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Borough of Telford and Wrekin

Audit Committee

Wednesday 31 January 2024

6.00 pm

Council Chamber, Third Floor, Southwater One, Telford TF3 4JG

Democratic Services:	**Jayne Clarke**	**01952 383205**
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Committee Members: **Councillors A D McClements (Chair), G H Cook (Vice-Chair), E Davies, S J Reynolds, P Thomas, W L Tomlinson and C R Turley**

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To receive a verbal update from Grant Thornton.

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If you are reading these papers on an electronic device you have saved the Council £15.22 and saved 6.1kg of CO_2, based on average agenda printing costs for the 2022/23 municipal year.

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AUDIT COMMITTEE

Minutes of a meeting of the Audit Committee held on Thursday 23 November 2023 at 6.00 pm in Quaker Room, Meeting Point House, Southwater Square, Telford, TF3 4HS

Present: Councillors A D McClements (Chair), G H Cook (Vice-Chair), S J Reynolds, P Thomas, W L Tomlinson and C R Turley

In Attendance: K Clarke (CFO and Director: Finance & Human Resources), E Harvey (Lead Lawyer: Property & Commercial), R Montgomery (Audit & Governance Lead Manager) and E Rushton (Group Accountant), and S Yarnall (Democracy Officer (Scrutiny)).

Apologies: Councillor E Davies

AU23 Declarations of Interest

None.

AU24 Minutes of the Previous Meeting

RESOLVED – that the minutes of the meeting held on 26 July 2023 be confirmed and signed by the Chair.

AU25 Internal Audit Activity Report

The Audit & Governance Lead Manager presented the report to the Committee. The report summarised the Internal Audit Activity for the period. 31 July to 31 October 2023. Its key focus was on the completion of audits contained in the plan as well as the fulfilment of the commercial plans. The report outlined completed audit reports of which 2 received a poor outcome, 2 reasonable and 6 with a good result.

Previous audits were summarised and had been followed up by the team. All previous audits had now been graded as 'good' and details contained at Appendix 1 of the report. Follow-up audits were planned and the results reported to the Committee in January 2024.

Members commented on the Direct Payments audit and noted the reports had progressed from reasonable to good. A discussion took place regarding relevant directors of service areas being invited to speak to members at a future Committee. The report and the work done by officers was welcomed.

Officers confirmed this was a summary and that a follow-up would take place in December / January to explore the progress. Members were assured that any relevant director would be notified and invited to attend the committee as required.

RESOLVED – that the planned work of Internal Audit undertaken between 1 July 2023 and 31 October 2023 and unplanned work to date, be noted.

AU26 Corporate Risk Register Update

The Audit & Governance Lead Manager gave an update on the Corporate Risk Register which had previously been presented in January 2023. It acted as a reminder on the identified potential risks for the Council in relation to services provided and gave details of the risks, how they were identified and their rationale. Details of individual risks, their score and importance, together with any actions required were contained within the report. The register was reviewed quarterly by the Senior Management Team and then presented to the Audit Committee.

Members commented on the extensive amount and variety of risks on the Register and noted how it changed regularly. Members asked if there were any further updates on the recent cyber security case. Members praised the officers for their work on the risk register and ensuring that risk is kept at a minimum.

Officers confirmed that there were no further updates on the case at the present time but any relevant information would be presented to Members as a formal update.

RESOLVED – that the contents of the Corporate Risk Register included as Appendix A, be noted.

AU27 Progress of 2021/22 and 2022/23 Audits

The External Auditors presented a verbal update on the outstanding audits from 2021/22 and 2022/23 financial years. It was anticipated that both of the outstanding audits would be completed before the end of the current financial year.

There is one outstanding item with regards to the 2021/22 Audit relating to the re-classification of Fixed Assets and the technical entries in the accounts which would be required as part of the re-classification. It was acknowledged by the external auditor that the required calculations would be complex and time consuming.

Members were informed that the External Auditors were aiming for the 2022/23 audit to be completed as soon as possible following the completion of the 2021/22 process. It was indicated that this should be before the end of the financial year, however, there may be a need for an additional committee meeting in order to achieve this.

Members discussed and agreed the need for the additional Audit committee meeting to sign off the outstanding external audits.

The meeting ended at 6.24 pm

Chairman: --

Date: Wednesday 31 January 2024

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Telford & Wrekin Co-operative Council

Protect, care and invest to create a better borough

Borough of Telford and Wrekin

Audit Committee

31 January 2024

2023/24 Treasury Management Update Report and 2024/25 Treasury Management Strategy

Cabinet Member:	Cllr Nathan England - Cabinet Member: Finance, Customer Services & Governance
Lead Director:	Michelle Brockway - Interim Director: Finance & Human Resources
Service Area:	Finance & Human Resources
Report Author:	Edward Rushton - Group Accountant
Officer Contact Details:	**Tel:** 01952 383750 **Email:** edward.rushton@telford.gov.uk
Wards Affected:	All wards
Key Decision:	Not Key Decision
Forward Plan:	Not Applicable
Report considered by:	SMT – 16 January 2024 Business Briefing – 25 January 2024 Audit Committee – 31 January 2024 Cabinet – 15 February 2024 Full Council – 29 February 2024

1.0 Recommendations for decision/noting:

Audit Committee Members are asked to recommend that Full Council:

1.1 Note the treasury management activities to 31st December 2023 (Appendix A);

1.2 By way of vote, approves the Treasury Strategy 2024/25 (Appendix B), including the Annual Investment Strategy, together with the Minimum Revenue Provision Statement (Appendix B para 3.0, which will apply from 2023/24 onwards and Treasury Management Prudential Indicators (Appendix Bii); and

1.3 Note the Treasury Management Policy Statement (Appendix B para 4.0).

2.0 Purpose of Report

2.1 During the financial year the minimum reporting requirements, as required by regulations issued under the Local Government Act 2003, are that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year,
- a mid-year, (minimum), treasury update report and
- an annual review following the end of the year describing the activity compared to the strategy.

This report updates members on Treasury Management activities during 2023/24 (mid year treasury update report) and details the Treasury Management Strategy recommended to be adopted for 2024/25 (annual treasury strategy). The report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

3.0 Background

3.1 The strategy in 2023/24 and recent years has been to limit investments in third parties, which reduces the Council's exposure to counterparty risk, and where possible and appropriate to take advantage of lowest interest rates for borrowing. Maintaining high levels of very cheap temporary financing has generated surplus treasury management returns of more than £30m since 2015/16 which has reduced the impact of Government cuts to the Council's grants and therefore helped to protect front line services.

The Council's Medium Term Financial Strategy for 2023/24 and the Cabinet's proposals issued for consultation in January 2024 for 2024/25 to 2027/28 include an allowance for interest rates based on advice from the Council's independent treasury management advisors which ensures that the Council's budget in relation to Treasury Management is as robust as possible. The Council will continue to receive regular advice from independent expert advisors specialising in all aspects of local government treasury management and we will act in accordance with the advice received.

The report also sets out expected external financing requirements. We have an excellent track record of complying with all the prudential indicators and limits agreed by Council and are operating well within the overall approved credit ceiling.

The proportion of the Council's net revenue budget used to service loan repayment at the time of the MTFS Strategy 2023/24 was 8.9% in the current financial year. This compares to 10.3% for the average unitary authority. At the 31 December 2023 the projected figure for 2023/24 had fallen to 7.25% which reflects capital programme reprofiling during the year.

The Council has increased its external financing requirements in recent years to include investment in NuPlace which provides high quality homes for rent from a reliable landlord, mainly at market rent levels and has enabled brownfield sites to be brought back in to use. The council has also expanded the Property Investment Portfolio (the PIP) to attract and retain jobs for local people and to provide other regeneration benefits for our residents. An ancillary consequence of these investments is that it is anticipated they will bring long term capital growth which will strengthen the Council's balance sheet as well as generating revenue returns well in excess of the associated loan repayment charges. They will also bring other direct and indirect financial and other benefits to the residents of the Borough including additional income from council tax, business rates and new homes bonus which will be used to help support front line services such as Adult Social Care, as well as protecting and creating jobs for local people. The Council's solar farm generates an index linked surplus after covering all associated costs including debt charges each year which is also used to help support front line services. The net surplus in the current year is expected to be around £0.7m.

This report, and the Prudential Indicators report which will be considered by Cabinet on 15 February 2024 and Full Council on 29 February 2024, sets out our overall approach to treasury management and the controls that are put in place to ensure that council taxpayers' interests are protected and risks are managed as effectively as possible.

4.0 Summary of main proposals

4.1 Treasury Management Update 2023/24

The full report is included an Appendix A

Treasury Management Portfolio at 31 December 2023

	31.03.2023 £m	31.12.2023 £m	Movement £m
Borrowing (excl. PFI)	347.2	350.7	3.5
Investments (excl. NuPlace)	(38.5)	(29.6)	8.9
Net indebtedness	**308.7**	**321.1**	**12.4**

The strategy for 2023/24 remains consistent with that outlined in the 2023/24 Treasury Strategy which was agreed for approval at Full Council on 2 March 2023 and by this committee on 24 January 2023. The Strategy is also a continuation of that used in recent years which has provided considerable benefits to the Council, i.e. to:-

- take new borrowing within shorter maturities before gradually lengthening maturities, and
- take advantage of longer term loans when opportunities arise.

Latest financial monitoring projections indicate a benefit of £0.5m from treasury management during 2023/24 which is supporting the provision of front line services and the Council's overall financial position.

Borrowing

To date in 2023/24 part of our Equal Instalment of Principal (EIP) and Annuity PWLB loans have matured and 1 new PWLB loan for £5m has been taken (see Appendix A para. 3.1) Alongside this, short term borrowing has been used to fund short term cash flow requirements.

As referred to in para. 3.1 above, a large part of the Council's total existing borrowing and planned further borrowings relates to funding projects which will deliver important and significant housing and regeneration benefits as well as generating some income. These are budgeted to generate returns in excess of the annual loan repayment charges and other operating costs.

Investments

The overall investment strategy for 2023/24 is to gain maximum benefit but with security of the principal sum invested being the primary consideration. Overall the weighted average return on all internal investments for the year to date was 4.82%; with the paramount aim being to maintain security of principal investments have generally been placed with the Government's Debt Management Office. This return compares to a benchmark return for the period of 4.85% based on the average overnight rate with the Debt Management Office (DMO).

A schedule of short-term investments as at 31 December 2023 is shown at Appendix A, Section 4.0.

The Markets in Financial Instruments Directive II (MIFID II) came into place on 3 January 2018 and the Council has opted to be categorised as a professional client which allows access to financial services and advice it may otherwise be unable to obtain (such as advice from our treasury advisors). As part of the regulations, the authority must hold a minimum investment balance which is currently set at £10m.

Treasury Management Advisor

The Authority uses Link Group, Link Treasury Services Limited as its external treasury management advisors. Link currently provide treasury advisory services to over 400 public sector clients in the UK and are experienced and well-resourced to support our treasury function.

Economic Data (provided by Link)

The third quarter saw:

- A 0.3% m/m decline in real GDP in October, potentially partly due to unseasonably wet weather, but also due to the ongoing drag from higher interest rates. Growth for the second quarter, ending 30th September, was revised downwards to -0.1% and growth on an annual basis was also revised downwards, to 0.3%;

- A sharp fall in wage growth, with the headline 3myy rate declining from 8.0% in September to 7.2% in October, although the ONS "experimental" rate of unemployment has remained low at 4.2%;
- CPI inflation continuing on its downward trajectory, from 8.7% in April to 4.6% in October, then again to 3.9% in November;
- Core CPI inflation decreasing from April and May's 31 years' high of 7.1% to 5.1% in November, the lowest rate since January 2022;
- The Bank of England holding Bank Rate at 5.25% in November and December;
- A steady fall in 10-year gilt yields as investors revised their interest rate expectations lower.

4.2 **Treasury Management Strategy 2024/25**

The Council's Treasury Management Strategy is set within the parameters of the relevant statute, guidance and accounting standards which include the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management in Public Services (2021) and the Prudential Code (2021). The Council has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.

The Council is currently expected to need to borrow an additional £117.9m in 2024/25 based on the current capital programme plans and will adopt a flexible approach to borrowing. In consultation with its treasury management advisors consideration will be given to affordability, maturity profile of existing external financing, interest rate and refinancing risk as well as borrowing source, which is usually expected to be other Local Authorities or the Public Works Loan Board, but may also include Municipal Investment Loans, the LGA Municipal Bonds Agency, European Investment Bank or commercial sources, and any new opportunities which may arise, in accordance with the approved sources of borrowing.

The strategy for any investments will generally be to minimise investments in order to reduce counter-party risk and to reduce net interest costs as longer-term borrowing rates will tend to be greater than we are able to earn on new investments, but we will look to lengthen investment periods, where cash flow permits, to achieve higher interest rates within acceptable risk parameters. We would generally anticipate holding investments equal to the requirements set out under MIFID II, currently £10m. Maximum investment levels with counterparties will be set to ensure prudent diversification is achieved whilst recognising that the strict investment criteria that the Council applies severely reduces the number of suitable available counterparties and therefore sums with individual counterparties may be up to £15m at any one time.

The full report is included at Appendix B and also includes:

- the Council's Minimum Revenue Provision Statement 2024/25
- the Councils Treasury Management Policy Statement 2024/25, and

- the Treasury Management Prudential Indicators for 2024/25.

5.0 Alternative Options

5.1 The Council must ensure that it manages its finance in accordance with Legislation and the CIPFA code of practice. The recommendations in this report support that aim and are based on consideration of a range of factors.

6.0 Key Risks

6.1 The key opportunities and risks associated with treasury management activities are set out in the body of the report and in the Treasury Management Strategy and Policy approved by Council and will be regularly monitored throughout the year.

7.0 Council Priorities

7.1 Effective management of the Council's Treasury portfolio helps support the Council's overall financial position through minimising borrowing costs and optimising investment income whilst following the principles of Security, Liquidity and Yield; and therefore supports the delivery of all Council priorities.

8.0 Financial Implications

8.1 These are detailed in the body of the report and the appendices.

9.0 Legal and HR Implications

9.1 The Council's Treasury Strategy has to comply with the relevant statute, codes and guidance which are set out both in the main body of this report and its appendices. This reports demonstrates that the Council has had regard to the CIPFA guidance as required by the Local Government Act 2003.

9.2 The Interim Director: Finance & Human Resources (Section 151 Officer) has responsibility for the administration of the financial affairs of the Council. In providing this report the Interim Director: Finance & Human Resources is meeting one of the responsibilities of the post contained within the Council's Constitution at Part 2, Article 12, paragraph 12.04(f) which states "The Chief Financial Officer will contribute to the promotion and maintenance of high standards of governance, audit, probity and propriety, risk management and the approval of the statement of accounts through provision of support to the Audit Committee." This requirement within the Constitution reflects the requirements of the Local Government Finance act 1988 to appoint an officer who is responsible for the good financial administration of an authority.

9.3 The Local Government Finance Act 1992 requires authorities to set a balanced budget; the proposals in this report, together with other budget-related reports, demonstrates that the Council meets this requirement.

10.0 Ward Implications

10.1 There are no impacts on specific wards in this report.

11.0 Health, Social and Economic Implications

11.1 The Economic Climate has direct relevance to Treasury Management and is covered in detail in the report and accompanying appendices.

12.0 Equality and Diversity Implications

12.1 The Council will not knowingly directly invest in organisations whose activities include practices which directly pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the mission and values of the Council. At the same time the Council will take full responsibility for proper management of risk and safeguarding its investments by ensuring that they are diversified and made with organisations that are suitably credit assessed.

13.0 Climate Change and Environmental Implications

13.1 Part of the Councils Treasury portfolio includes a Municipal Investment Loan on the Abundance Platform: the Telford & Wrekin Climate Action Investment which supports the Councils climate change agenda.

14.0 Background Papers

1. CIPFA Treasury Management in the Public Services – Code of Practice and cross-sectional guidance notes (2021 edition)
2. CIPFA The Prudential Code for Capital Finance in Local Authorities (2021 edition)
3. Local Government Act 2003
4. Treasury Management Strategy Statement (TMSS) Template provided by Link Treasury Services

15.0 Appendices

A 2023/24 Treasury Management update Report
B 2024/25 Treasury Management Strategy

16.0 Report Sign Off

Signed off by	**Date sent**	**Date signed off**	**Initials**
Finance	17/01/2024	19/01/2024	MLB
Legal	18/01/2024	23/01/2024	RP
Director	17/01/2024	19/01/2024	MLB

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Treasury Update Report 2023/24

Telford & Wrekin Council

A glossary and list of abbreviations used in this report can be found at page 13

Contents

Treasury Management Update Report 2023/24

Purpose

This Council is required by regulations issued under the Local Government Act 2003 to produce a Treasury Update Report to review activities and actual prudential and treasury indicators for 2023/24. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2023/24 the minimum reporting requirements were that the Full Council should receive the following reports:

- an annual treasury strategy in advance of the year,
- a mid-year, (minimum), treasury update report (this report) and
- an annual review following the end of the year describing the activity compared to the strategy.

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the Full Council. Member training on treasury management issues was undertaken in July 2023 and January 2024 in order to support members' scrutiny role.

Executive Summary

During 2023/24, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Prudential and treasury indicators	31.03.23 Actual £m	2023/24 Original £m	2023/24 Revised Estimate £m	31.12.23 Actual £m
Capital expenditure				
• Total	75.704	180.958	90.047	52.462
Capital Financing Requirement:				
• Total	520.687	649.408	558.835	558.835
• Less Other Long Term Liabilities	(47.888)	(44.547)	(44.547)	(44.547)
• Loans CFR	472.799	604.861	514.288	514.288
Gross borrowing				
• External Debt	347.221	440.187	375.818	350.743
Investments				
• Under 1 year	38.499	15.000	15.000	29.569
Net borrowing				
• Total	308.722	425.187	360.818	321.174

Other prudential and treasury indicators are to be found in the main body of this report.

Borrowing can only be undertaken to fund capital investment and not to support the revenue budget which supports the delivery of most Council services. The Interim Director of Finance & HR also confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit, (the authorised limit), was not breached.

2023/24 TREASURY MANAGEMENT UPDATE

1.0 Treasury Position as at 31st December 2023

The Council's treasury management debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established which includes member reporting as detailed in the summary.

At the 31st December the Council's treasury (excluding borrowing by PFI and finance leases) position was as follows:

TREASURY PORTFOLIO	31.03.23 Principal £m	31.12.23 Principal £m	Movement in Principal £m
Fixed rate debt (+1yr)	251.192	246.714	(4.478)
Temporary debt (-1yr)	96.029	104.029	8.000
Total debt	**347.221**	**350.743**	**3.522**
Less Total investments	**38.499**	**29.569**	**(8.93)**
Net debt (exc. Nuplace)	**308.722**	**321.174**	**12.452**
Less Investment in NuPlace	**18.800**	**20.800**	**2.000**
Net debt (inc. Nuplace)	**289.922**	**300.374**	**10.452**

The maturity structure of the debt portfolio was as follows:

MATURITY STRUCTURE – DEBT (assumes 31st March)	31.03.23 Actual		2023/24 original limits %		31.12.23 Actual	
	£m	%	Lower	Upper	£m	%
Under 12 months	107.209	30.9	0.0	70.0	52.261	14.9
12 months and within 24 months	21.705	6.3	0.0	30.0	76.779	21.9
24 months and within 5 years	33.196	9.6	0.0	50.0	35.766	10.2
5 years and within 10 years	45.679	13.2	0.0	75.0	46.367	13.2
10 years and above*	139.432	40.0	25.0	100.0	139.570	39.8

** this includes £25m Lenders Option Borrowers Options (LOBO) loans that are potentially callable at certain points before the maturity date.*

The maturity structure of the investment portfolio was as follows:

MATURITY STRUCTURE – INVESTMENTS (exc. NuPlace Ltd)	31.03.23 Actual £m	31.12.23 Actual £m
Investments		
Longer than 1 year	0	0
Up to 1 year	38.499	29.569
Total	**38.499**	**29.569**

2.0 Interest Rates and Economic Data

The third quarter saw:

- A 0.3% m/m decline in real GDP in October, potentially partly due to unseasonably wet weather, but also due to the ongoing drag from higher interest rates. Growth for the second quarter, ending 30th September, was revised downwards to -0.1% and growth on an annual basis was also revised downwards, to 0.3%;
- A sharp fall in wage growth, with the headline 3myy rate declining from 8.0% in September to 7.2% in October, although the ONS "experimental" rate of unemployment has remained low at 4.2%;
- CPI inflation continuing on its downward trajectory, from 8.7% in April to 4.6% in October, then again to 3.9% in November;
- Core CPI inflation decreasing from April and May's 31 years' high of 7.1% to 5.1% in November, the lowest rate since January 2022;
- The Bank of England holding Bank Rate at 5.25% in November and December;
- A steady fall in 10-year gilt yields as investors revised their interest rate expectations lower.

