Accountancy
March 2022	Internal Audit Charter	Head of Internal Audit siobhan.martin@eastsuffolk.gov.uk

Internal Audit Report

Disabled Facilities Grant Certification 2022/23 (Relating to the 2021/22 financial year)

Issued by the Head of Internal Audit, November 2022

Audit Assurance Opinion		
	Effective	**Evaluated controls are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives are being met.**
	Reasonable	Some specific control weaknesses were noted and some improvement is needed; evaluated controls are generally adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
	Limited	Evaluated controls are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.
	Ineffective	Evaluated controls are not adequate, appropriate, or effective. Internal Audit cannot provide reasonable assurance that risks are being managed.

Distribution List		
	Accountable Officers:	Head of Housing, H Tucker Principal Environmental Health Officer, Private Sector Housing, T Howarth
	For Information:	Strategic Management Team Cabinet Member with responsibility for Housing, R Kerry Audit and Governance Committee Chief Finance Officer and Section 151 Officer, B Mew Ernst & Young (External Auditor), M Russell

Grant Condition Compliance

Grant Condition Summary	Opinion
(1) Grants may only be used for capital expenditure.	Full compliance
(2) Grants are required to be spent in accordance with the Better Care Fund spending plan.	Full compliance
(3) The amount paid by Suffolk County Council (£2,721,389) must be passed in full to East Suffolk Council no later than 30th June 2021.	Full compliance
(4) Suffolk County Council (SCC) may retain part of the grant allocation, with the express permission of East Suffolk Council.	Not applicable[1]
(5) Grants must only be used for the purpose of providing adaptations for disabled people who qualify under the scheme.	Full compliance
(6) Chief Executive or Chief Internal Auditor of SCC to complete a declaration	Not applicable[2]
(7) and (8) Repayment of grant to the Minister of State if notified	Not applicable[3]

1. Executive Summary

1.1 The objective of the audit was to verify that Disabled Facilities Grants (DFGs) paid in 2021/2022 were administered in accordance with the grant conditions set by the Ministry of Housing, Communities and Local Government (now the Department for Levelling Up, Housing and Communities [DLUHC]).

1.2 The overall assurance of **Effective** has been made on the basis of compliance with the grant conditions, and no findings have been raised.

1.3 East Suffolk Council received £2,721,389 from Suffolk County Council (SCC) for 2021/2022.

1.4 Suffolk County Council is required to provide an assurance declaration to the DLUHC that DFG grant conditions have been met. The Head of Internal Audit has used the results of the audit to provide assurance to SCC in support of their declaration.

[1] The full grant allocation was paid to East Suffolk Council by Suffolk County Council.
[2] Suffolk County Council are required to submit the declaration. The Head of Internal Audit has used the results of this audit to provide an assurance statement in support of their declaration.
[3] At the time of review, no request for repayment of funds from East Suffolk Council has been received.

2. Supporting Details

2.1 Links to Council Service Delivery

This review considered achievement of the organisation's strategic objectives and risks, specifically this audit contributes towards:

- Business Objective – To administer Disabled Facilities Grants in accordance with the grant conditions.
- East Suffolk Business Plan – Enabling Communities, Growing Our Economy, and Remaining Financially Sustainable.
- Corporate Risk Register – Failure to produce and deliver sustainable Medium Term Financial Strategy (MTFS) including delivery of balanced Annual Budget due to uncertainty over Government funding.

2.2 Scope of Internal Audit Activity

Internal Audit assessed the following control areas during the course of the audit:

- Compliance with funding conditions
- Receipt of funds

This audit assessed systems and records in place from 1 April 2021 to 31 March 2022.

Internal Audit will seek to enhance and protect organisational value by providing risk based and objective assurance. The work performed by Internal Audit provides an opportunity to make significant improvements to governance arrangements, risk management and control processes.

This audit has been undertaken as part of the Annual Audit Plan 2022/23, approved by the East Suffolk Council Audit and Governance Committee on 14 March 2022.

This audit has been conducted in conformance with the International Standards for the Professional Practice of Internal Auditing, and the UK's current Public Sector Internal Audit Standards.

2.3 Definitions of Risk and Control

This audit uses the definition of Risk set out in the Council's Risk Management Strategy.

The definition of Control is taken from the Chartered Institute of Internal Audit:

> "Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved."