3.0 Borrowing

At the 31st December the Council's treasury (excluding borrowing by PFI and finance leases) position was as follows:

DEBT PORTFOLIO	31.12.23 Principal £m	Average Interest Rate %
Fixed rate funding:		
- PWLB	206.437	2.62
- Market Loans & LOBS	40.000	4.17
- Municipal Investment	0.277	2.10
Variable rate funding:		
- Temporary	104.029	4.62
Total debt	**350.743**	**3.33**

The borrowing strategy for the current year has been to borrow temporarily where possible as we are in a reducing interest environment before gradually extending maturities.

3.1 New Borrowing

Between the period 1 June 2023 (previous Member update) and 31 December 2023, £53.6m of temporary loans have been raised in order to fund short-term cash flow requirements. Interest rates have ranged from 4.63% to 5.70%. The outstanding temporary borrowing at 31 December 2023 was £104.0m

To date in 2023/24 £9.25m of our Equal Instalment of Principal and Annuity PWLB loans have matured and a further £2.08m are due to mature prior to the end of the financial year. One new PWLB loan, totalling £5.0m, has been taken since 1 June 2023, which is the only loan taken during year.

Lender	Date Raised	Principal £m	Type	Interest Rate %	Duration
PWLB	21.12.2023	5.0m	Fixed interest rate - EIP	4.37	13 years

3.2 Rescheduling

During 2023/24 no rescheduling of debt has taken place as market conditions have not been favourable, however the scope for opportunities is regularly monitored.

4.0 Treasury Management Investments

At the 31st December the Council's treasury position was as follows:

INVESTMENT PORTFOLIO	31.12.23 Actual £m	31.12.23 Actual %	Credit Rating	Weighted Credit Score
Treasury investments				
Banks	6.589	22.3	A+	1.11
DMADF (H.M. Treasury)	18.000	60.9	AAA	0.61
Money Market Funds	4.980	16.8	AAA	0.17
Total Treasury Investments	**29.569**	**100.0**		**1.89**

The Authority's objective when investing money for Treasury Management purposes is to strike an appropriate balance between risk and return. The strategy for the year is to gain maximum benefit at minimum risk whilst achieving as a minimum, the overnight deposit rate.

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted 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. Based on this the Treasury Management Prudential Indicator in relation to Credit Risk is a score of 6 or lower, which is equivalent to a weighted average credit rating of ‘A’ or higher across the investment portfolio. As at 31 December 2023 the weighted average credit rating for Investments held was 1.89 (which is within the indicator). Further information regarding Credit Ratings is detailed in Appendix Ai.

The Council’s treasury management investments are mainly internally managed and are currently held as temporary investments for cash flow purposes.

For the period to 31st December 2023 some £9.86bn worth of investments have been placed with H.M. Treasury’s Debt Management Account Deposit Facility (DMADF) and Lloyds Bank. Interest rates have ranged from an average of 3.96% to 5.05%.

The Council holds investments of £4.98m in Money Market Funds which gives increased diversification of counter-party risk and slightly higher yield whilst retaining a high degree of liquidity. These investment are held in one diversified fund. The average interest rate to 31 December was 4.89%

In line with the approved Treasury Management Prudential Indicator, the Council can place up to £15.0m with any Counterparty, with the exception of the DMADF which is Government backed and therefore considered to be very secure so no limit is placed on investments. At the end of December the greatest exposure with a single counterparty was £18.0m (60.9% of the portfolio) with the DMADF.

The Council has operated within the Treasury Limits and Prudential Indicators set, with the exception of the counterparty limit being exceeded on one day in October which was due to an internal processing error. As a result, the balance in Lloyds Bank exceeded the £15m counterparty limit on that day. Lloyds Bank have a high credit rating and the funds were placed with the Government Debt Management Deposit Facility the next day. This was separately reported to the Chair and Vice Chair of the Audit Committee and Internal Audit at the time. Following immediate improvements to the process being implemented by the Finance Team, Internal Audit completed a further review during November and were satisfied with the updated process and made no recommendations.

The Council is guided by its Treasury advisers in assessing investments.

4.1 Longer Term Treasury Management Investments

The Council currently holds no long-term Treasury Management Investments.

4.2 Overall Performance

Overall, the weighted average return on all internal treasury management investments for the year to date to 31st December 2023 was 4.82%. This compared to a benchmark return for the period of 4.85%, based on the average overnight rate with the DMADF / 7 Day Sonia Rate. The security of principal sums invested is paramount.

5.0 Leasing

Each year the Council arranges operating and finance leases for assets such as vehicles, computers and equipment. This helps to spread the cost of the acquisition over a number of years.

To date, there have been no lease requests made for 2023/24.

6.0 Projected Performance

The Chief Financial Officer and other Senior Finance Officers closely monitor the Treasury position, particularly with the likelihood of the continuing interest rate rises. Latest financial monitoring projections indicate a projected benefit of £0.5m from treasury management activities in year. Updates will be provided in future financial monitoring reports taken to Cabinet.

7.0 MRP Update

In November 2021 the Department for Levelling Up, Housing and Communities (DLUHC) launched a consultation seeking views on proposed changes to regulations in relation to the duty of local authorities to make prudent Minimum Revenue Provision each year. The consultation closed in February 2022. The proposals for change related to the exclusion of a proportion of debt from the MRP calculation, particularly relating to investment assets, capital loans and some operational assets. Following concerns raised by a number of authorities it was apparent that the proposed changes may have given rise to unintended consequences and DLUHC amended the proposals to allow additional flexibilities with respect to capital loans. The Government conducted a follow up survey in November 2022. It is currently intended that the proposed changes will take effect from at the earliest April 2024. When the revised basis is finalised, going forward, the Council will prepare its budget on the revised basis.

Credit Ratings – A Guide.

Long-term credit ratings and Sovereign Ratings

Fitch Rating' long-term credit ratings are set up along a scale from 'AAA' to 'D', first introduced in 1924 and later adopted and licensed by Standard & Poors (S&P). Moody's also uses a similar scale, but names the categories differently. Like S&P, Fitch also uses intermediate modifiers for each category between AA and CCC (i.e., AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB- etc.).

Investment grade

- **AAA** : the best quality, reliable and stable
- **AA** : good quality, a bit higher risk than AAA
- **A** : economic situation can affect finance
- **BBB** : medium class counterparties, which are satisfactory at the moment

Non-investment grade

- **BB** : more prone to changes in the economy
- **B** : financial situation varies noticeably
- **CCC** : currently vulnerable and dependent on favourable economic conditions to meet its commitments
- **CC** : highly vulnerable, very speculative bonds
- **C** : highly vulnerable, perhaps in bankruptcy or in arrears but still continuing to pay out on obligations
- **D** : has defaulted on obligations and Fitch believes that it will generally default on most or all obligations
- **NR** : not publicly rated

Short-term credit ratings

Fitch's short-term ratings indicate the potential level of default within a 12-month period.

- **F1+** : best quality grade, indicating exceptionally strong capacity of obligor to meet its financial commitment
- **F1** : best quality grade, indicating strong capacity of obligor to meet its financial commitment
- **F2** : good quality grade with satisfactory capacity of obligor to meet its financial commitment
- **F3** : fair quality grade with adequate capacity of obligor to meet its financial commitment but near term adverse conditions could impact the obligor's commitments
- **B** : of speculative nature and obligor has minimal capacity to meet its commitment and vulnerability to short term adverse changes in financial and economic conditions
- **C** : possibility of default is high and the financial commitment of the obligor are dependent upon sustained, favourable business and economic conditions

- **D** : the obligor is in default as it has failed on its financial commitments.

Support Ratings (1 – 5)

The Purpose and Function of Support Ratings
Support Ratings are Fitch Ratings' assessment of a potential supporter's propensity to support a bank and of its ability to support it. Its propensity to support is a judgment made by Fitch Ratings. Its ability to support is set by the potential supporter's own Issuer Default Ratings, both in foreign currency and, where appropriate, in local currency. Support Ratings do not assess the intrinsic credit quality of a bank. Rather they communicate the agency's judgment on whether the bank would receive support should this become necessary. These ratings are exclusively the expression of Fitch Ratings' opinion even though the principles underlying them may have been discussed with the relevant supervisory authorities and/or owners.

Timeliness and Effectiveness Requirements
Fitch Ratings' Support Rating definitions are predicated on the assumption that any necessary "support" is provided on a timely basis. The definitions are also predicated on the assumption that any necessary support will be sufficiently sustained so that the bank being supported is able to continue meeting its financial commitments until the crisis is over.

Obligations and Financial Instruments Covered
In terms of these definitions, unless otherwise specified, "support" is deemed to be in terms of foreign currency. It is assumed that typically the following obligations will be supported: senior debt (secured and unsecured), including insured and uninsured deposits (retail, wholesale and interbank); obligations arising from derivatives transactions and from legally enforceable guarantees and indemnities, letters of credit, and acceptances; trade receivables and obligations arising from court judgments.

Likewise, the agency does not assume that the following capital instruments will be supported when sovereign support is involved: preference/preferred shares or stock; hybrid capital (tier 1 and upper tier 2), including reserve capital instruments (RCIs) and variations upon RCIs; and common/ordinary equity capital. It is also assumed that there will be no support for any moral obligation on securitizations. The sovereign support status of subordinated debt is difficult to categorize in advance; it is assessed on a case by case basis, distinguishing among different jurisdictions.

Definitions:

1: A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question. This probability of support indicates a minimum Long-Term Rating floor of 'A-'.

2: A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-Term Rating floor of 'BBB-'.

3: A bank for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so. This probability of support indicates a minimum Long-Term Rating floor of 'BB-'.

4: A bank for which there is a limited probability of support because of significant uncertainties about the ability or propensity of any possible provider of support to do so. This probability of support indicates a minimum Long-Term Rating floor of 'B'.

5: A bank for which external support, although possible, cannot be relied upon. This may be due to a lack of propensity to provide support or to very weak financial ability to do so. This probability of support indicates a Long-Term Rating floor no higher than 'B-' and in many cases no floor at all.

GLOSSARY

Term	Meaning
Annuity	A method of repaying a loan where the cash payment remains constant over the life of the loan, but the proportion in interest reduces and the proportion of principal repayment increases over time.
Authorised Borrowing Limit	The maximum amount the authority can borrow at any point of time in the year. This limit should never be exceeded. The limit is set by Full Council at the beginning of March and is a prudential indicator.
Bail-in	A method of rescuing a failing financial institution by cancelling some of its deposits and bonds. Investors may suffer a haircut but may be given shares in the bank as part compensation. See also bail-out
Bail-out	A method of rescuing a failing financial institution by the injection of public money. This protects investors at the expense of the taxpayer.
Call account	A deposit account that can be called back, normally on instant access.
Capital Financing Requirement CFR)	This represents the underlying need for the authority to borrow and represents the assets of the authority less the long term capital liabilities.
Credit Default Swaps (CDS)	CDS are bought by investors to insure against defaults (i.e. the counterparty not being able to repay). The higher the cost/premium then the higher the risk – CDS therefore given a market view of the credit worthiness of an organisation.
Credit Ratings	Rating on the ability of an organisation to meet its obligations; ratings are assigned by independent, specialist companies, such as Fitch and Moody's using market intelligence they gather.
Credit Risk	The risk that the debtor will default on their obligations
Counterparty	The organisation that you are conducting your business with.
Debt Management Account Deposit Facility	Provided by the Debt Management Office, users can place cash in secure fixed-term deposits. Deposits are guaranteed by the government and therefore have the equivalent of a sovereign triple-A credit rating.
Derivative Instruments	A security whose price is dependent upon or derived from one or more underlying assets. The derivative itself is merely a contract between two or more parties. Its value is determined by fluctuations in the underlying asset. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indexes. Most derivatives are characterized by high leverage. For example, a stock option is a derivative because it derives its value from the value of a stock. An interest rate swap is a

	derivative because it derives its value from one or more interest rate indices.
Discounts	These relate to Public Works Loans Board loans. If rates have increased since the borrowing was undertaken then part of the benefit that PWLB will achieve from being able to loan out at that higher rate are passed back to an authority if they repay the loan early.
Fund Managers	Independent investment managers who work to a specific mandate and invest funds on behalf of the Council
IFRS	International Financial Reporting Standards, the set of accounting rules in use by UK local authorities since 2010.
Inflation	The rise in prices of goods and services over a period of time.
Interest Rate Risk	The risk that the value of an investment will change due to changes to the interest rate.
Internal Borrowing	This is where the amount of an authority's borrowing is less than its CFR or underlying need to borrow and represents the use of internal balances rather than borrowing from the market.
LIBID	London inter-bank bid rate. Interest rate at which prime banks will **borrow** money in the London inter-bank market.
LIBOR	London inter-bank offer rate. Interest rate at which prime banks will **lend** money in the London inter-bank market. Fixed every day by the British Bankers Association to five decimal places.
Liquidity Risk	The risk of not being able to trade an investment quickly to release cash.
LOBO	Lender's Option Borrower's Option – a long term loan where the lender has the option to propose an increase in the interest rate on pre-determined dates. The borrower then has the option to either accept the new rate or repay the loan without penalty. LOBOs increase the borrower's interest rate risk and the loan should therefore attract a lower rate of interest initially.
Minimum Revenue Provision (MRP)	This is the amount charged against the Income and Expenditure Account for the year in relation to the repayment of debt on borrowing in order to fund capital expenditure.
Money Market Fund (MMF)	Mutual funds that invest in short term debt instruments. They offer a higher level of security than banks and interest rates are generally higher.
Obligor	An individual or company that owes debt to another individual or company (the creditor), as a result of borrowing or issuing bonds.

Operational Borrowing Limit	The amount the authority would normally borrow at any point of time in the year. This boundary might be exceeded temporarily but only in exceptional circumstances. The limit is set by Full Council at the beginning of March and is a prudential indicator.
Premia	This is the penalty applied to the early redemption of PWLB loans where rates have fallen since the loan was undertaken.
Prudential Code	A professional code of practice which provides regulatory framework to local authorities on capital expenditure, investments and borrowing activities.
Prudential Indicators	A set of indicators developed within the Prudential Code which define thresholds for investment and borrowing within a local authority.
PWLB	Public Works Loans Board – a Government agency providing long and short term loans to local authorities. Interest rates are generally lower than the private sector and slightly higher than the rates at which the Government themselves may borrow.
Quantitative Easing	This is where the government buy back their own gilt issuance to effectively pump money into the financial markets of the economy.
Re-scheduling	This relates to repaying existing borrowing early and replacing it with borrowing for a different period usually, but not necessarily, at lower rates
Return	The gain from holding an investment over a given period
Security	An investment instrument, other than an insurance policy or fixed annuity, issued by a corporation, government or other organisation which offers evidence of debt or equity.
SONIA	Sterling Overnight Interbank Average – a key Bank of England interest rate benchmark; it is a measurement of the cost of borrowing and reflects the average of interest that banks pay to borrow sterling overnight from other financial institutions.
Sovereign Exposure	Risk of exposure to one particular country.
Supranational Bonds	These are bonds (similar to gilts) issued by multi government development organisations and are supported by all of the governments who form part of the organisation. E.g. European Investment Bank and are usually very secure.
Treasury Management Code (TM Code)	CIPFA's Code of Practice for Treasury Management in the Public Services and Cross-Sectoral Guidance Notes, to which local authorities are required by law to have regard.

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Treasury Management Strategy 2024/25

(including Minimum Revenue Provision Statement 2024/25 & Treasury Management Policy Statement 2024/25)

Telford & Wrekin Council

A glossary and list of abbreviations used in this report can be found at page 54

Contents

Treasury Management Strategy 2024/25

Purpose

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management strategy for 2024/25. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2024/25 the minimum reporting requirements are that the Full Council should receive the following reports:

- an annual treasury strategy in advance of the year (this report),
- a mid-year, (minimum), treasury update report, and
- an annual review following the end of the year describing the activity compared to the strategy.

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the Full Council. Member training on treasury management issues was undertaken in July 2023 and January 2024 in order to support members' scrutiny role.

1.0 BACKGROUND & CONTEXT

1.1 Background

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

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

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

CIPFA defines treasury management as:

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

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

1.2 Reporting Requirements

Capital Strategy

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

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of the strategy is to ensure that all the Authority's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite. The Council's Capital Strategy is included as part of the suite of Medium Term Financial Strategy (MTFS) reports which are approved by Full Council each year.

Treasury Management Reporting

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

a. Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report is forward looking and covers: -
    - the capital plans, (including prudential indicators)
    - a minimum revenue provision (MRP) policy, (how capital expenditure funded by borrowing is charged to revenue over time)
    - the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
    - an Annual Investment Strategy, (the parameters on how investments are to be managed)
b. A mid-year treasury management report – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.
c. An annual treasury report – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny - the above reports are required to be adequately scrutinised before being recommended to the Full Council. This role is undertaken by the Audit Committee.

Other reports – The above reports will be supplemented by updates as part of the financial monitoring taken to Cabinet.

1.3 Treasury Management Strategy for 2024/25

The strategy for 2024/25 covers two main areas:

Capital issues

- the capital expenditure plans and the associated prudential indicators
- the minimum revenue provision (MRP) policy

Treasury management issues

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

These elements cover the requirements of the Local Government Act 2003, Department of Levelling Up, Housing and Communities (DLUHC) Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

2.0 THE CAPITAL PRUDENTIAL INDICATORS 2024/25 – 2026/27

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

2.1 Capital Expenditure and Financing

This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts: -

Capital expenditure (£m)	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
General Fund Services	59.579	70.766	105.865	46.097	12.718
Housing Investment Programme (NuPlace)	4.571	10.782	40.700	30.155	16.470
Property Investment Portfolio	10.920	7.169	31.421	18.726	5.452
Telford Land Deal	0.634	1.330	1.812	3.108	0.000
Total	**75.704**	**90.047**	**179.798**	**98.086**	**34.640**

Other long-term liabilities - the above financing need excludes other long-term liabilities, such as PFI and leasing arrangements that already include borrowing instruments.

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

Financing of capital expenditure (£m)	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Capital receipts	13.598	0.774	7.556	0.000	6.000
Capital grants	28.775	43.432	44.061	19.292	0.207
Revenue	1.158	1.678	1.058	0.067	0.000
External	6.920	2.067	9.250	3.008	0.000
Net financing need for the year	25.253	42.096	117.873	75.719	28.433

2.2 The Authority's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Authority's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Authority's indebtedness and so it's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g., PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Authority's borrowing requirement, these types of schemes include a borrowing facility by the PFI, PPP lease provider and so the Authority is not required to separately borrow for these schemes. The Authority currently has £44.2m of such schemes within the CFR (31/3/23).

The Committee is asked to approve the CFR projections below:

Capital Financing Requirement (£m)	2022/23 Actual	31.3.2024 Estimate	31.3.2025 Estimate	31.3.2026 Estimate	31.3.2027 Estimate
Capital Financing Requirement					
General Fund Service	393.380	414.801	456.459	482.933	487.621
Housing Investment Programme (NuPlace Ltd)	63.544	74.326	115.026	145.181	161.651
Property Investment Portfolio	59.963	65.906	96.315	115.040	120.492
Solar Farm	3.800	3.800	3.800	3.800	3.800
Total CFR	**520.687**	**558.833**	**671.600**	**742.854**	**769.146**

Capital Financing Requirement (£m)	2022/23 Actual	31.3.2024 Estimate	31.3.2025 Estimate	31.3.2026 Estimate	31.3.2027 Estimate
Movement in CFR		38.146	112.767	71.254	26.292

2.3 Liability Benchmark

The Authority is required to estimate and measure the Liability Benchmark (LB) for the forthcoming financial year and the following two financial years, as a minimum although CIPFA strongly recommends that the Liability Benchmark is produced for at least 10 years and should ideally cover the full debt maturity profile.

There are four components to the LB: -

- Existing loan debt outstanding: the Authority's existing loans that are still outstanding in future years.
- Loans CFR: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
- Net loans requirement: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
- Liability benchmark (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

The full Liability Benchmark is included at Appendix Bii.

2.4 Capital and Treasury Management Prudential Indicators

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Treasury Management and Prudential Indicators. These indicators are used to measure and manage the Authority's measures exposure to treasury management risks including –

- Capital Expenditure & Financing
- Capital Financing Requirement (CFR)
- Limits to Borrowing Activity
- Liability Benchmark
- Security
- Liquidity
- Interest Rate Exposure
- Maturity Structure of Fixed Rate Borrowing
- Principle sums invested for periods longer than a year

Capital and Treasury Management Prudential Indicators are detailed in Appendix Bii.

3.0 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Authority. The treasury management function ensures that the Authority's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Authority's Capital Strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions, and the Annual Investment Strategy.

3.1 Current Portfolio Position

The overall treasury management portfolio as at 31.3.23 and estimated position as at 31.3.24 are shown below for both borrowing and investments.

Treasury Portfolio	31.3.23 Actual	31.3.23 Actual	31.03.24 Estimate	31.03.24 Estimate
Treasury investments	**£000**	**%**	**£000**	**%**
Banks	4,419	10.6	2,500	16.7
Money Market Funds	4,980	13.1	4,980	33.2
H.M. Treasury's Debt Management Account Deposit Facility (DMADF)	29,100	76.3	7,520	50.1
Total treasury investments	**38,499**	**100.0**	**15,000**	**100.0**
Treasury external borrowing				
Local Authorities	96,029	27.7	100,029	26.6
PWLB	210,884	60.7	235,544	62.7
Market Loans	15,000	4.3	15,000	4.0
LOBOs	25,000	7.2	25,000	6.7
Municipal Loans	308	0.1	245	0.0
Total external borrowing	**347,221**	**100.0**	**375,818**	**100.0**
Net treasury investments / (borrowing)	**(309,099)**		**(360,818)**	

The Authority's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

External Financing & Investments (£m)	31.3.23 Actual	31.3.24 Estimate	31.3.25 Estimate	31.3.26 Estimate	31.3.27 Estimate
Total External Borrowing	347.2	375.8	493.7	569.4	597.8
Other Long Term Liabilities	44.2	44.6	41.2	38.4	38.1

External Financing & Investments (£m)	31.3.23 Actual	31.3.24 Estimate	31.3.25 Estimate	31.3.26 Estimate	31.3.27 Estimate
Total Gross External Debt	**391.4**	**420.4**	**534.9**	**607.8**	**635.9**
The Capital Finance Requirement	520.7	558.8	671.6	742.9	769.1
Under / (over) borrowing	**129.3**	**138.4**	**136.7**	**135.1**	**133.2**

Within the range of prudential indicators there are several key indicators to ensure that the Authority operates its activities within well-defined limits. One of these is that the Authority needs to ensure that its gross debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

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

3.2 Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary: This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

The Committee is asked to approve the following Operational Boundary:

Operational Boundary (£m)	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Debt	475.0	635.0	725.0	745.0
Other long-term liabilities	50.0	50.0	50.0	50.0
Total	**525.0**	**685.0**	**775.0**	**795.0**

The Authorised Limit for external debt: This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short-term, but is not sustainable in the longer-term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all local authority plans, or those of a specific authority, although this power has not yet been exercised.

The Committee is asked to approve the following Authorised Limit:

Authorised Limit £m	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Debt	495.0	655.0	745.0	765.0
Other long-term liabilities	54.0	54.0	54.0	54.0
Total	**549.9**	**709.0**	**799.0**	**819.0**

3.3 Prospects for Interest Rates and commentary (provided by Link)

The Authority has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Link provided the following forecasts on 08 January 2024. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View 08.01.24													
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

- Our central forecast for interest rates was previously updated on 25 September and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least H2 2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and that there is a likelihood of the overall economy enduring at least a mild recession over the coming months (although most recent GDP releases have surprised with their on-going robustness).
- Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.
- In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

PWLB Rates

- The short and medium part of the gilt curve has rallied since the start of November as markets price in a quicker reduction in Bank Rate through 2024 and 2025 than held sway back then. This reflects market confidence in inflation falling back in a similar manner to that already seen in the US and the Euro-zone. At the time of writing there is c70 basis points difference between the 5 and 50 year parts of the curve.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is even.

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

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).
- **The Bank of England** has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.
- **Geopolitical risks,** for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

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

- Despite the tightening in Bank Rate to 5.25%, the **Bank of England allows inflationary pressures to remain elevated** for a long period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.
- **The pound weakens** because of a lack of confidence in the UK Government's pre-election fiscal policies, which may prove inflationary, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Projected **gilt issuance, inclusive of natural maturities and QT,** could be too much for the markets to comfortably digest without higher yields compensating.

Link Group Forecasts

We expect the MPC will keep Bank Rate at 5.25% until the second half of 2024, to combat on-going inflationary and wage pressures, even if they have dampened somewhat of late. We do not think that the MPC will increase Bank Rate above 5.25%.

Gilt yields and PWLB rates

The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, as inflation continues to fall through 2024.

Our target borrowing rates are set **two years forward** (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below:

PWLB debt	Current borrowing rate as at 06.11.23 p.m.	Target borrowing rate now (end of Q3 2025)	Target borrowing rate previous (end of Q3 2025)
5 years	4.53%	3.70%	3.80%
10 years	4.67%	3.90%	3.80%
25 years	5.19%	4.20%	4.20%
50 years	4.97%	4.00%	4.00%

Borrowing advice: Our long-term (beyond 10 years) forecast for Bank Rate remains at 3% and reflects Capital Economics' research that suggests AI and general improvements in productivity will be supportive of a higher neutral interest rate. As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates will remain elevated for some time to come but may prove the best option whilst the market continues to factor in Bank Rate reductions for 2024 and later.

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are set out below:-

Average earnings in each year	Now	Previously
2023/24 (residual)	5.30%	5.30%
2024/25	4.55%	4.70%
2025/26	3.10%	3.20%
2026/27	3.00%	3.00%
2027/28	3.25%	3.25%
2028/29	3.25%	3.25%
Years 6 to 10	3.25%	3.25%
Years 10+	3.25%	3.25%

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

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

3.4 Borrowing Strategy

The Authority holds £350.743m of loans as at 31 December 2023, an increase of £3.522 on the end of the previous financial year. It is anticipated that the total cumulative borrowing will increase to £375.8m by the end of 2023/24 in line with the approved Capital Programme.

The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate remains elevated through to the second half of 2024.

Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Interim Director of Finance & HR will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.
- if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the appropriate decision-making body at the next available opportunity.

Objectives: The Authority'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 Authority'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 Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With the forecast for interest rates anticipated to have peaked in September 2023 before starting to reduce from Quarter 3 2024 it is likely to be more cost effective in the short-term to either use internal resources, or to borrow through the use of short-term loans, up to 1 year.

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. Whilst such a strategy is most likely to be beneficial over the next year given to current interest rate forecast, over the medium-term we will make gradual moves into longer term borrowing as and when attractive opportunities arise. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years. External advisors will assist the Authority with this ‘cost of carry’ and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2024/25 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Historically, the Authority has raised the majority of its short term borrowing from the Local to Local market i.e. Local Authorities lending to and borrowing from each other, and this is likely to remain a major source going forward. The Authority may also consider the option of borrowing short term from the PWLB.

Likewise, the Authority has raised the majority of its long-term borrowing from the PWLB and this is likely to be a major source of borrowing going forward. The Authority may also consider alternative options for borrowing any long-term loans, such as banks, pension funds and local authorities, and the possibility of issuing bonds and similar instruments, in order to lower interest costs 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 Authority intends to avoid this activity in order to retain its access to PWLB loans.

Alternatively, the Authority 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 Authority may borrow further 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 PWLB)
- 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
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- Registered Housing providers
- Capital market bond investors
- Community Municipal Investments (Bond or Loan) raised from the general public (including a climate change investment opportunity).

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
- 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 meet its obligations for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable.

New Financial Institutions as a source of borrowing and or types of borrowing: Currently the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

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

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

LOBOs: The Authority holds £25.0m (7.1% of the debt portfolio at 31 December 2023) of LOBO (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. £20.0m of these LOBOs have remaining options prior to the end of the financial year, and although the Authority understands that lenders are very unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing opportunity. Rates payable were competitive compared to PWLB rates at the time that the loans were taken out. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will not increase from the current £25.0m.

Short-term and variable rate loans: These loans leave the Authority 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. Financial derivatives may be used to manage this interest rate risk.

Borrowing in advance of need: The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

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

Debt rescheduling: The PWLB allows authorities 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 Authority 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.

4.0 ANNUAL INVESTMENT STRATEGY

4.1 Investment Policy – Management of Risk

Investments that are not part of Treasury Management Activity

The Department of Levelling Up, Housing and Communities (DLUHC) and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This may include investment activity which is outside the purpose of normal treasury management. Public sector organisations may have investments for various purposes –

- **Investments for treasury management purposes** – are those investments that arise from the organisations cash flows or treasury risk management activity and ultimately represent balances which need to be invested until the cash in required for use in the course of business.
- **Investments for service purposes** – are taken or held primarily for the provision and for the purpose of delivering public services (including housing, regeneration and local infrastructure) or in support of joint working with others to deliver such services.
- **Investments for commercial purposes** – are long term investments taken or held primarily for financial return and are not linked to treasury management activity or directly part of delivering services. The Council does not hold any investments primarily for financial return.

This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Investments for both services purposes and commercial purposes are covered in greater detail in the Investment Strategy

Report and Capital Strategy Report which will be presented to Cabinet on 15 February 2024 and then Full Council on 29 February 2024.

The Authority's investment policy has regard to the following: -

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

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

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

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

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

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

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

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

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

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

5. **Non-specified and loan investment limits.** The Authority has determined that it will set a limit to the maximum exposure of the total treasury management investment portfolio to non-specified treasury management investments of £5m.

6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.

7. **Transaction limits** are set for each type of investment in 4.2.

8. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.2).

9. This Authority will set a limit for its investments which are invested for **longer than 365 days**, (see Appendix Bii).

10. This Authority has engaged **external consultants**, (see paragraph 3.3), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Authority in the context of the expected level of cash balances and need for liquidity throughout the year.

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

12. As a result of the change in accounting standards for 2023/24 under IFRS 9, this Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23. More recently, a further extension to the over-ride to 31.3.25 has been agreed by Government.

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

4.2 Creditworthiness Policy

This Authority applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays: -

- "watches" and "outlooks" from credit rating agencies;
- CDS spreads that may give early warning of changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, and any assigned Watches and Outlooks, in a weighted scoring system which is then combined with an overlay of CDS spreads. The end-product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Authority to determine the suggested duration for investments. The Authority will, therefore, use counterparties within the following durational bands:

- Yellow 5 years
- Dark pink 5 years for Ultra-Short Dated Bonds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bonds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (applies to nationalised / semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

The Link creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

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

All credit ratings will be monitored daily. The Authority is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Authority will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Senior Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

Sole reliance will not be placed on the use of this external service. In addition, this Authority will also use market data and market information, as well as information on any external support for banks to help support its decision-making process.

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long-term rating where applicable)	Money Limit (with any one counterparty)	Time limit
Banks	Yellow	£15.0m	5yrs
Banks	Purple	£15.0m	2 yrs
Banks	Orange	£15.0m	1 yr
Banks – part nationalised	Blue	£15.0m	1 yr
Banks	Red	£15.0m	6 mths
Banks	Green	£15.0m	100 days
Banks	No Colour	Not to be used	
Limit 3 category – Authority's banker (where "No Colour")	XXX	£15.0m	1 day
Other institutions limit	-	£7.5m	5yrs
DMADF	UK sovereign rating	unlimited	6 months
Local authorities	n/a	£15.0m	XXyrs
Housing associations	Colour bands	£15.0m	As per colour band
	Fund rating**	**Money Limit (with any one counterparty)**	**Time Limit**
Money Market Funds CNAV	AAA	£10.0m	liquid
Money Market Funds LVNAV	AAA	£10.0m	liquid
Money Market Funds VNAV	AAA	£10.0m	liquid

Ultra-Short Dated Bond Funds with a credit score of 1.25	Dark Pink / AAA	£10.0m	liquid
Ultra-Short Dated Bond Funds with a credit score of 1.50	Light Pink / AAA	£10.0m	liquid

Creditworthiness: Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. Nonetheless, when setting minimum sovereign debt ratings, this Authority will not set a minimum rating for the UK.

CDS prices: Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the days of the Truss/Kwarteng government in the autumn of 2022, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Authority has access to this information via its Link-provided Passport portal.

Limits: Due care will be taken to consider the exposure of the Authority's total investment portfolio to non-specified investments, countries, groups and sectors.

a) **Non-specified treasury management investment limit:** The Authority has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being £5m.

b) **Country limit:** The Authority has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix Bv. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

Other limits. In addition: -

- no more than £15m, with the exception of Money Market Funds where the Authority has no control of the sovereignty splits, will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies/institutions;
- sector limits will be monitored regularly for appropriateness.

4.3 Treasury Investment Strategy

The Council generally expects to maintain an investment balance of between £10.0m and £25.0m, at each month end, for the forthcoming year. There may be circumstances where the Council takes advantage favourable borrowing rates and investments may exceed £25m on a short-term basis from time to time due to differing maturity dates or certain periods of the year when markets are less liquid and it is appropriate to hold more cash investments; further, the receipt of grant funding, may result in investments being higher at points during the year.

Objectives: The CIPFA Code requires the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority'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 Authority 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.

Strategy: For its cash flow generated balances, the Authority will seek to utilise its business reserve instant access and notice accounts, Money Market Funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest. This diversification of investments will represent a continuation of the strategy adopted in 2023/24.

Business models: Under the new IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority 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 Authority may invest its surplus funds with any of the counterparty types listed below, subject to the cash limits (per counterparty) and the time limits shown in the creditworthiness policy (4.2).

- **The UK Government, local authorities and other government entities:** Loans to, 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 a lower risk of insolvency, although they are not without risk. Investments with the UK Government 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 & 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

- **Operational bank accounts:** The Authority 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 £15.0m 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 Authority maintaining operational continuity.

Approved Instruments: The Authority may lend or invest money using any of the following instruments:

- interest-bearing bank accounts
- fixed term deposits and loans
- callable deposits and loans where the borrower may repay before maturity, but subject to a maximum of £5million in total
- certificates of deposit
- bonds, notes, bills, commercial paper and other marketable instruments, and shares in money market funds and other pooled funds,

Investments may be made at either a fixed rate of interest, or at a variable rate linked to a market interest rate, such as SONIA, subject to the limits on interest rate exposures below.

Liquidity management: The Authority uses cash flow forecasting 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 Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

4.4 Ethical Investments

The Council will not knowingly directly invest in organisations whose activities include practices which directly pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the mission and values of the Council. At the same time the Council will take full responsibility for proper management of risk and safeguarding its investments by ensuring that they are diversified and made with organisations suitably credit assessed.

The Council's lending activity will be subject to (in order of rank)

- the assessment of meeting the minimum lending criteria as specified in the current Treasury Management Strategy and the minimum credit ratings as outlined in the Strategy.
- meeting the Security, Liquidity & Yield (SLY) criteria as set out in the current Treasury Management Strategy, and
- investments are not contrary to the values outlined in the Ethical Investment Framework (Appendix Bvii)

4.5 Related Matters

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 Authority 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 Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives 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. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

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

Markets in Financial Instruments Directive (MIFID): The Authority has opted up to professional client status 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 Authority's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

5.0 MINIMUM REVENUE PROVISION STATEMENT 2024/25

5.1 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 08 (SI 08/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

The four MRP options available are:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

(NB - this does not preclude other prudent methods.)

MRP in 2023/24: Options 1 and 2 may be used only for supported expenditure. Methods of making prudent provision for self-financed expenditure include

Options 3 and 4 (which may also be used for supported expenditure if the Council chooses).

The MRP Statement will be submitted to Council before the start of the 2024/25 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to Council at that time.

The Council will calculate MRP by the following methods –

Historic MRP (re pre 2007/08 borrowing). This will be calculated by dividing the balance at 31/3/07 (calculated in accordance with regulations) by 50 for an annual charge that charges over a finite period rather than a 4% reducing balance. Broadly in line with option 3.

MRP in respect of prudential borrowing, government supported allocations since 2007/08 and PFI will be charged over the life of the asset on an annuity basis (option 3 in the regulations).

DLUHC is in the final stages of a consultation where it is seeking views on revised MRP Guidance and the final proposed amendments to the Regulations. The consolation opened 21 December 2023 and remains open until 16 February 2024 with final changes taking effect from 2024/25 Financial Year. This consultation builds on a previous consultation which ran in June - July 2022 and focused on the exclusion of a proportion of debt from the MRP calculation, particularly relating to investment assets, capital loans and some operational assets.

MRP in respect of leases brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability which is broadly in line with the life of the asset.

Capital expenditure incurred during 2024/25 will not be subject to a MRP charge until 2025/26.

6.0 TREASURY MANAGEMENT POLICY STATEMENT 2024/25

6.1 The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Treasury Management Code (TM Code)), as described in Section 5 of the TM Code.

Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- Suitable Treasury Management Practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and

objectives, and prescribing how it will manage and control those activities.

- Investment Management Practices (IMPs) for investments that are not for treasury management purposes.

The Council will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Audit Committee and for the execution and administration of treasury management decisions to Director: Finance & Human Resources, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

The Council nominates Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

6.2 Policies and objectives of Treasury Management Activities

The Council defines its treasury management activities as:

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

This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management."

The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt. The Council will look to minimise borrowing through the use of maturing investments to fund capital expenditure rather than reinvestment.

The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations. Generally as investments mature they will not be reinvested but be used to minimise borrowing.

7.0 OTHER ITEMS

7.1 Financial Implications

The budget for investment income in 2024/25 is £0.675m, based on an average investment portfolio of £15.0m at an interest rate of 4.5%. The budget for debt interest paid in 2024/25 is £15.912m, based on an average debt portfolio of £445.402m at an average interest rate of 3.57%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different. Such differences will be reported through regular financial monitoring to Cabinet.

7.2 Balanced Budget Requirement:

The Authority complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

7.3 Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

The Interim Director: Finance & Human Resources will report to the Audit Committee on treasury management activity / performance and Performance Indicators as follows -

- Half yearly against the strategy approved for the year. The authority will produce an outturn report on its treasury activity no later than 31st July after the financial year end and an update report alongside the Treasury Strategy in the last quarter of the financial year.

Audit Committee will be responsible of the scrutiny of treasury management activity and practices.

A detailed list of the Treasury Management Section of Delegation and the Treasury Management Role of the Section 151 Officer are included at Appendix Biv.

7.4 Training

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

The scale and nature of knowledge and training requirements will depend on the size and complexity of the organisation's treasury management needs.

Based on our treasury management portfolio the approach we will adopt is:

- Record attendance at training and circulate training materials to those unable to attend; also ensure action is taken where poor attendance is identified.
- Discuss and agree learning plans as part of APPD / 1-to-1 for treasury management officers; consider training plan requirements for members.
- Consider self-assessment requirements for both treasury management officers and relevant members.
- Periodically ask treasury management officers and relevant members to highlight any training needs.

Training has been undertaken by members in July 2023 and January 2024 and further training will be arranged as required.

A formal record of the training received by officers central to the Treasury function will be recorded as part of the APPD process. Similarly, a formal record of the treasury management/capital finance training received by members will also be maintained by the Treasury Function.

7.5 Treasury Management Consultants

The Authority uses Link Group, Link Treasury Services Limited as its external treasury management advisors.