In addition to a risk assessment using the corporate risk matrix, each agreed action is allocated a priority level for use within the service area. The allocation of each priority level is based on:

Priority 1	Findings indicate a significant control weakness that could mean objectives fundamental to the operation of the service may not be met. Urgent attention is required from strategic management.
Priority 2	Findings indicate an important control weakness could mean that objectives central to the operation of the service may not be met. Prompt management attention is required.
Priority 3	Findings indicate a control weakness that could mean service objectives may not be met. Management attention is required.
Priority 4	Findings indicate a minor control weakness that, although not essential to an effective control framework, would benefit from low-cost improvements. Any Priority 4 issues identified during the course of this audit have been reported to the relevant Service team prior to the issue of this report, and are available from the Internal Audit team upon request.

2.4 Effectively Functioning Controls

We would like to draw management attention to the controls in operation over processes and procedures that were confirmed via audit testing as operating effectively and efficiently:

- All sampled cases were spent in accordance with the grant conditions; in line with the Better Care Fund, and paid in line with the legislation (for a qualifying purpose and for an eligible person).
- East Suffolk Council received the correct amount of grant funding (£2,721,389) from Suffolk County Council by the specified deadline.

2.5 Audit Team

The audit team for this review comprised

Audit Manager	L Fuller
Senior Auditor	S Potter
Apprentice Auditor	L Maton

2.6 Acknowledgements

We would like to thank the management and staff of Private Sector Housing contacted for their co-operation and time during the course of this audit.

This audit has been undertaken in accordance with the Internal Audit Partnership arrangements between East Suffolk Council and Ipswich Borough Council.

Agenda Item 9

AUDIT AND GOVERNANCE COMMITTEE

WORK PROGRAMME 2022/23

25 July 2022

Open:
Minutes (AS)
Draft Statement of Accounts 2021/22 (BM)
Draft Annual Governance Statement 2021/22 (BM)
Treasury Management 2022/23 Quarter 1 Report (BM)
Annual Internal Audit Report 2021/22 (SM)
Corporate Fraud Annual Report 2021/22 (SM)
Internal Audit Reports Recently Issued (Open) (SM)
Committee Work Programme – Update (AS)

Confidential:
Minutes (Exempt) (AS)
Data Protections Status Update
Internal Audit: Status of Actions (SM)
Internal Audit Reports Recently Issued (Exempt) (SM)

12 September 2022

Open:
Minutes (AS)
Treasury Management Outturn 2021/22 and Mid Year Report 2022/23 (BM)
Code of Corporate Governance (SM)
Internal Audit Reports Recently Issued (Open) (SM)
Committee Work Programme – Update (AS)

Confidential:
Minutes (Exempt) (AS)
Report on the use of Purchase Orders (BM)
Internal Audit: Status of Actions (SM)
Internal Audit Reports Recently Issued (Exempt) (SM)
Update on Planning Enforcement (Philip Ridley)

12 December 2022

Open:
Minutes (AS)
Capital Strategy (BM)

Treasury Management Strategy Statement for 2022/23 & Treasury Management Investment Strategy for 2022/23 (BM)
Corporate Risk Management (BM)
Revised Internal Audit Plan 2022-23 (SM)
Internal Audit Reports Recently Issued (Open) (SM)
Committee Work Programme – Update (AS)

Confidential:
Minutes (Exempt) (AS)
Internal Audit: Status of Actions (SM)
Internal Audit Reports Recently Issued (Exempt) (SM)

23 January 2023

Open:
Annual Audit Report 2020/21 (EY)
External Audit Plan 2021/22 (EY)
2021/22 Audited Statement of Accounts (BM)
Anti-Money Laundering Policy – refresh (SM)

Confidential:
Provision of Loan Finance to East Suffolk Services Ltd (BM)

13 March 2023

Open:
Minutes (AS)
2021/22 Audit Results Report (BM)
2021/22 Annual Governance Statement (BM/SM)
Treasury Management 2022/23 Quarter 3 Report (BM)
Internal Audit Plan 2023-24 (SM)
Whistleblowing Policy – Refresh (SM)
Corporate Anti-Fraud Plan 2023-24 (SM)
Fraud and Corruption Strategy – refresh (SM)
Internal Audit Charter – Refresh (SM)
Internal Audit Reports Recently Issued (Open) (SM)
Committee's Draft Work Programme 2023/24 (BM/SM/AS)

Confidential:
Minutes (Exempt) (AS)
Covert Investigation Policy (SM)
Internal Audit: Status of Actions (SM)
Update on Planning Enforcement
Update on the use of Purchase Orders
Internal Audit Reports Recently Issued (Exempt) (SM)

Reports to come before the Committee on a date to be confirmed

May 2023 – review of changes made to Constitution in March 2022, and rules for Full Council (Chris Bing)
June - Annual Senior Information Risk Owner (SIRO) Report (SM)

Fair Tax Mark (Procurement Team)