The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

Existing Treasury Portfolio Projected Forward

Treasury Portfolio (£m)	Current Portfolio	%	31.3.24 Estimate	31.3.25 Estimate	31.3.26 Estimate	31.3.27 Estimate
Treasury Investments:						
Banks	6.6	22.3	2.5	2.5	2.5	2.5
Money Markets	5.0	16.8	5.0	5.0	5.0	5.0
DMADF	18.0	60.9	7.5	7.5	7.5	7.5
Total Treasury Investments	**29.6**	**100.0**	**15.0**	**15.0**	**15.0**	**15.0**
Treasury external borrowing						
Local Authorities & other temporary loans	104.0	26.3	126.2	100.0	100.0	100.0
PWLB	206.4	52.2	209.4	353.5	429.3	457.8
Market Loans	15.0	3.8	15.0	15.0	15.0	15.0
LOBO	25.0	6.3	25.0	25.0	25.0	25.0
Municipal Loans	0.3	0.1	0.2	0.2	0.1	0.0
Total Treasury external borrowing	**350.7**	**88.7**	**375.8**	**493.7**	**569.4**	**597.8**
Net Treasury investments / (borrowing)	**(321.1)**		**(360.8)**	**(478.7)**	**(554.4)**	**(582.8)**
Long Term Liabilities						
PFI	(44.5)	11.3	(44.5)	(41.1)	(38.4)	(38.1)
Finance Leases	(0.1)	0.0	(0.1)	0.0	0.0	0.0
Total Long Term Liabilities	**44.6**	**11.3**	**(44.6)**	**(41.1)**	**(38.4)**	**(38.1)**
Net investments / (borrowing)	**(365,7)**		**(405.4)**	**(519.8)**	**(592.8)**	**(620.9)**

Capital and Treasury Management Prudential Indicators 2024/25

1.0 Background:

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

The Authority measures and manages its exposure to treasury management risks using the following indicators.

Committee is asked to approve the following Capital and Treasury Management Prudential Indicators for 2024/25.

2.0 Capital Expenditure and Financing:

This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts: -

Capital expenditure (£m)	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Total	75.704	90.047	179.798	98.086	34.640

Other long-term liabilities - the above financing need excludes other long-term liabilities, such as PFI and leasing arrangements that already include borrowing instruments.

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

Financing of capital expenditure (£m)	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Capital receipts	13.598	0.774	7.556	0.000	0.000
Capital grants	28.775	43.432	44.061	19.292	0.207
Revenue	1.158	1.678	1.058	0.067	0.000
External	6.920	2.067	9.250	3.008	0.000
Net financing need for the year	25.253	42.096	117.873	75.719	28.433

3.0 The Authority's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Authority's Capital Financing Requirement (CFR). See Table 2 – Capital Financing Requirement (CFR) in Section 1.7 above.

The Authority is asked to approve the CFR projections below:

Capital Financing Requirement (£m)	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Total CFR	520.687	558.833	671.600	742.854	769.146
Movement in CFR		38.146	112.767	71.254	26.292

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. The CFR Table above shows that the Authority expects to fully comply with this recommendation.

4.0 Limits to Borrowing Activity:

The Operational Boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational Boundary (£m)	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Debt	475.0	635.0	725.0	745.0
Other long-term liabilities	50.0	50.0	50.0	50.0
Total	**525.0**	**685.0**	**775.0**	**795.0**

The Authorised Limit for external debt. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short-term, but is not sustainable in the longer-term.

- This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all local authority plans, or those of a specific authority, although this power has not yet been exercised.
- The Authority is asked to approve the following Authorised Limit:

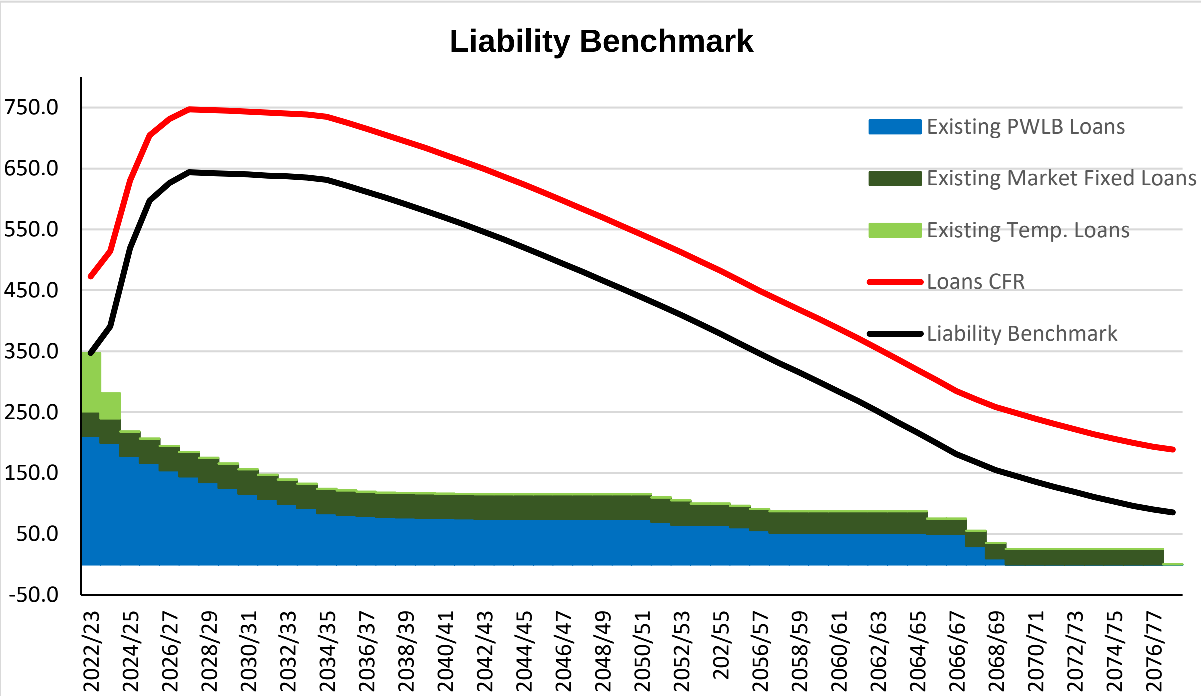
Authorised Limit (£m)	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Debt	495.0	655.0	745.0	765.0
Other long-term liabilities	54.0	54.0	54.0	54.0
Total	**549.0**	**709.0**	**799.0**	**819.0**

5.0 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 as the Capital Financing Requirement (CFR), but that cash and investment balances are kept to a minimum level of £15m at each year-end to maintain sufficient liquidity but minimise credit risk.

Liability Benchmark (£m)	31.3.23 Actual	31.3.24 Estimate	31.3.25 Forecast	31.3.26 Forecast	31.3.27 Forecast
Loans CFR	472.799	514.258	630.400	704.426	731.008
Less: Balance Sheet Resources	(164.077)	(138.516)	(125.873)	(122.348)	(119.915)
Net Loans Requirement	**308.722**	**375.742**	**504.527**	**582.078**	**611.093**
Plus: Liquidity Allowance	38.499	15.000	15.000	15.000	15.000
Liability Benchmark	**347.221**	**390.742**	**519.527**	**597.078**	**626.093**

Following on from the medium-term forecasts in the table above, the long-term liability benchmark has been calculated (see chart below) and assumes capital expenditure funded by borrowing in line with the capital programme, minimum revenue provision on new capital expenditure based on appropriate asset lives and balance sheet resources reducing in line with anticipated use of reserves.



The liability benchmark is a projection of the amount of loan debt outstanding which the authority needs each year into the future, in order to fund its existing debt liabilities, planned prudential borrowing and other cash flows.

The headroom for the future borrowing requirement is shown by the gap between the authority's existing loans which are still outstanding at a given future date, and the authority's future need for borrowing (as shown by the liability benchmark).

It therefore shows how closely the existing loans book fits the future needs of the authority based only on its current plans. Any shortfall will need to be met by future borrowing; any excess will have to be invested (unless existing borrowing is prematurely repaid). Refinancing risk, interest rate risk and credit risk can be minimized or reduced by ensuring that the existing loans portfolio shows a profile close to the liability benchmark.

For Telford & Wrekin Council, the benchmark shows that our current level of external borrowing is below the amount needed to fund commitments and therefore future borrowing will be required.

In particular, the liability benchmark identifies the maturities needed for new borrowing, in order to match future liabilities. It therefore avoids borrowing for too long or too short. Local authorities have sometimes used the CFR as their benchmark of borrowing needs, but this is likely to result in substantial over-borrowing because authorities generally have systemic in-hand cash flows and balances which keep actual debt (net of treasury investments) well below the CFR. Borrowing needs are based on cash flows, not the CFR – accepting the need for a reasonable but not excessive holding of short term investments for liquidity management.

The liability benchmark makes no assumption about the level of future prudential borrowing in as yet unknown capital budgets. This avoids making large assumptions which may prove to be spectacularly wrong; but the main reason is that it enables the benchmark to be compared like-for-like with the existing loans portfolio to identify the future borrowing and investment needs arising from the authority's existing plans. It shows us what the current debt maturity profile should be to match the authority's current borrowing commitments less MRP and other forecast cash flows. Matching the portfolio to the need minimises treasury risks.

6.0 Security:

The Council considers security, liquidity and yield, in that order, when making investment decisions.

Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted 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 would be assigned a score based on their perceived risk.

Credit Risk Indicator	Target
Portfolio average credit score	6 or lower, (which is equivalent to a credit rating of 'A' or higher)

7.0 Maturity Structure of Fixed Rate borrowing:

This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment. For loans with Lender Options / Borrower Options (LOBOs) this is assumed as the final maturity date.

Maturity structure of fixed rate borrowing	Existing level 31.12.23 %	Lower Limit for 2024/25 %	Upper Limit for 2024/25 %
under 12 months	15	0	70
12 months and within 24 months	22	0	30
24 months and within 5 years	10	0	50
5 years and within 10 years	13	0	75
10 years and within 20 years	7	0	75
20 years and within 30 years	3	0	75
30 years and within 40 years	5	0	100
40 years and within 50 years	18	0	100
50 years and above	7	0	100

8.0 Principal sums invested for periods longer than a year:

The purpose of this indicator is to control the Authority'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:

Limit on principal sums invested for periods longer than a year	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %
Limit on total investments	95	95	95

Interest Rate Forecasts and Economic Background

Interest rate forecasts 2023 - 2026

Link Group Interest Rate View 08.01.24													
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

PWLB forecasts are based on PWLB certainty rates.

Economic Background

- The third quarter of 2023/24 saw:
  - A 0.3% m/m decline in real GDP in October, potentially partly due to unseasonably wet weather, but also due to the ongoing drag from higher interest rates. Growth for the second quarter, ending 30th September, was revised downwards to -0.1% and growth on an annual basis was also revised downwards, to 0.3%;
  - A sharp fall in wage growth, with the headline 3myy rate declining from 8.0% in September to 7.2% in October, although the ONS “experimental” rate of unemployment has remained low at 4.2%;
  - CPI inflation continuing on its downward trajectory, from 8.7% in April to 4.6% in October, then again to 3.9% in November;
  - Core CPI inflation decreasing from April and May’s 31 years’ high of 7.1% to 5.1% in November, the lowest rate since January 2022;
  - The Bank of England holding Bank Rate at 5.25% in November and December;
  - A steady fall in 10-year gilt yields as investors revised their interest rate expectations lower.
- The revision of GDP data in Q2 to a 0.1% q/q fall may mean the mildest of mild recessions has begun. Indeed, real GDP in October fell 0.3% m/m which does suggest that the economy may stagnate again in Q3. The weakness in October may partly be due to the unseasonably wet weather. That said, as the weakness was broad based it may also be the case that the ongoing drag from higher interest rates is more than offsetting any boost from the rise in real wages.
- However, the rise in the flash composite activity Purchasing Managers Index, from 50.7 in November to 51.7 in December, did increase the chances of the economy avoiding a contraction in Q3. The improvement was entirely driven by the increase in the services activity balance from 50.9 to 52.7. (Scores above 50 point to expansion in the economy, although only tepid in this instance.) The press release noted that this was primarily driven by a revival in consumer demand in the technological and financial services sectors. This chimes with the further improvement in the GfK measure of consumer confidence in December, from -24 to -22. The services PMI is now consistent with non-retail services output growing

by 0.5% q/q in Q3, but this is in stark contrast to the manufacturing sector where the output balance slumped from 49.2 to 45.9 and, at face value, the output balance is consistent with a 1.5% q/q fall in manufacturing output in Q3.

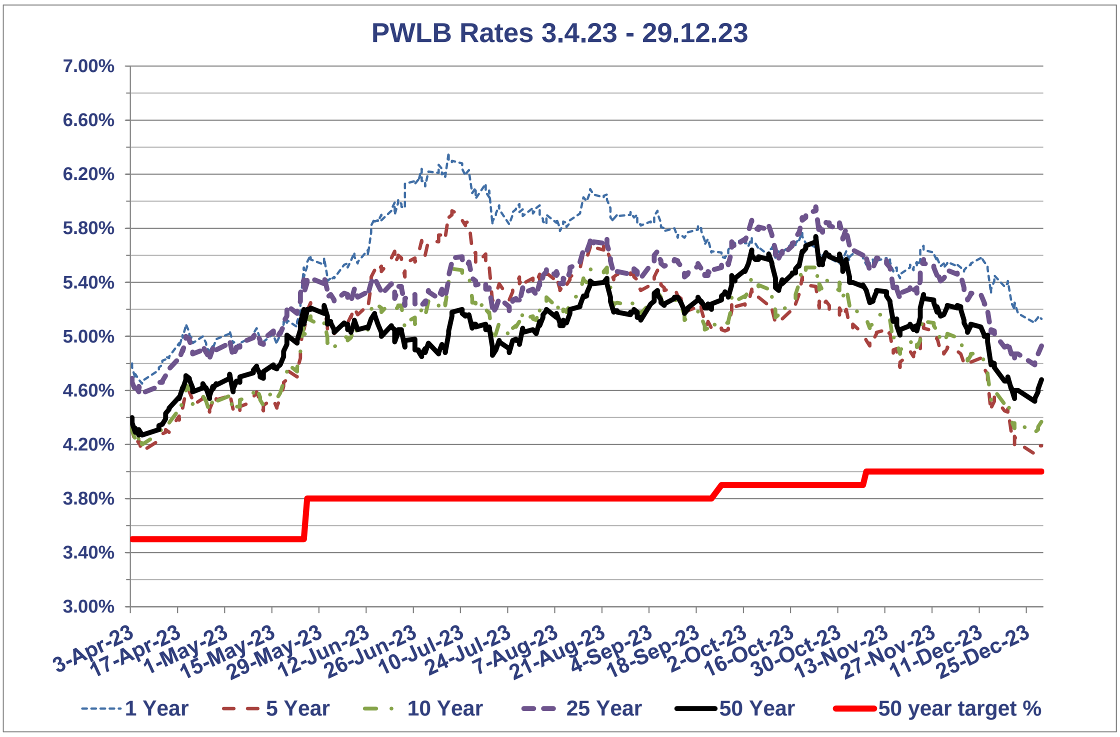
- The 0.3% m/m fall in retail sales volumes in October means that after contracting by 1.0% q/q (which was downwardly revised from -0.8% q/q) in Q2, retail activity remained weak at the start of Q3. That suggests higher interest rates are taking a bigger toll on real consumer spending.
- Higher interest rates have filtered through the financial channels and weakened the housing market but, overall, it remains surprisingly resilient with the Halifax house price index recently pointing to a 1.7% year on year increase whilst Nationwide's December data pointed to a -1.8% year on year decrease. However, the full weakness in real consumer spending and real business investment has yet to come as currently it is estimated that around two thirds to a half of the impact of higher interest rates on household interest payments has yet to be felt.
- Overall, we expect real GDP growth to remain subdued throughout 2024 as the drag from higher interest rates is protracted but a fading of the cost-of-living crisis and interest rate cuts in the second half of 2024 will support a recovery in GDP growth in 2025.
- The labour market remains tight by historical standards, but the sharp fall in wage growth seen in October will reinforce the growing belief in markets that interest rates will be cut mid-2024. Wage growth eased in October much faster than the consensus expected. Total earnings fell by 1.6% m/m, which meant the headline 3myy rate eased from 8.0% in September to 7.2% in October. This news will be welcomed by the Bank of England. Indeed, the timelier three-month annualised rate of average earnings growth fell from +2.4% to -1.2%. Excluding bonuses, it fell from 5.3% to 2.0%. Furthermore, one of the Bank's key barometers of inflation persistence, regular private sector pay growth, dropped from 7.9% 3myy to 7.3%, which leaves it comfortably on track to fall to 7.2% by December, as predicted by the Bank in November.
- The fall in wage growth occurred despite labour demand being stronger in October than expected. The three-month change in employment eased only a touch from +52,000 in September to +50,000 in October. But resilient labour demand was offset by a further 63,000 rise in the supply of workers in the three months to October. That meant labour supply exceeded its pre-pandemic level for the first time, and the unemployment rate remained at 4.2% in October. In the three months to November, the number of job vacancies fell for the 17th month in a row, from around 959,000 in October to around 949,000. That has reduced the vacancy to unemployment ratio as demand for labour eases relative to supply, which may support a further easing in wage growth in the coming months.
- CPI inflation fell from 6.7% in September to 4.6% in October, and then again to 3.9% in November. Both these falls were bigger than expected and there are clear signs of easing in domestic inflationary pressures. The fall in core CPI inflation from 5.7% to 5.1% in November was bigger than expected (consensus forecast 5.6%). That's the lowest rate since January 2022. Some of the decline in core inflation was due to the global influence of core goods inflation, which slowed from 4.3% to 3.3%. But some of it was due to services inflation falling from 6.6% to

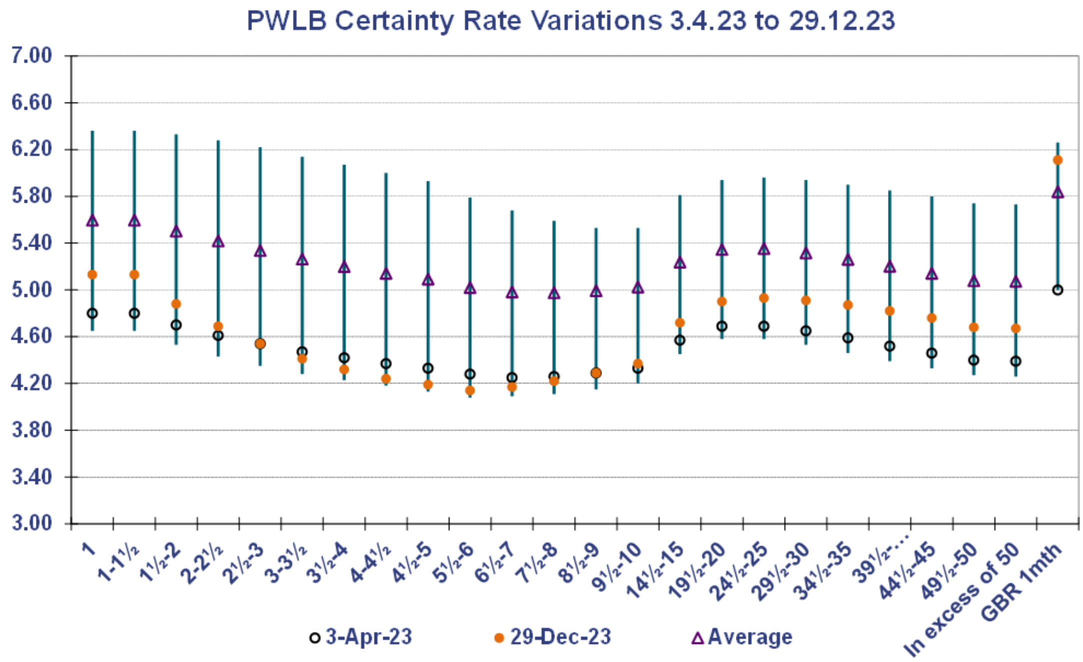
6.3%. The Bank views the latter as a key barometer of the persistence of inflation and it came in further below the Bank's forecast of 6.9% in its November Monetary Policy Report. This will give the Bank more confidence that services inflation is now on a firmly downward path.

- The Bank of England sprung no surprises with its December monetary policy committee (MPC) meeting, leaving interest rates at 5.25% for the third time in a row and pushing back against the prospect of near-term interest rate cuts. The Bank continued to sound hawkish, with the MPC maintaining its tightening bias saying that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures". And it stuck to the familiar script, saying that policy will be "sufficiently restrictive for sufficiently long" and that "monetary policy is likely to need to be restrictive for an extended period of time". In other words, the message is that the MPC is not yet willing to endorse investors' expectations that rates will be cut as soon as May 2024.
- Looking ahead, our colleagues at Capital Economics forecast that the recent downward trends in CPI and core inflation will stall over the next few months before starting to decline more decisively again in February. That explains why we think the Bank of England won't feel comfortable cutting interest rates until H2 2024.
- The fall in UK market interest rate expectations in December has driven most of the decline in 10-year gilt yields, which have fallen in line with 10-year US Treasury and euro-zone yields. 10-year gilt yields have fallen from 4.68% in October 2023 to around 3.70% in early January, with further declines likely if the falling inflation story is maintained.
- Investors' growing expectations that the Fed will cut interest rates soon has led to an improvement in risk sentiment, which has boosted the pound and other risky assets. In addition, the rise in the pound, from $1.21 in November to $1.27 now, has also been supported by the recent relative decline in UK wholesale gas prices.
- The further fall in 10-year real gilt yields in December has supported the recent rise in the FTSE 100. That said, the index remains 5% below its record high in February 2023. This modest rise in equities appears to have been mostly driven by strong performances in the industrials and rate-sensitive technology sectors. But UK equities have continued to underperform US and euro-zone equities. The FTSE 100 has risen by 2.2% in December, while the S&P 500 has risen by 3.8%. This is partly due to lower energy prices, which have been a relatively bigger drag on the FTSE 100, due to the index's high concentration of energy companies.

In the chart below, the rise in gilt yields across the curve in the first half of 2023/24, and therein PWLB rates, is clear to see, prior to the end of year rally based on a mix of supportive domestic and international factors.

PWLB RATES 3.4.23 - 29.12.23





HIGH/LOW/AVERAGE PWLB RATES FOR 3.4.23 – 29.12.23

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.13%	4.20%	4.58%	4.27%
Date	06/04/2023	27/12/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.53%	5.96%	5.74%
Date	06/07/2023	07/07/2023	23/10/2023	23/10/2023	23/10/2023
Average	5.60%	5.09%	5.03%	5.35%	5.08%
Spread	1.71%	1.80%	1.33%	1.38%	1.47%

MPC meetings 2nd November and 14th December 2023

- On 2nd November, the Bank of England's Monetary Policy Committee (MPC) voted to keep Bank Rate on hold at 5.25%, and on 14th December reiterated that view. Both increases reflected a split vote, the latter by 6 votes to 3, with the minority grouping voting for an increase of 0.25% as concerns about "sticky" inflation remained in place.
- Nonetheless, with UK CPI inflation now at 3.9%, and core inflating beginning to moderate (5.1%), markets are voicing a view that rate cuts should begin in Q1 2024/25, some way ahead of the indications from MPC members. Of course, the data will be the ultimate determinant, so upcoming publications of employment, wages and inflation numbers will be of particular importance, and on-going volatility in Bank Rate expectations and the gilt yield curve can be expected.
- In addition, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has kept short-term rates in the range of 5.25%-5.50%, whilst the ECB has moved its Deposit rate to a probable peak of 4%. Markets currently expect both central banks to start cutting rates in 2024.

Appendix iv

Credit and Counterparty Risk Management

Specified Investments: All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable. (Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months.)

Non-specified Investments: These are any investments which do not meet the specified investment criteria. A maximum of £5m will be held in aggregate in non-specified investment.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria / colour band	**** Max % of total investments / £ limit per institution**	**Max. maturity period**
DMADF – UK Government	Yellow	100%	6 months (max. is set by the DMO*)
UK Gilts	Yellow		5 years
UK Treasury Bills	Yellow		364 days (max. is set by the DMO*)
Bonds issued by multilateral development banks	Yellow		5 years
Money Market Funds CNAV	AAA	100%	Liquid
Money Market Funds LNVAV	AAA		Liquid
Money Market Funds VNAV	AAA		Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	100%	Liquid
Local Authorities	Yellow	100%	5 years

	Minimum credit criteria / colour band	** Max % of total investments / £ limit per institution	Max. maturity period
Term Deposits with Housing Associations	Blue Orange Red Green No Colour		12 months 12 months 6 months 100 days Not for use
Term Deposits with Banks and Building Societies	Blue Orange Red Green No Colour		12 months 12 months 6 months 100 days Not for use
CDs or Corporate Bonds with Banks and Building Societies	Blue Orange Red Green No Colour		12 months 12 months 6 months 100 days Not for use
Gilt Funds	UK sovereign rating		

Approved Countries for Investments

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link creditworthiness service.

Based on lowest available rating

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)

AA-

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

Treasury Management Scheme of Delegation

(i) Full Council

- approval of annual strategy and mid year update and annual report, and
- approval of/amendments to the organisations adopted clauses, treasury management policy, treasury management practices, treasury management indicators and prudential indicators

(ii) Full Council / Cabinet

- budget consideration and approval, and
- receiving and reviewing regular monitoring reports and acting on recommendations,

(iii) Audit Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body, Full Council.

The Treasury Management Role of the Section 151 Officer

The S151 (responsible) officer

The Council's S151/Chief Financial Officer has delegated authority for all Treasury Management activities and decisions, including borrowing and investments, as long as they are within the overall approved Treasury Management Strategy.

- Recommending the Treasury Management Strategy, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;

- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

Ethical Investment Framework – Telford and Wrekin Council

At the current time the Council's treasury activity consists principally of making short-dated loans to the UK Government (through the Debt Management Agency Deposit Facility) and to banks and building societies which adheres to the S-L-Y principles of (Security, Liquidity and Yield, in that order).

The preservation of capital is the Council's principal and overriding priority. The banks and building societies on the Council's lending list are selected only if the institutions and the sovereign meet a minimum credit criteria. In accordance with its social and corporate governance responsibilities, the Council seeks to support institutions which additionally have an ethical and responsible approach to environmental and social issues including employment and global trade. These "ethical" criteria and their basis are described below.

1. Environmental and Social Standards

Equator Principles

The Equator Principles (EPs) are a voluntary set of guidelines based on the environmental and social standards practiced by the International Finance Committee when evaluating financing projects. Financial institutions that adopt the Principles agree to use a screening process aiming to ensure that environmental and social assessments help inform decisions to finance development projects. This allows signatories to engage proactively with their stakeholders on environmental and social policy issues.

The EPs are a screening framework for determining, assessing and managing environmental and social risk in project finance transactions for major infrastructure and industrial projects. The EPs are adopted voluntarily by financial institutions and are applied where total project capital costs exceed US$10 million. The EPs are primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making. They are based on the International Finance Corporation's performance standards on social and environmental sustainability and on the World Bank Group Environmental Health and Safety Guidelines.

Financial institutions which are signatories to the EPs commit to not providing loans to projects where the borrower will not or is unable to comply with their respective social and environmental policies and procedures that implement the EPs.

The following banks relating to institutions on the Council's lending list have adopted the Equator Principles:

- Lloyds Banking Group (parent of Bank of Scotland plc and Lloyds Bank plc)
- Banco Santander (parent of Santander UK plc)
- Svenska Handelsbanken AB (parent of Handelsbanken UK)
- Barclays plc (parent of Barclays Bank)
- HSBC Holding plc (parent of HSBC plc)
- Nat West Group plc
- Royal Bank of Scotland

- Standard Chartered plc
- Australia and New Zealand Banking Group
- Commonwealth Bank Australia
- Westpac Banking Corp.
- Bank of Montreal
- Bank of Nova Scotia
- Canadian Imperial Bank of Commerce
- Royal Bank of Canada
- Nordea Bank Finland
- Deutche Bank AG
- ING Bank NV
- Credit Suisse
- JP Morgan Chase Bank

http://www.equator-principles.com/index.php/members-reporting

2. Human Rights, Labour and Environment

The **UN Global Compact** is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption.

Corporations which sign up to the UN Global Compact are encouraged to themselves embrace and in turn, support and enact, within their sphere of influence, a set of core values which are derived from:

- The Universal Declaration of Human Rights
- The International Labour Organization's Declaration on Fundamental Principles and Rights at Work
- The Rio Declaration on Environment and Development
- The United Nations Convention Against Corruption

Human Rights

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses.

Labour

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour;
- Principle 5: the effective abolition of child labour; and
- Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

The following banks relating to institutions on the Council's lending list are participants/stakeholders of the UN Global Compact:

- Lloyds Banking Group
- Svenska Handelsbanken AB
- Gruppo Santander (ultimate parent of Santander UK plc)
- HSBC
- Royal Bank of Scotland
- Standard Chartered
- Nationwide Building Society
- NatWest Group plc
- The Royal Bank of Scotland Group
- Australia and New Zealand Banking Group
- Commenwealth Bank of Australia
- National Australia Bank
- Westpac Banking Corp.
- Nordea Bank AB
- ING Bank NV
- Rabobank Group
- DBS Bank Ltd
- Credit Suisse

http://www.unglobalcompact.org/ParticipantsAndStakeholders/index.html

Limitations to ethical policies:

It should be noted here that the individual institutions which have signed up to the Equator Principles and to the Global Compact screen borrowers before lending for infrastructure and industrial projects.

However, financial institutions also engage daily in money market and interbank lending transactions; the criteria for such lending is based primarily on credit risk assessment (i.e. the assessment of their lending being repaid in full and on time when it is due). Being a signatory to the EPs will not necessarily be a critical feature of such credit assessment and the Council is not in a position to monitor interbank lending. The same applies to an individual financial signing up to the UN Global Compact.

It should also be noted that becoming a signatory of voluntary guidelines (Equator Principle or Global Compact) does not guarantee that that institution's policies and practices are of a better standard than those institutions which are not signatories to the voluntary guidelines.

Activist investment: The Council does not invest directly in shares traded on the markets or in corporate bonds. Not only are such investments inherently higher risk investments, and requires a distinct and separate set of fund management expertise. Under current legislation (SI 2003 No 3146) the purchase of share capital or loan capital of a body corporate is a capital expenditure investment which, on sale or maturity, becomes a capital receipt and is unsuitable for the Council's treasury investments which are primarily the cash management of its operating surpluses and reserves. Corporate bond and equity investments would however be made by the Council's pension fund (run by Shropshire Council.

Other than through its pension fund (which is measured by Shropshire Council), the Council cannot seek to influence decision making at a company by voicing concerns, engaging in a dialogue with management, or lobbying other shareholders for support. Activist investors attempt to purchase sufficient shares or obtain seats on the board with the goal of effecting major change in the company to make the company more valuable financially or socially (for example to change management policies and adopt better governance; optimise shareholder value through acquisitions/divestitures, be more socially responsible etc).

Credit Ratings – A Guide.

Long-term credit ratings and Sovereign Ratings

Fitch Rating' long-term credit ratings are set up along a scale from 'AAA' to 'D', first introduced in 1924 and later adopted and licensed by Standard & Poors (S&P). Moody's also uses a similar scale, but names the categories differently. Like S&P, Fitch also uses intermediate modifiers for each category between AA and CCC (i.e., AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB- etc.).

Investment grade

- **AAA** : the best quality, reliable and stable
- **AA** : good quality, a bit higher risk than AAA
- **A** : economic situation can affect finance
- **BBB** : medium class counterparties, which are satisfactory at the moment

Non-investment grade

- **BB** : more prone to changes in the economy
- **B** : financial situation varies noticeably
- **CCC** : currently vulnerable and dependent on favourable economic conditions to meet its commitments
- **CC** : highly vulnerable, very speculative bonds
- **C** : highly vulnerable, perhaps in bankruptcy or in arrears but still continuing to pay out on obligations
- **D** : has defaulted on obligations and Fitch believes that it will generally default on most or all obligations
- **NR** : not publicly rated

Short-term credit ratings

Fitch's short-term ratings indicate the potential level of default within a 12-month period.

- **F1+** : best quality grade, indicating exceptionally strong capacity of obligor to meet its financial commitment
- **F1** : best quality grade, indicating strong capacity of obligor to meet its financial commitment
- **F2** : good quality grade with satisfactory capacity of obligor to meet its financial commitment
- **F3** : fair quality grade with adequate capacity of obligor to meet its financial commitment but near term adverse conditions could impact the obligor's commitments
- **B** : of speculative nature and obligor has minimal capacity to meet its commitment and vulnerability to short term adverse changes in financial and economic conditions
- **C** : possibility of default is high and the financial commitment of the obligor are dependent upon sustained, favourable business and economic conditions
- **D** : the obligor is in default as it has failed on its financial commitments.

Support Ratings (1 – 5)

The Purpose and Function of Support Ratings
Support Ratings are Fitch Ratings' assessment of a potential supporter's propensity to support a bank and of its ability to support it. Its propensity to support is a judgment made by Fitch Ratings. Its ability to support is set by the potential supporter's own Issuer Default Ratings, both in foreign currency and, where appropriate, in local currency. Support Ratings do not assess the intrinsic credit quality of a bank. Rather they communicate the agency's judgment on whether the bank would receive support should this become necessary. These ratings are exclusively the expression of Fitch Ratings' opinion even though the principles underlying them may have been discussed with the relevant supervisory authorities and/or owners.

Timeliness and Effectiveness Requirements
Fitch Ratings' Support Rating definitions are predicated on the assumption that any necessary "support" is provided on a timely basis. The definitions are also predicated on the assumption that any necessary support will be sufficiently sustained so that the bank being supported is able to continue meeting its financial commitments until the crisis is over.

Obligations and Financial Instruments Covered
In terms of these definitions, unless otherwise specified, "support" is deemed to be in terms of foreign currency. It is assumed that typically the following obligations will be supported: senior debt (secured and unsecured), including insured and uninsured deposits (retail, wholesale and interbank); obligations arising from derivatives transactions and from legally enforceable guarantees and indemnities, letters of credit, and acceptances; trade receivables and obligations arising from court judgments.

Likewise, the agency does not assume that the following capital instruments will be supported when sovereign support is involved: preference/preferred shares or stock; hybrid capital (tier 1 and upper tier 2), including reserve capital instruments (RCIs) and variations upon RCIs; and common/ordinary equity capital. It is also assumed that there will be no support for any moral obligation on securitizations. The sovereign support status of subordinated debt is difficult to categorize in advance; it is assessed on a case by case basis, distinguishing among different jurisdictions.

Definitions:

1: A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question. This probability of support indicates a minimum Long-Term Rating floor of 'A-'.

2: A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-Term Rating floor of 'BBB-'.

3: A bank for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so. This probability of support indicates a minimum Long-Term Rating floor of 'BB-'.

4: A bank for which there is a limited probability of support because of significant uncertainties about the ability or propensity of any possible provider of support to do so. This probability of support indicates a minimum Long-Term Rating floor of 'B'.

5: A bank for which external support, although possible, cannot be relied upon. This may be due to a lack of propensity to provide support or to very weak financial ability to do so. This probability of support indicates a Long-Term Rating floor no higher than 'B-' and in many cases no floor at all.

GLOSSARY

Term	Meaning
Annuity	A method of repaying a loan where the cash payment remains constant over the life of the loan, but the proportion in interest reduces and the proportion of principal repayment increases over time.
Authorised Borrowing Limit	The maximum amount the authority can borrow at any point of time in the year. This limit should never be exceeded. The limit is set by Full Council at the beginning of March and is a prudential indicator.
Bail-in	A method of rescuing a failing financial institution by cancelling some of its deposits and bonds. Investors may suffer a haircut but may be given shares in the bank as part compensation. See also bail-out
Bail-out	A method of rescuing a failing financial institution by the injection of public money. This protects investors at the expense of the taxpayer.
Call account	A deposit account that can be called back, normally on instant access.
Capital Financing Requirement CFR)	This represents the underlying need for the authority to borrow and represents the assets of the authority less the long term capital liabilities.
Credit Default Swaps (CDS)	CDS are bought by investors to insure against defaults (i.e. the counterparty not being able to repay). The higher the cost/premium then the higher the risk – CDS therefore given a market view of the credit worthiness of an organisation.
Credit Ratings	Rating on the ability of an organisation to meet its obligations; ratings are assigned by independent, specialist companies, such as Fitch and Moody's using market intelligence they gather.
Credit Risk	The risk that the debtor will default on their obligations
Counterparty	The organisation that you are conducting your business with.
Debt Management Account Deposit Facility (H.M. Treasury)	Provided by the Debt Management Office, users can place cash in secure fixed-term deposits. Deposits are guaranteed by the government and therefore have the equivalent of a sovereign triple-A credit rating.
Derivative Instruments	A security whose price is dependent upon or derived from one or more underlying assets. The derivative itself is merely a contract between two or more parties. Its value is determined by fluctuations in the underlying asset. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indexes. Most derivatives are characterized by high leverage. For example, a stock option is a derivative because it derives its value from

Term	Meaning
	the value of a stock. An interest rate swap is a derivative because it derives its value from one or more interest rate indices.
Discounts	These relate to Public Works Loans Board loans. If rates have increased since the borrowing was undertaken then part of the benefit that PWLB will achieve from being able to loan out at that higher rate are passed back to an authority if they repay the loan early.
Fund Managers	Independent investment managers who work to a specific mandate and if appointed invest funds on behalf of the Council
IFRS	International Financial Reporting Standards, the set of accounting rules in use by UK local authorities since 2010.
Inflation	The rise in prices of goods and services over a period of time.
Interest Rate Risk	The risk that the value of an investment will change due to changes to the interest rate.
Internal Borrowing	This is where the amount of an authority's borrowing is less than its CFR or underlying need to borrow and represents the use of internal balances rather than borrowing from the market.
Liquidity Risk	The risk of not being able to trade an investment quickly to release cash.
LOBO	Lender's Option Borrower's Option – a long term loan where the lender has the option to propose an increase in the interest rate on pre-determined dates. The borrower then has the option to either accept the new rate or repay the loan without penalty. LOBOs increase the borrower's interest rate risk and the loan should therefore attract a lower rate of interest initially.
Minimum Revenue Provision (MRP)	This is the amount charged against the Income and Expenditure Account for the year in relation to the repayment of debt on borrowing in order to fund capital expenditure.
Money Market Fund (MMF)	Mutual funds that invest in short term debt instruments. They offer a higher level of security than banks and interest rates are generally higher.
Obligor	An individual or company that owes debt to another individual or company (the creditor), as a result of borrowing or issuing bonds.
Operational Borrowing Limit	The amount the authority would normally borrow at any point of time in the year. This boundary might be exceeded temporarily but only in exceptional circumstances. The limit is set by Full Council at the beginning of March and is a prudential indicator.

Term	Meaning
Premia	This is the penalty applied to the early redemption of PWLB loans where rates have fallen since the loan was undertaken.
Prudential Code	A professional code of practice which provides regulatory framework to local authorities on capital expenditure, investments and borrowing activities.
Prudential Indicators	A set of indicators developed within the Prudential Code which define thresholds for investment and borrowing within a local authority.
PWLB	Public Works Loans Board – a Government agency providing long and short term loans to local authorities. Interest rates are generally lower than the private sector and slightly higher than the rates at which the Government themselves may borrow.
Quantitative Easing	This is where the government buy back their own gilt issuance to effectively pump money into the financial markets of the economy.
Re-scheduling	This relates to repaying existing borrowing early and replacing it with borrowing for a different period usually, but not necessarily, at lower rates
Return	The gain from holding an investment over a given period
Security	An investment instrument, other than an insurance policy or fixed annuity, issued by a corporation, government or other organisation which offers evidence of debt or equity.
SONIA	Sterling Overnight Interbank Average – a key Bank of England interest rate benchmark; it is a measurement of the cost of borrowing and reflects the average of interest that banks pay to borrow sterling overnight from other financial institutions.
Sovereign Exposure	Risk of exposure to one particular country.
Supranational Bonds	These are bonds (similar to gilts) issued by multi government development organisations and are supported by all of the governments who form part of the organisation. E.g. European Investment Bank and are usually very secure.
Treasury Management Code (TM Code)	CIPFA's Code of Practice for Treasury Management in the Public Services and Cross-Sectoral Guidance Notes, to which local authorities are required by law to have regard.

Telford & Wrekin Co-operative Council

Protect, care and invest to create a better borough

Borough of Telford and Wrekin

Audit Committee

Wednesday 31 January 2024

Internal Audit Activity & Update to Internal Audit Charter 2024/2025

Cabinet Member:	Cllr Nathan England - Cabinet Member: Finance, Customer Services & Governance	
Lead Director:	Anthea Lowe - Director: Policy & Governance	
Service Area:	Policy & Governance	
Report Author:	Tracey Drummond - Principal Auditor Rob Montgomery - Audit & Governance Lead Manager	
Officer Contact Details:	**Tel:** 01952 383105 01952 383103	**Email:** tracey.drummond@telford.gov.uk, robert.montgomery@telford.gov.uk
Wards Affected:	All Wards	
Key Decision:	Not Key Decision	
Forward Plan:	Not Applicable	
Report considered by:	Senior Management Team – 16 January 2024 Audit Committee – 31 January 2024	

1.0 Recommendations for decision/noting:

Audit Committee are asked to:

1.1 Note the information contained in this report in respect to the Internal Audit planned work undertaken between 1 November 2023 and 31 December 2023 and unplanned work to date.

1.2 Approve the revised Internal Audit Charter 2024/2025.

2.0 Purpose of Report

2.1 The purpose of this report is to update members on the progress made against the 2023/24 Internal Audit Plan and to provide information on the recent work of Internal Audit.

2.2 To provide members with an update on the internal Audit Charter for 2024/25.

3.0 Background

3.1 This report provides information on the work of Internal Audit from 1 November 2023 to 31 December 2023 and provides an update on the progress of previous audit reports issued.

3.2 The key focus for the team during this period was the completion of audits on the annual audit plan and fulfilling commercial contracts.

3.3 The information included in this progress report will feed into and inform our overall opinion in our Internal Audit Annual Report. All audit reports issued during the year are given an overall audit opinion based on the following criteria:

Level of Assurance/Audit Opinion & Definition	
Good (Green) There is a sound system of control designed to address relevant risks with controls being consistently applied.	**Reasonable (Yellow)** There is a sound system of control but there is evidence of non-compliance with some of the controls.
Limited (Amber) Whilst there is a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls.	**Poor (Red)** The system of control is weak and there is evidence of non-compliance with the controls that do exist.

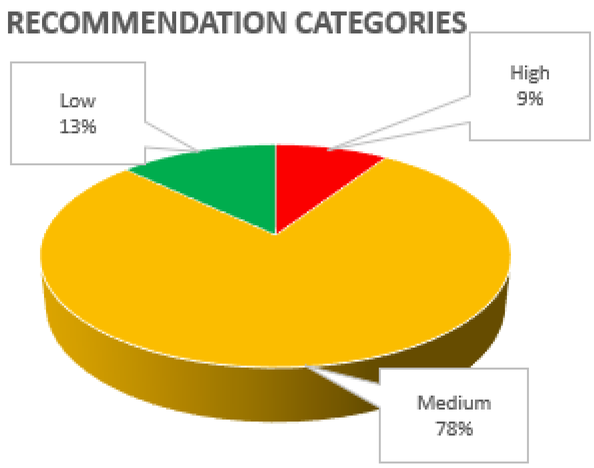
3.4 To determine the overall grading of the Internal Audit report each recommendation is risk rated (high, medium or low). The recommendation risk rating is based on the following criteria:

High risk = A fundamental weakness which presents material risk to the system objectives and requires immediate attention by management.

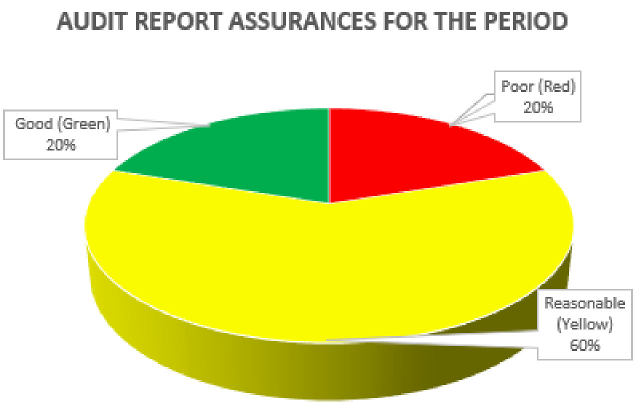
Medium risk = A recommendation to address a control weakness where there are some controls in place but there are issues with parts of the control that could have a significant impact.

Low risk = A recommendation aimed at improving the existing control environment or improving efficiency, these are normally best practice recommendations.

3.5 The chart below shows the percentage of high (red segment), medium (yellow segment) and low (green segment) risk recommendations made for the reports issued during this period.



3.6 The level of assurance (based on the table above) for audit reports issued in this period is detailed below.



3.7 The information in the above pie charts is broken down in the summary table below.

AUDIT REPORTS ISSUED BETWEEN 1/11/23– 31/12/23 AND CURRENT STATUS						
Area	**Date of Report**	**Level of risk on plan**	**Original Audit Grade**	**Follow up Due**	**Revised Grade**	**Comments**
Direct Payments Adults	28/11/23	H	Poor	Feb 2024		
Muxton Primary School	21/12/23	M	Poor	Mar 2024		
Registrars Income Reconciliation Process	7/11/23	M	Reasonable	May 2024		
Cloud Hosting	16/11/23	M	Reasonable	May 2024		
Purchase Ledger	27/11/23	M	Reasonable	May 2024		
Cash Office	19/12/23	M	Reasonable	Jun 2024		
DWP Compliance	19/12/23	M	Reasonable	Jun 2024		
Household Support Fund	20/12/23	M	Reasonable	Jun 2024		

COMF Grant	7/11/23	M	Good	N/a Green report		
Local Transport Capital Block Funding Grant	21/12/23	M	Good	N/a Green report		

3.8 Detailed below is the status of any reports previously issued and reported to Audit Committee. Members should note that once reports have reached a green status and have been reported to members they are excluded from future Audit Committee reports.

PREVIOUSLY ISSUED REPORTS & CURRENT STATUS					
Area	**Date of Report**	**Original Audit Grade**	**Status previously reported to Audit Committee**	**Current Grade**	**Current status / Comments**
SS Peter & Pauls Catholic Primary	05/10/2022	Reasonable	Follow up in progress	Good	Follow up undertaken October 2023. No further follow up required
Newport Infant School & Nursery	06/03/2023	Reasonable	Follow up in progress	Good	Follow up undertaken October 2023. No further follow up required
Shortwood Primary School	17/03/2023	Reasonable	Follow up in progress	Good	Follow up undertaken October 2023. No further follow up required
John Fletcher of Madeley Primary School	02/03/2023	Reasonable	Follow up in progress	Good	Follow up undertaken October 2023. No

					further follow up required
Wombridge Primary	02/05/2023	Reasonable	Follow up due November 23	Good	Follow up undertaken November 2023. No further follow up required
Donnington Wood Infants School	19/09/23	Reasonable	Follow up due March 24	N/a	
Tibberton Primary School	22/09/23	Reasonable	Follow up due March 24	N/a	
Direct Payments Childrens	18/09/23	Poor	Follow up due December 23	Reasonable	1st follow up undertaken. 2nd follow up to be carried out July 24
Child Arrangement Orders	18/10/23	Poor	Follow up due January 24	Limited	1st follow up undertaken. 2nd follow up to be carried out March 24

Internal Audit is confident and has been assured by management that controls have and will continue to improve in all areas where recommendations have been made. There are no other issues to bring to the attention of the Committee at this time.

4.0 Progress on completion of the 2023/24 Annual Audit Plan

4.1 Audit Committee members approved the 2023/24 Internal Audit Plan at the May 2023 committee meeting. Appendix A of this report shows the progress made against this plan, 19 audits have been completed, 5 are in progress and 12 have been deferred or removed due to requests from the service area, resources within the Audit Team and/or replacements with unplanned audits.

5.0 Unplanned work

5.1 The Audit Team have been reviewing discrepancies with stock levels at Telford Theatre and reviewing evidence relating to the CSE Independent Inquiry action plan.

5.2 Work continues on the commercial contracts with Academies and Town Councils, a total of 8 Academy Trusts and 2 Town Councils are using our service. Internal Audit continue to look for opportunities to expand their commercial offering.

6.0 Quality Assurance and Improvement Programme

6.1 Internal Audit maintains a Quality Assurance and Improvement Programme that complies with the Public Sector Internal Audit Standards (PSIAS) alongside the normal quality review process applied to all audit assignments. The Audit & Governance Lead Manager undertakes an independent monthly check of randomly selected (number dependent on number of completed audits that month) completed audit files to ensure they comply with:-

- Requirements of the PSIAS
- Rules of the Code of Ethics
- Agreed Internal Audit process and procedures
- Approved Internal Audit Charter

Only minor Internal Audit procedural issues have been found from these checks and they have been fed back to the Internal Auditors during this time to aid continuous improvement in the service.

7.0 Internal Audit Charter

7.1 The Internal Audit Charter defines for the Council and the community internal audit activity's, purpose, authority and responsibilities, consistent with the requirements of the Public Sector Internal Audit Standards (PSIAS)[1] and the Council.

7.2 The terms of reference of the Audit Committee require the committee to approve the Internal Audit Charter on an annual basis. The charter has been reviewed by the Audit & Governance Lead Manager and changes made to reflect the requirements of the PSIAS. The proposed Internal Audit Charter for 2024/25 is detailed on Appendix B attached to this report.

[1] PSIAS apply the IIA International Standards to the UK Public Sector and have been endorsed as proper practice by CIPFA the Internal Audit standard setters for Local Government.

8.0 Council Priorities

8.1 A community-focussed, innovative council providing efficient, effective and quality services.

9.0 Financial Implications

9.1 The planned work undertaken by the Internal Audit Team as outlined in this report is funded through the Council's base budget and approved as part of the Medium Term Financial Strategy. Income generated by Internal Audit from commercial contracts is used to offset the overall costs of the Internal Audit Team therefore reducing the amount of base budget required.

9.2 In circumstances where Audit findings result in changes to service delivery or controls etc. the financial consequences are managed as part of the implementation of such changes. There are no financial implications as a result of accepting the recommendations of this report.

10.0 Legal and HR Implications

10.1 There are no direct legal or HR implications arising from this report. The Council is required to undertake internal audit activity and to report the outcomes of that activity. It is one way that the Council can demonstrate it is operating transparently and in accordance with good governance.

11.0 Ward Implications

11.1 The work of the Audit team encompasses all the Council's activities across the Borough and therefore it operates within all Council Wards detailed in the Parish Charter.

12.0 Health, Social and Economic Implications

12.1 There are no health, social or economic implications directly arising from this report.

13.0 Equality and Diversity Implications

13.1 Transparency supports equalities and demonstrates the Council's commitment to be open and fair.

14.0 Climate Change and Environmental Implications

14.1 There are no direct climate change and environmental implications arising from this report.

15.0 Background Papers

1. Annual Audit Plan 2023/24
2. Public Sector Internal Audit Standards – Applying the IIA International Standards to the UK Public Sector 2013 and updated January 2017

16.0 Appendices

A 2023/24 Annual Audit Plan
B 2024/25 Internal Audit Charter

17.0 Report Sign Off

Signed off by	**Date sent**	**Date signed off**	**Initials**
Finance	03/01/2024	03/01/2024	AEM
Legal	03/01/2024	11/01/2024	EH

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Audit Area	Service Area	Days	Priority	Risk rating	status
General ledger, assets & capital accounting - fixed asset module	Finance & Human Resources	20	ALL	H	
Payroll/HR	Finance & Human Resources	20	ALL	H	
Sales ledger	Finance & Human Resources	20	ALL	H	
Council Tax/NNDR	Finance & Human Resources	20	ALL	H	In Progress
Purchase Ledger	Finance & Human Resources	20	ALL	H	Complete
Agresso	Finance & Human Resources	10	ALL	M	Deferred
Cash Office	Finance & Human Resources	10	ALL	M	Complete
Resourcelink - including Myview	Finance & Human Resources	10	ALL	M	
Local Transport Capital block funding	Finance & Human Resources	2	2,3,4 & 5	M	Complete
Bus subsidy grant	Finance & Human Resources	2	2,3,4 & 5	M	Complete
Comf grant	Finance & Human Resources	2	2,3,4 & 5	M	Complete
HUG1 (home Upgrade Grant)	Finance & Human Resources	2	2,3,4 & 5	M	Complete
HUG 2 grant (home Upgrade Grant)	Finance & Human Resources	2	2,3,4 & 5	M	Complete
LAD3 Grant	Finance & Human Resources	2	2,3,4 & 6	M	In Progress
Multiply Grant	Finance & Human Resources	2	ALL	M	
UKSPF Grant	Finance & Human Resources	2	2,3,4 & 6	M	
Happy healthy active Holiday grant	Finance & Human Resources	2	ALL	M	Complete

Payments regarding looked after children	Children's Safeguarding and Family Support	12	1,2 & 5	H	Deferred-replaced with Preparing Disabled Children for adulthood
Section17 spend	Children's Safeguarding and Family Support	10	1,2 & 5	H	
Placements/ High cost support packages	Children's Safeguarding and Family Support	12	1,2 & 5	H	deferred
Commissioned Services	Children's Safeguarding and Family Support	12	1,2 & 5	M	
No Recourse to public funds	Children's Safeguarding and Family Support	10	1,2 & 6	M	
Transition - leaving care	Children's Safeguarding and Family Support	10	1,2 & 5	M	
controc	Children's Safeguarding and Family Support	20	1 & 5	M	deferred
Financial Case Management	Adult social care	20	1,2& 5	H	
Quality assurance framework	Adult social care	10	1 & 5	M	
Co Production framework	Adult social care	10	1 & 5	M	
Children & YP Services / RAMP - Practice Decision Forum & Peer review	Adult social care	12	1,2,5	M	deferred
Market Sustainability Plan	Adult social care	8	1 & 5	M	
Integrated Care Record	Adult social care	10	1,2,5	M	
Fair cost of care	Adult social care	8	1 & 5	L	deferred
Money Laundering	Policy & Governance	8	2 & 5	H	
Risk Management	Policy & Governance	10	all	M	
Insurance	Policy & Governance	8	all	M	Complete

Legal system	Policy & Governance	10	all	M	
Members Subsistence	Policy & Governance	8	2 & 5	M	
Troubled families grant	Policy & Governance	12	all	L	In Progress
Happy healthy active Holiday grant	Education & Skills	as above	all	M	as above - complete
Home to school transport	Education & Skills	15	all	M	
Multiply Grant	Education & Skills	as above	all	M	
Schools (18 schools)	Education & Skills	90	1,3,5	M	2 In Progress 3 complete, 3 deferred
Bars (The Place/ Ice Rink/Horsehay/ski centre)	Community Customer & Commercial Serv	25	**2,3,5**	**H**	In progress
Agresso	Community Customer & Commercial Serv	as above	all	**H**	as above - deferred
Leisure Centres	Community Customer & Commercial Serv	20	all	M	
Resourcelink (My View)	Community Customer & Commercial Serv	as above	all	**M**	
IT audits (4 audits)	Community Customer & Commercial Serv	21	5	H/M	4 complete
Registrar	Community Customer & Commercial Serv	10	2,3,5	M	Complete
DWP Data Sharing Compliance	Community Customer & Commercial Serv	5	all	M	Complete
Household Support Fund	Community Customer & Commercial Serv	5	all	M	Complete
Homlessness reduction act	Housing & Communities	25	1,3,5	H	
Monitoring sale of discount market housing	Housing & Communities	5	all	M	
UKSPF Grant	Housing & Communities	as above	all	M	
LAD3 Grant	Housing & Communities	as above	all	M	as above - In Progress
HUG1 (home Upgrade Grant)	Housing & Communities	as above	all	M	as above - complete

HUG 2 grant (home Upgrade Grant)	Housing & Communities	as above	all	M	as above - complete
Ideverde contract	Neighbourhood & Enforcement	4	all	M	deferred
Transport Overview	Neighbourhood & Enforcement	20	all	M	
Licensing	Neighbourhood & Enforcement	12	2,3 & 5	M	
Bus subsidy grant	Neighbourhood & Enforcement	as above	all	L	as above - complete
Telford Land deal	Property & Investment	8	2,3,4,5	M	deferred
BIT	Property & Investment	10	2,3,4,5	M	deferred
		643			

The above colour coded reflect audits which span across more than one service area:
Agresso
Resourcelink
Bus subisdy
Home Upgrade Grant 1
Home Upgrade Grant 2
LAD3 Grant
Multiply Grant
UKSPF Grant
Holiday Activity grant

KEY	
H	high
M	Medium
L	Low

Total for new audits	643
external commercial work	57
Advice & guidance	20
Follow ups	20
Contingency	5
Sub total	745
Available days (12 months)	**773**

1 -Every child, young person and adult lives well in their community
2 -Everyone benefits from a thriving economy
3 -All neighbourhoods are a great place to live
4-our natural environment is protected - we take a leading role in addressing the climate emergency
5- A community focused, innovative council providing efficient, effective and quality services

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Internal Audit Charter – 1 April 2024 to 31 March 2025

1. Introduction

1.1 This charter defines for the Council and the community internal audit activity's purpose, authority and responsibilities consistent with the requirements of the Public Sector Internal Audit Standards (PSIAS)[1] and the Council.

1.2 This charter will be approved by the Audit Committee, after consultation with senior management[2] and will be reviewed annually.

2. Internal Audit Purpose and Responsibilities

2.1 Internal Audit Purpose

2.1.1 The Audit & Governance Team is led by the Audit & Governance Lead Manager under the direct management of the Director: Policy & Governance. The team supports the Co-operative Council in the delivery of services to the community to help improve their quality of life and the promotion of Telford & Wrekin as a place of partnership, enterprise and innovation. The team supports the whole Council to deliver economic, efficient and effective services[3] and achieve the Council's programme to ***"Protect, Care and Invest to Create a Better Borough".***

2.2 Internal Audit Objectives

2.2.1 To review the effectiveness of the governance, risk management and control processes of the Council to aid improvement, provide a level of assurance and an opinion on them to the Council.

2.2.2 To provide a respected, cost effective, objective and quality internal audit service including the provision of advice and guidance to assist our customers to meet their objectives and improve their services, including the rationalisation of controls, where appropriate.

2.2.3 To deliver value adding internal audit activity whilst meeting the requirements of the Public Sector Internal Audit Standards (PSIAS) including the Code of Ethics (especially objectivity and integrity) and the Core Principles for the Professional Practice of Internal Auditing (see ANNEX I).

2.2.4 To work with the External Auditor and other assurance bodies to provide the most effective internal audit service.

2.2.5 To value and continuously develop the team.

2.3 Internal Audit Responsibilities

2.3.1 To undertake the statutory Section 151 audit for the Chief Financial Officer (CFO), in line with the Accounts and Audit Regulations 2015.

2.3.2 To deliver the Council's risk based annual audit plan taking into account the Accounts and Audit Regulations 2015, the management of risk, senior management consultations, internal and external intelligence, comments from the Audit Committee and any requirements of the External Auditor. The plan is reviewed and amended, if required. Any significant changes are reported to senior management and the Audit Committee.

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[1] PSIAS apply the IIA International Standards to the UK Public Sector and have been endorsed as proper practice by CIPFA the Internal Audit standard setters for Local Government.
[2] Senior management is the Senior Management Team comprising the following officers - Chief Executive, Executive Directors and Directors.
[3] By providing advice and guidance on the management of risks, controls and governance processes in service delivery and by supporting service reviews, restructures and reducing bureaucracy

2.3.3 To ensure that there are sufficient resources to deliver the statutory requirements and plan above and to report any potential concerns to the CFO, Monitoring Officer and Audit Committee.

2.3.4 To operate as an independent, objective assurance function designed to add value and improve the effectiveness of the governance, risk management and control processes of the Council. The independent assurance work may include financial, performance, compliance, system security and information governance assignments.

2.3.5 Internal Audit does not undertake any individual consultancy assignments.

2.3.6 To ensure audit assignments are delivered to measure the effectiveness of risk management at a local level.

2.3.7 To appropriately manage any potential conflicts of interest in the delivery of internal audit activities and non-audit activities and to periodically rotate the annual audit work between staff.

2.3.8 To provide clear, objective, and concise internal audit reports to support management in implementing recommendations to improve services and risk management, control and governance processes.

2.3.9 To provide responsive, challenging, and informative advice and support on risk management, controls and governance to management.

2.3.10 To report to the Audit Committee[4] as defined in their terms of reference.

2.3.11 To develop and maintain a quality assurance and improvement programme covering all aspects of the internal audit activity.

2.3.12 To arrange at least once every 5 years an external assessment of internal audit by an appropriate person[5] from outside the Council. The timing, form of the assessment and the results will be agreed with and reported to the Audit Committee.

2.3.13 To investigate and/or support the investigation of cases of suspected financial irregularity, fraud or corruption, except council tax support fraud investigations, in accordance with agreed procedures.

2.3.14 To provide appropriate assurance to relevant parties external to the Council. Currently Internal Audit complete:

- The Annual Governance & Accountability Return for a number of Parish Councils they have contracts with
- Internal audit/scrutiny work for a number of multi academy trusts

2.4 Internal Audit Authority

2.4.1 The Audit & Governance Lead Manager is the Council's Chief Audit Executive as defined in the PSIAS.

2.4.2 The Audit & Governance Lead Manager is line managed by the Council's Monitoring Officer but has unfettered access to the Chief Executive, the CFO and all senior managers within the Council.

[4] The Audit Committee is the Board as defined in the Public Sector Internal Audit Standards
[5] Qualified, independent assessor or assessment team

2.4.3 The Audit & Governance Lead Manager has responsibility for non-audit services including Information Governance, Insurance Services, Risk Management and the Corporate Investigation Team. The Audit & Governance Lead Manager will communicate any further changes to their scope of responsibility in terms of non-audit functions to the Audit Committee prior to commencement of any such functions. In order to avoid/manage any potential conflicts in respect to the audit of the Information Governance and Insurance functions (and any other future additional functions) external contractor personnel are used to undertake this work and in addition to standard quality review the results and responses are overseen by the CFO in addition to the Monitoring Officer.

2.4.4 The Audit & Governance Lead Manager, in conjunction with the Director: Policy & Governance, reports to the Audit Committee but also has unfettered access to the Chair of the Audit Committee, the Leader, other Cabinet Executives and the External Auditor.

2.4.5 In order for Internal Audit officers to be independent and objective whilst undertaking Internal Audit activity they have the authority to:

- enter at all reasonable times any Council premises or land.
- have access to all Council and partner records[6], documentation and correspondence relating to any financial and/or other transactions or other business of the Council, its employees or members, as considered necessary by the CFO, Monitoring Officer or Audit & Governance Lead Manager.
- have access to records belonging to third parties such as contractors or partners when required.
- require and receive such explanations as are regarded necessary concerning any matter under examination from any employee, member, partner or third party; and
- require any employee or member of the Council or any partner/third party to account for cash, stores or any other Council property which is under his/her control or possession on behalf of the Council.

2.4.6 If at any time it is determined that the independence and/or objectivity of Internal Audit is impaired, the Chief Audit Executive will report this immediately to the Senior Management Team and Audit Committee.

2.5 How the Audit & Governance Lead Manager will form and evidence his opinion on the control environment to support the Annual Governance Statement.

2.5.1 The Audit & Governance Lead Manager prepares an annual audit plan. Internal Audit planning is informed and influenced by the Council's vision, priorities and values, the strategic risk register, the requirements of the External Auditor, previous Internal Audit work, external networking intelligence, discussions with the CFO and consultations with the Council's service area management teams and senior management.

2.5.2 The audit plan outlines the work assignments to be carried out, the resources allocated and the Council priority/ priorities they contributes to. The plan is flexible in order to reflect the changing needs and priorities of the organisation. Work is carried out by the audit team in accordance with the PSIAS using a risk based audit methodology and each Internal Audit report provides an opinion on the area reviewed.

2.6 How Internal Audits work will identify and address significant local and national issues and risks.

2.6.1 The Audit & Governance Lead Manager has quarterly meetings with the Chief Executive and CFO. Senior audit staff meet with Directors and their management teams as required to identify

[6] Records include business e-mail and internet records

any local and national issues and risks, changes in the service area, and any new areas that require input from Internal Audit.

2.6.2 Employees within Internal Audit have access to the West Midlands Internal Audit Groups and other CPD/networking events through Chartered Institute of Public Finance Accountants and the Chartered Institute of Internal Auditors. This support continued professional development and help to identify any issues that may affect the delivery of internal audit services.

2.7 Internal Audit Resources

2.7.1 For 2024/25 the Internal Audit team has a resource of 3.71 full time equivalent (fte) employed staff, which includes 25% of the Audit & Governance Lead Manager.

2.7.2 The budget for Internal Audit[7] is approved by the Council as part of the annual service and financial planning strategy following consideration by senior management, Scrutiny and the Cabinet.

2.8 Internal Audit and the Audit Committee

2.8.1 Internal Audit will report to the Audit Committee on the following:

a) Approval of the Internal Audit Charter;
b) Approval of the risk based Internal Audit Plan;
c) Update reports on Internal Audit activity and performance against the plan;
d) An annual report containing an opinion to inform the Annual Governance Statement; and
e) Any concerns in respect to Internal Audit resources and the level of assurance that can be provided.

2.8.2 The Audit Committee will be part of the approval process for appointing the Councils Chief Audit Executive.

2.8.3 The Chair of the Audit Committee and the Chief Executive will feed into the Annual Personal Performance & Development process for the Chief Audit Executive.

Public Sector Internal Audit Standards

MISSION OF INTERNAL AUDITING: To enhance and protect organisational value by providing value added, risk-based and objective assurance, advice and insight.

The definition of Internal Auditing within the Standards is:

Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Code of Ethics - Summary

Internal auditors in UK public sector organisations must conform to the Code of Ethics within the Standards. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

There are 4 principles in the code of ethics:

1) Integrity – The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.
2) Objectivity – Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.
3) Confidentiality – Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
4) Competency – Internal auditors apply the knowledge, skills and experience needed in the performance of internal audit services.

All public sector officials including internal auditors must also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*.[7]

Internal Auditing Professional Practices Framework

Core Principles for the Professional Practice of Internal Auditing

1. Demonstrates integrity.
2. Demonstrates competence and due professional care.
3. Is objective and free from undue influence (independent).
4. Aligns with the strategies, objectives, and risks of the organization.
5. Is appropriately positioned and adequately resourced.
6. Demonstrates quality and continuous improvement.
7. Communicates effectively.
8. Provides risk-based assurance.
9. Is insightful, proactive, and future-focused.
10. Promotes organisational improvement

Council's values: – Ownership – Openness & Honesty – Involvement – Fairness & Respect

[7] Information can be found at www.public-standards.gov.uk

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Telford & Wrekin Co-operative Council

Protect, care and invest to create a better borough

Borough of Telford and Wrekin

Audit Committee

31 January 2024

Telford and Wrekin Council Becoming Carbon Neutral and Plastic Free Update

Cabinet Member:	Cllr Carolyn Healy - Cabinet Member: Climate Action, Green Spaces, Heritage & Leisure
Lead Director:	Felicity Mercer - Director: Communities, Customer & Commercial Services
Service Area:	Communities, Customer & Commercial Services
Report Author:	Ian Wykes - Team Leader - Climate Change & Sustainability
Officer Contact Details:	**Tel:** 01962 384960 **Email:** Ian.Wykes@telford.gov.uk
Wards Affected:	All Wards
Key Decision:	Not Key Decision
Forward Plan:	Not Applicable
Report considered by:	Cabinet - 19 October 2023 SMT - 16 January 2024 Audit Committee – 31 January 2024

1.0 Recommendations for decision/noting:

Audit Committee is recommended to:

1.1 Note and review the update on Telford and Wrekin Council Becoming Carbon Neutral and Plastic Free.

2.0 Purpose of Report

2.1 To allow Audit Committee the opportunity to note and review the Council's progress on becoming Carbon Neutral and Plastic free as set out in the report to Cabinet on 19 October 2023 (See Appendix A.)

3.0 Background

3.1 Tackling climate change is one of five priorities set out in the current Council Plan. In July 2019 the Council declared a climate change emergency and made a commitment to reduce its carbon emissions to net zero by 2030. Through its support of a borough partnership the council is also playing a full part in helping the wider borough achieve the same target.

3.2 The Council has also made a commitment to remove single-use plastics from the Council's operations and activities, replacing them with sustainable alternatives, by the end of 2023.

4.0 Summary of main proposals

4.1 In summary the Cabinet report can be broken down into three sections

- It provides an update of the work undertaken by the Council since the last report in September 2022;
- It sets out the progress the Council has made against the net zero target and the way we measure emissions; and
- It includes an updated climate change action plan as set out in Appendix B.

4.2 The council achieved an overall reduction of 60% in CO_2e emissions from a baseline of 2018/19. This is considerably ahead of the 36% reduction based on a straight-line year on year reduction.

Particular highlights from 2022/23 include.

4.3 An overall reduction in gas usage across the Council’s operational estate. This may be due, in part, to recent initiatives such as switching the heating of Newport Swimming pool from gas to an air source heat pump resulting in a 40% reduction in gas for the site.

4.4 The Council was awarded £683,370 from the Office of Zero Emission Vehicles (OZEV), On-Street Residential Charge Point (ORCS) fund for the installation of 70 EV charge points across 21 Council car parks. In addition, the borough has been awarded an indicative amount (£1,020,000) by OZEV to increase the number of on-street EV charge points.

4.5 The Council continues to switch to low emission vehicles across its fleet. An additional 6 electric vehicles for the Highways and Enforcement Team, two electric minibuses for Arthog (funded through our municipal investment) and a vehicle for Libraries.

4.6 The publication of the Council’s Climate Change supplementary planning document (SPD) setting out guidance on sustainable new build for developers.

5.0 Alternative Options

5.1 The alternative option would be to do nothing and not deliver on the Council's climate change commitments. However, this could lead to serious reputational risks for the Council as a community leader.

Not addressing issues such as energy efficiency of buildings or development of renewable energy generation opportunities would also lead to significant cost implications through increase in fuel bills and loss of income. Doing nothing would also lead to a negative impact on the health and social / economic wellbeing of Telford and Wrekin businesses, communities, and residents.

6.0 Key Risks

6.1 Committee Independent Assessment of UK Climate Risk for the UK's third Climate Change Risk Assessment (CCRA3), published in June 2021[1] sets out the priority climate change risks for the UK. In summary, risks in the report include:

- The impacts of climate change on the natural environment.
- An increase in the range, quantities, and consequences of pests, pathogens, and invasive species.
- The risk of climate change impacts, especially more frequent flooding, and coastal erosion, causing damage to infrastructure services.
- A reduction in public water supplies due to increasing periods of water scarcity.
- The impact of extreme temperatures, high winds, and lightning on the transport network.
- The impact of increasing high temperatures on people's health and wellbeing.
- Increased severity and frequency of flooding.
- Disruption to the delivery of health and social care services due to a greater frequency of extreme weather.
- Damage to cultural heritage assets as a result of temperature, precipitation, groundwater and landscape changes.
- Impacts internationally that may affect the UK, such as risks to food availability, safety and security, risks to international law and governance from climate change that will affect the UK, international trade routes, public health.

Therefore, there are significant risks as outlined should the Council fail to mitigate climate change and ensure that residents, businesses, and the natural environment are able to adapt to the future climate.

7.0 Council Priorities

7.1 The Councils' work on climate change and sustainability is a direct response to the Council's priority "Our natural environment is protected, and the Council has a

[1] https://www.ukclimaterisk.org/wp-content/uploads/2021/06/CCRA-Evidence-Report-England-Summary-Final.pdf

leading role in addressing the climate emergency". However, as a cross cutting agenda it also has a significant contribution towards all other Council priorities including:

- Every child, young person, and adult lives well in their community.
- Everyone benefits from a thriving economy.
- All neighbourhoods are a great place to live.
- A community-focussed, innovative Council providing efficient, effective, and quality services.

8.0 Financial Implications

8.1 An approved allocation of £4m was included in the capital programme to support Climate Change initiatives; spend in previous years totalled £1.3m which leaves £2.7m available in 2023/24. This is being allocated to schemes in the Action Plan which are detailed in this report and appropriate finance support is being provided. Finance will also provide support in relation to any bids for external funding as required.

8.2 The Community Municipal Investment was launched in May 2022 and provides an opportunity for individuals to lend money to the Council which will be used to fund projects across Telford & Wrekin to help tackle the climate emergency. This is a new borrowing source for the Council (permitted in the approved Treasury Strategy), which is an alternative to loans from the Public Works Loans Board (PWLB) and is specifically aimed to support the Council's Climate Change Agenda. The cost of borrowing to the Council, including fees, was comparable with PWLB rates at the time of entering the arrangement.

9.0 Legal and HR Implications

9.1 The Climate Change Act 2008 (as amended) establishes a legally binding target to reduce the UK's greenhouse gas emissions by 100% by 2050 when compared with the 1990 baseline. At a local level, Section 19(1A) of the Planning and Compulsory Purchase Act 2004 requires local planning authorities to include in their local plans, policies designed to secure that the development and use of land in the local planning authority's area contribute to the mitigation of, and adaptation to, climate change. In the management of its activities, provision of its services and performance of its functions, local Councils are in a position to play a vital role in meeting the challenges posed by climate change. The Council has wide scope to decide how best to address these challenges.

9.2 The Council has the legal power to undertake the activities set out in the report. Implementation of the proposals in this report may give rise to specific legal issues upon which specific legal advice will be provided as necessary.

9.3 There are no specific human resource implications arising from this report.

10.0 Ward Implications

10.1 This report has a borough wide impact.

11.0 Health, Social and Economic Implications

11.1 Climate change will continue to have a significant impact on the health of Telford and Wrekin's residents as well as on their social and economic wellbeing. For example, July 2022 saw the highest temperatures on record. Heatwaves can lead to very serious health implications particularly for the most vulnerable[2] Many of the actions set out in the climate change plan have considerable co-benefits. The Climate Change Fund supports businesses and community groups with energy efficiency measures which should help address recent rises in fuel prices.

12.0 Equality and Diversity Implications

12.1 The Council's Climate Change Action Plan takes account of the legal requirement to pay due regard to the aims of the Public Sector Equality Duty. Key to this is consideration of people's specific needs based on their protected characteristics.

People who share protected characteristics of age, race, ethnicity, and disability are often disproportionately affected by climate change and its consequences. This is true locally and internationally. Extreme weather events, for example heat waves most detrimentally affect older residents and those with pre-existing respiratory and cardiovascular conditions.

The success of our climate change activity relies on active participation by the whole community. Steps are taken to make sure that events are inclusive, and the differing needs of individuals are considered so that they can access activities and contribute effectively.

13.0 Climate Change and Environmental Implications

13.1 This report sets out the key areas as to how Telford and Wrekin Council is helping address climate change and environmental implications.

14.0 Appendices

A Telford and Wrekin Council Becoming Carbon Neutral and Plastic Free Update – Cabinet Report 19th October 2023

B Corporate Climate Change Action Plan 2023/24

16.0 Report Sign Off

Signed off by	Date sent	Date signed off	Initials
Finance	11/01/2024	11/01/2024	DR
Legal	08/01/2024	11/01/2024	RP

[2] https://www.thelancet.com/journals/lancet/article/PIIS0140-6736(18)30434-3/fulltext

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Telford & Wrekin Co-operative Council | Protect, care and invest to create a better borough

Borough of Telford and Wrekin

Audit Committee

Wednesday 31 January 2024

Updated Position of the AGS Action Plan 2022/23

Cabinet Member:	Cllr Nathan England - Cabinet Member: Finance, Customer Services & Governance
Lead Director:	Anthea Lowe - Director: Policy & Governance
Service Area:	Policy & Governance
Report Author:	Rob Montgomery – Audit & Governance Lead Manager
Officer Contact Details:	**Tel:** 01952 383103 **Email:** robert.montgomery@telford.gov.uk
Wards Affected:	All Wards
Key Decision:	Not Key Decision
Forward Plan:	Not Applicable
Report considered by:	Senior Management Team – 16 January 2024 Audit Committee – 31 January 2024

1.0 Recommendations for decision/noting:

Audit Committee is asked to:

1.1 Note the contents of the Annual Governance Statement (AGS) Action Plan for 2022/23, included as **Appendix A**.

2.0 Purpose of Report

2.1 The purpose of the report is to present the latest version of the AGS Action Plan 2022/23.

3.0 Background

3.1 The report details the progress made in implementing actions detailed in the AGS Action Plan 2022/23.

4.0 Summary of main proposals

4.1 The report is to update the committee on the progress made in implementing actions detailed in the AGS Action Plan 2022/23. This report is for information only.

5.0 Alternative Options

5.1 The Council has an alternative option to not maintain an AGS Action Plan.

6.0 Key Risks

6.1 The risks and opportunities in respect of this report will be appropriately identified and managed.

7.0 Council Priorities

7.1 The report supports the Council's values that are embedded in the delivery of all the Council's priorities.

8.0 Financial Implications

8.1 There are no direct financial implications arising from this report.

9.0 Legal and HR Implications

9.1 There are no direct legal or HR implications arising from this report however legal advice and support will be given where appropriate.

10.0 Ward Implications

10.1 There are no specific ward implications.

11.0 Health, Social and Economic Implications

11.1 There are no health, social or economic implications.

12.0 Equality and Diversity Implications

12.1 Transparency supports equalities and demonstrates the Council's commitment to be open and fair.

13.0 Climate Change and Environmental Implications

13.1 The report has limited environmental impact.

14.0 Background Papers

1 None

15.0 Appendices

A AGS Action Plan 2022/23

16.0 Report Sign Off

Signed off by	Date sent	Date signed off	Initials
Finance	10/01/2024	10/01/2024	MLB
Legal	10/01/2024	11/01/2024	EH

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AGS ACTION PLAN FOR 2022/23 FOR IMPLEMENTATION DURING 2023/24

No	Findings	Actions	Lead Officers	Additional comments
1.	Ongoing savings proposals, budget constraints and continued strategic management of organisational changes. *Ongoing from 21/22 AGS*	Continued management/reduction of budgets, revised structures and commercial/business approach which links to the continued development and implementation of revised governance framework. Further consultations on future savings where necessary.	• Chief Executive • SMT	
2.	All internal audits consist of an ethics questionnaire that is sent to a sample of staff in the team/areas being audited to demonstrate their understanding of corporate policies and whether staff feel supported. In a **small number of responses** returned it was noted that: • A very low number of staff had not completed their essential learning • A very low number of staff were not aware of the fraud awareness training module on Ollie.	Reports to SMT detailing levels of essential learning completion to continue. Investigation Team to re-publicise fraud related training on Ollie and will monitor levels of completion.	• SMT/SDM • Policy & Development Manager • Audit & Governance Lead Manager	The Investigation Team (part of Audit & Governance) have re-publicised fraud related training in a number of ways including: • The Investigation Team provide part of the face-to-face induction sessions for new starters • Reminders have been included in Staff News • Adhoc reports of completions have been provides by Policy & Development • Policy & Development publicise as part of their general offering The current Fraud Prevention training is being updated and it is hoped refreshed

No	Findings	Actions	Lead Officers	Additional comments
	These findings have been shared when discussing individual audit reports with relevant SDM's and Directors and taken to SMT as part of reporting corporate recommendations.			training will be provided in 24/25. Once available the course will be publicised take completions monitored.
3.	The results of the annual governance certification process highlighted that in a **small number** of service areas there were reductions in appropriate skilled staff numbers. Challenges faced in recruiting (seen across the local government sector) have resulted in a small number of single points of failure or some minimal use of agency staff. Service Delivery Managers are aware of these issues and are putting measures in place to try and mitigate this including upskilling existing staff. *Ongoing from 21/22 AGS*	Number of initiatives in place including service and workforce planning, apprenticeship scheme, etc. Organisational Development team have introduced new Leadership & Management training and learning programme. This will be rolled out in the Spring of 2023. Additional recruiting measures being used via social media platforms. Continued improvements to recruitment materials and recruitment processes to encourage applications from a diverse range of applicants.	• Chief Executive • Director of Finance & Human Resources • Policy & Development Manager	
4.	The results of the annual governance certification process have highlighted that a small number of service areas have experienced data breaches	Information Governance to: • Ensure lessons are learnt after each breach and suggested improvements communicated corporately where applicable.	• SIRO/SMT • SDM's • Audit & Governance Lead Manager	All of the actions detailed have been in place throughout 2023/24. In addition, the Council has invested in a new secure email system which has

No	Findings	Actions	Lead Officers	Additional comments
	and/or incidents (known as near misses)in respect to personal data. It should be noted that the nature of the breaches that have occurred are such that none of them met the reporting threshold for referral to the Information Commissioners Office (ICO) and therefore no ICO action has been taken against the Council. Where data breaches have been experienced, these have been reported to the Information Governance Team and managers have changed processes and procedures, where possible, based on lessons learned to prevent similar breaches occurring. *Ongoing from 21/22 AGS*	• Continue to review current training materials. • Continue to publicise the updated Information Security Breach Procedure to all staff – available on the Council's intranet. • Continue to report any breaches to the individual Director as and when they occur • Continue to report any significant near misses to the individual Director as and when they occur • Continue to report to Senior Management Team meetings on a regular basis in respect of breaches and near misses • Continue to publicise the need to complete the updated OLLIE training in respect of protecting personal information		been implemented. It is hoped that this system will assist in reducing the number of data breaches still further.
5	A very small number of managers confirmed that their service's internal intranet and website content required updating.	Further reminder to be sent to SDM's on keeping the intranet and website content up to date.	SDM's	Corporate Communications and External Affairs Team to send reminder to all editors and SDM's to regularly check their content.

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Telford & Wrekin Co-operative Council | Protect, care and invest to create a better borough

Borough of Telford and Wrekin

Audit Committee

Wednesday 31st January 2024

Strategic Risk Register & Updated Risk Management Strategy

Cabinet Member:	Cllr Nathan England - Cabinet Member: Finance, Customer Services & Governance
Lead Director:	Anthea Lowe - Director: Policy & Governance
Service Area:	Policy & Governance
Report Author:	Rob Montgomery – Audit & Governance Lead Manager
Officer Contact Details:	**Tel:** 01952 383105 **Email:** tracey.drummond@telford.gov.uk **Tel:** 01952 383103 **Email:** robert.montgomery@telford.gov.uk
Wards Affected:	All Wards
Key Decision:	Not Key Decision
Forward Plan:	Not Applicable
Report considered by:	Senior Management Team – 16 January 2024 Audit Committee – 31 January 2024

1.0 Recommendations for decision/noting:

The Committee is asked to:

1.1 Note the contents of the Corporate Risk Register included as Appendix A

1.2 Approve the updated Risk Management Strategy included as Appendix B

2.0 Purpose of Report

2.1 The purpose of the report is to present the latest version of the Corporate Risk Register and updated Risk Management Strategy.

3.0 Background

3.1 The report details the current corporate risks facing the Council and the mitigation it has in place to manage these risks. These are included in the Strategic Risk Register.

3.2 The report also provides an update on the Council's Risk Management Strategy. The purpose of the strategy is to assist the Council to effectively manage potential opportunities and threats to the Council achieving its objectives.

4.0 Summary of main proposals

4.1 The report is to:

a. Update the committee on the Council's Corporate Risk Register, for information only.
b. Present the updated Risk Management Strategy for approval.

5.0 Alternative Options

5.1 The Council has an alternative to not maintain a Corporate Risk Register and/or Risk Management Strategy but the risk of not doing so means it is not advisible.

6.0 Key Risks

6.1 The risks and opportunities in respect of this report will be appropriately identified and managed.

7.0 Council Priorities

7.1 The report supports the Council's values that are embedded in the delivery of all the Council's priorities.

8.0 Financial Implications

8.1 There are no direct financial implications from this report.

9.0 Legal and HR Implications

9.1 There are no direct legal or HR implications arising from this report, however legal advice and support will be given where appropriate, in respect of individual risks and available mitigation.

10.0 Ward Implications

10.1 Ward implications cover all local councils detailed in the parish charter.

11.0 Health, Social and Economic Implications

11.1 There are no health, social or economic implications.

12.0 Equality and Diversity Implications

12.1 Transparency supports equalities and demonstrates the Council's commitment ot be open and fair.

13.0 Climate Change and Environmental Implications

13.1 This report has limited environmental impact.

14.0 Background Papers

1 None

15.0 Appendices

A Corporate Risk Register
B Risk Management Strategy

16.0 Report Sign Off

Signed off by	Date sent	Date signed off	Initials
Finance	20/01/2024	20/01/2024	MLB
Legal	10/01/2024	11/01/2024	RP

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Risk Management Strategy

2023-25 (v1.3)

1 Introduction

What is the purpose of the Risk Management Strategy?

1.1 The purpose of the Risk Management (RM) Strategy is to effectively manage potential opportunities and threats to the Council achieving its objectives.

1.2 The Council's vision is to 'Protect, Care and Invest to create a better borough'. The vision is underpinned by 5 priorities, which are set out in the Council Plan:

Every child, young person and adult lives well in their community	All neighbourhoods are a great place to live	A community focussed, innovative council providing efficient, effective and quality services	Everyone benefits from a thriving economy	Our natural environment is protected and the Council has a leading role in addressing the climate emergency

1.3 There is also a legal requirement to manage risk. The Accounts and Audit Regulations 2015 state:

'*The Council [relevant body] is responsible for ensuring that the financial management of the Council [body] is adequate and effective and that the Council [body] has a sound system of internal control which facilitates the effective exercise of that Council's [body's] functions and which* ***includes effective arrangements for the management of risk***'

2 What are the aims and objectives of the RM Strategy?

2.1 The aims and objectives of this strategy are to encourage the Council's members and officers to make risk-based decisions. In particular this strategy will look to:

- Ensure RM effectively supports the Council's overall governance arrangements
- Ensure the process for identifying, evaluating, controlling, reviewing, reporting and communicating risks is consistently applied and understood
- Encourage the Senior Management Team to be a strategic lead and champion RM
- Develop best practice in risk management enabling better outcomes

2.2 The strategy should give confidence that the Council's governance process will embrace innovative approaches to deliver services through an increased capacity to exploit opportunity risks.

2.3 The strategic vision will be overseen by the Audit & Governance Team working closely with key stakeholders across Council services. This will include working closely with key partners, service delivery areas and teams that lead on transformational programmes for the Council.

2.4 All Council members and employees are encouraged to:

- Be aware of the Council's governance arrangments which encompass and depend upon sound RM, in particular having a good knowledge of the RM Framework, Strategy, Policy and associated guidance notes.
- Understand their responsibilities in relation to risk
- Participate, where necessary, in the identification, assessment and control of threats and opportunities

3 What is the Council's RM appetite?

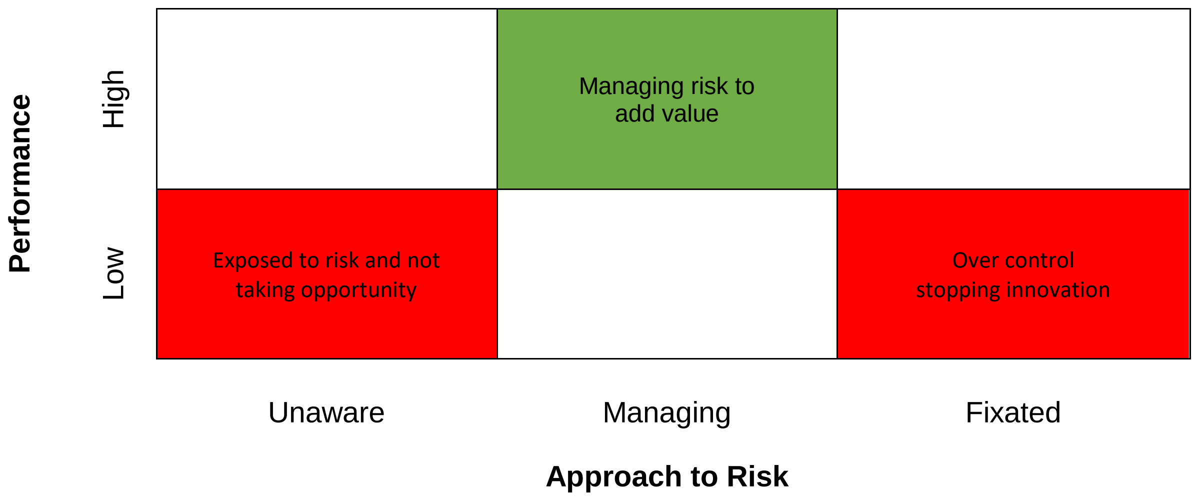
3.1 An organisation's risk appetite is the amount of risk that it is prepared to take in order to achieve its objectives.

3.2 The Council's appetite for risk is one that embraces a culture of informed risk-taking without blame. By considering risk in a positive, but managed, way, the Council is creating more opportunities and increasing the chances of achieving its objectives.

3.3 However in all circumstances the Council will:

- Manage its financial affairs such that it significantly reduces the likelihood that no action will be taken that would jeopardise its ability to continue to provide services within its available resource; and
- Secure the legal integrity of its actions at all times

3.4 The Council will look to optimise its risk appetite by managing risks so they sit in the green box on the table below.



4 What is the Council's RM process?

4.1 RM is the process by which risks are identified, evaluated, responded to and monitored at regular intervals.

4.2 RM is also a business planning tool designed to provide a methodical way for addressing risk. It encompasses:

- Identifying the objectives and what can go wrong
- Acting to avoid it going wrong or to minimise the impact if it does
- Giving rise to opportunities and to reducing threats

4.3 There are 5 main steps in the Council's RM process.

Objective – Identify the objective you want to achieve

Identify – What will stop/help the objective being achieved?

Mitigation controls – What measures are in place to manage the risk? What more can we do and who will be involved?

Monitor and review – How have we recorded the risk? How do we know if the risk has changed?

4.4 For more information on the RM process please access the RM Policy and associated guidance notes and templates.

5 RM roles and responsibilities

5.1 The following are roles and responsibilities relevant to risk management:

Council	• Monitor annual risk management reports/activity via Cabinet and Audit Committee
Cabinet	• Delegates power to approve the risk management framework and corporate risk registers to the Audit Committee
Audit Committee	• Approve risk management framework, receive annual report on risk management activity and receive corporate risk register
Senior Management Team	• Input into risk management framework, determine actions on strategic and cross-cutting risks and delegate responsibility for service risk management, monitor Corporate Risk Register
Directors	• Ensure managers in their service area are managing risk in accordance with the framework and monitor this.
SDM's	• Create risk registers for their teams and ensure compliance with risk management framework
Staff/Stakeholder	• Maintain awareness of risk and feed into the formal risk management process
Audit & Governance	• Create and maintain the risk management framework and provide advice and guidance where necessary

6 RM - Performance

6.1 The Council's RM arrangements require ongoing refinement and improvement to ensure they adapt to socio-economic changes and continue to be fit for purpose.

6.2 Audit & Governance will review RM governance on an ongoing basis and as a minimum when new legislation and/or government guidance is introduced. The Director: Policy & Governance and Director: Finance & Human Resources have delegated authority to approve changes to RM governance documents. In addition RM documents will be provided to the Audit Committee annually.

6.3 Key performance indicators will be introduced to monitor compliance with the RM framework and ensure risk performance is where the Council expects it to be in relation to its risk appetite. Initially 3 performance indicators related to RM will be monitored, these are:

- 70% of all non-casual staff have completed RM Ollie training
- All service area/team risk registers are updated every quarter
- 90% of actions detailed in risk registers have been completed by their target date

:

Document Version Control

Version	Date	Author	Sent To	Comments
Draft 1.0	26/8/21	R Montgomery	Anthea Lowe	RM asking for comments on draft RM strategy
Draft 1.1	30/6/23	R Montgomery	Anthea Lowe/Ken Clarke	RM asking for comments on draft RM strategy
Draft 1.2	7/9/23	R Montgomery	Anthea Lowe/ Ken Clarke	AL/KC comments incorporated
Draft 1.3	18.10.23	R Montgomery	Organisational Development / Audit Committee	Version to be agreed by Audit Committee

TELFORD & WREKIN COUNCIL STRATEGIC RISK REGISTER

LAST UPDATED OCTOBER 2023

Definitions used in the risk register:

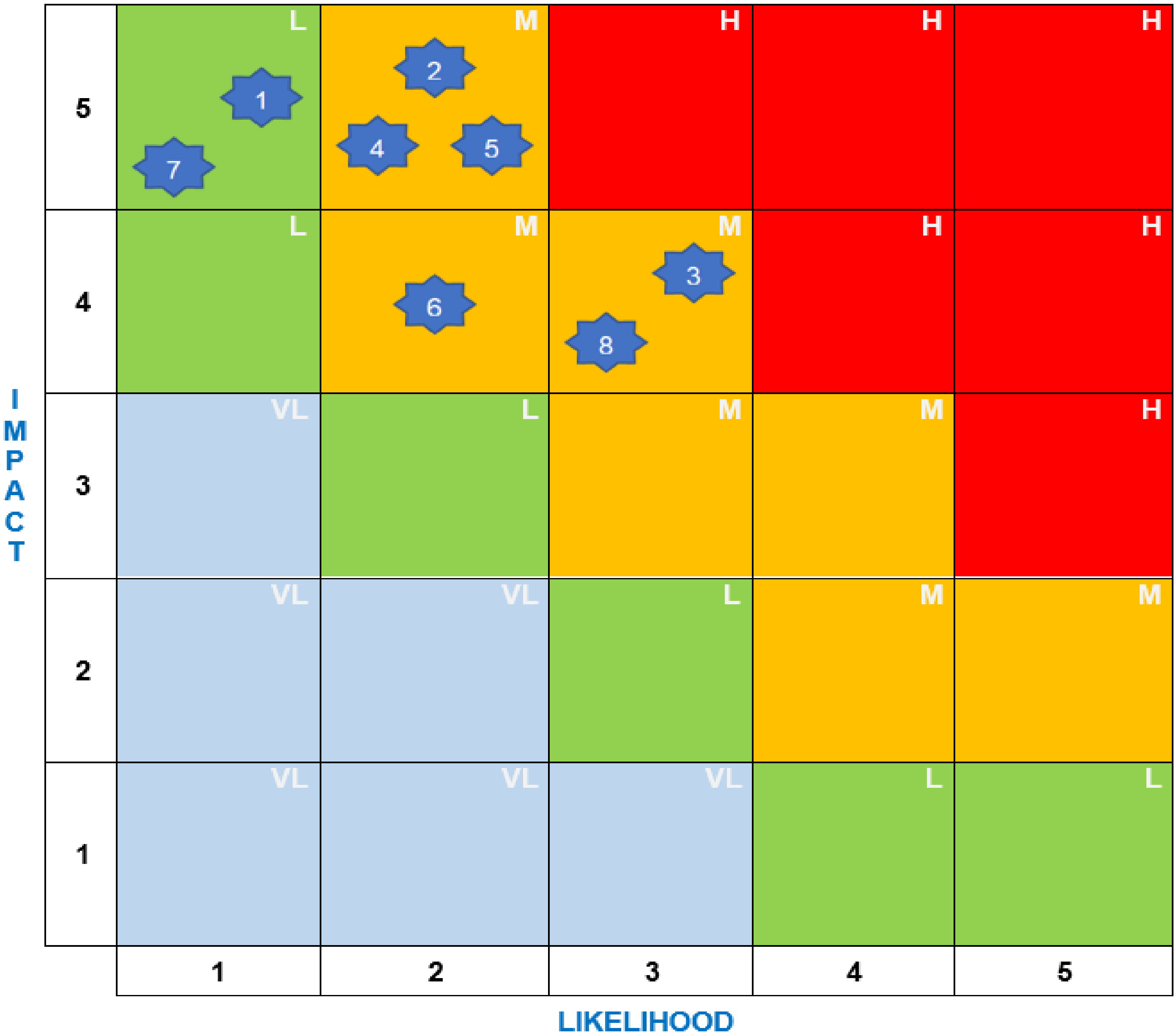
Likelihood of Risk Occurring

Likelihood	Definition
Very Low	May occur in exceptional circumstances
Low	Risk may occur in next 3 years
Medium	The risk is likely to occur more than once in the next 3 years
High	The risk is likely to occur this year
Very High	The risk has occurred and will continue to do so without further action being taken

Impact of Risk if it does Occur

Descriptor	Financial	Reputation	Physical	Environmental	Service
Very Low	None	None	None	None	None
Low	<£50K	Minimal/ minimal media/ social media	Minor	Minor locally	Internal disruption only, no loss of service
Medium	£50K to £1m	Extensive local media/social media	Violence or threats of serious injury requiring medical treatment	Moderate locally	Disruption/ loss of service less than 48 hours
High	£1m to £5m	National media/social media	Extensive/ multiple injuries	Major local impact	Disruption/ loss of service less than 7 days
Very High	>£5m	Extensive national media (lead item)/social media	Extensive multiple injuries/ death	Major national/inter national	Severe disruption/ loss of service more than 7 days.

Risk Heat Map



Ref	Risk	Likelihood Without Controls	Impact Without Controls	What are we doing to manage the risk? (Controls)	Lead Executive Director / Director	Likelihood With Controls	Impact With Controls
R1	Failure to discharge duty of care for a vulnerable child or vulnerable adult.	Very High without controls Change since last review =	Very High without controls – Physical Reputation Finance Change since last review =	a) Safeguarding Partnership (Adults & Children) Community Safety Partnership and Youth Offending Service Management Board scrutinise performance, hold partners to account and drive practice improvement in the light of learning (e.g. Serious Case, Safeguarding Adult & Domestic Homicide Reviews). b) Safeguarding Partnership works to develop systematic working across children and adult landscape. c) The Council will invest £5.9m net additional funding into Adult Social Care services in 2024/25. The Council's net budget for Adult Social Care will be over £68m in 2024/25. d) The Council's net budget for Children's Safeguarding will be nearly £49m in 2024/25, benefitting from additional net funding of £7.6m in 2024/25. e) The combined total net budget allocation for these services will be in excess of £117m.	D Sidaway J Britton S Froud	**Very Low with controls** Change since last review =	**Very High with controls – Physical Reputation Finance** Change since last review =

				f) A general budget contingency of £3.95m, with an additional £2.8m held for inflationary pressures will be available in 2024/25. These can be used to support pressures in any Council budget including Adult Social Care and Children's Safeguarding which account for two thirds of the Council's net budget. **Children:** g) Safeguarding arrangements are routinely reviewed and developed in response to new statutory requirements as they are introduced h) Workforce development strategy – recruitment and retention, learning and development including Systemic Practice across the Council's children's workforce. i) Children's Services - systematic quality assurance role for all managers from frontline Team Manager through to CEX and DCS j) No staff savings target for Children's Social Workers k) A comprehensive package of market factors and recruitment and retention incentives have been implemented to aid the			

				recruitment and retention of social workers l) Work to national inspection standards and respond to actions required from inspections. m) OFSTED inspection of Children's Safeguarding January 2020 achieved "Outstanding"". An action plan has been delivered to respond to the small number of recommendations. n) Independent Review of Child Sexual Exploitation (CSE) commissioned by the Council has been concluded. Recommendations from the review are in the process of being implemented. o) 'Essential learning' for all employees includes both child protection and CSE. **Adults:** p) Adult safeguarding part of Safeguarding Partnership in compliance with Care Act requirements and new Adult Safeguarding Guidance & Regulations. q) Adult Services - systematic quality assurance role for all managers from frontline team manager through to DAS			

				r) Quality Surveillance Group chaired by Chief Officer of NHS England Area Team ensures co-ordination of quality & safeguarding issues across health & social care system. s) 'Essential learning' for all employees includes adult safeguarding.			

Ref	Risk	Likelihood Without Controls	Impact Without Controls	What are we doing to manage the risk? (Controls)	Lead Executive Director / Director	Likelihood With Controls	Impact With Controls
R2	Inability to: a) Match available resources (both financial, people and assets) with statutory obligations, agreed priorities and service standards b) deliver financial strategy including capital receipts, savings and commercial income c) fund organisational and cultural development in the Council within the constraints of the	Very High without controls Change since last review =	Very High without controls – Physical Reputation Service Change since last review =	a) Robust commercial approach taken by Council services in terms of increasing income generation b) Rigorous medium term financial planning and regular monitoring and active management through S&FPG, SMT, Business Briefing and Cabinet. c) Efficiency Strategy in place which allows the Council to qualify for the Flexible Use of Capital Receipts which enables the funding of revenue costs of reform and service transformation initiatives which deliver efficiencies d) 'Savings programme, service reviews and restructuring. e) Staffing, economic and environmental impact assessments of all savings	D Sidaway M Brockway	**Low with controls** Change since last review =	**Very High with controls – Physical Reputation Service** Change since last review =

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	public sector economy			proposals and appropriate consultation mechanisms in place. f) In-year savings exercises possible if necessary g) Rationalisation of Council assets and accommodation h) Prudent level of uncommitted one-off resources and in-year budget contingency of £3.95m i) Delivery of capital receipts/rigorous monitoring of capital receipts realisation and impact on the budget j) If necessary contingency plans reviewing phasing of planned capital expenditure, schemes included in capital programme, alternative potential disposals and further revenue budget cuts would be identified for consultation k) Regular review of reserves and balances against risk exposure with significant level (£21.7m) of uncommitted balances available, held within the Budget Strategy Reserve to support the Council's Medium Term Financial Strategy l) Track record of sound financial management having out-turned within budget for 16 consecutive years despite significant financial challenges arising from public sector austerity, the COVID pandemic and the			

				current cost-of-living emergency. m) Safeguarding Children Cost Improvement Plan in place which is monitored by senior officers and members. n) Adult Social Care Cost Improvement Plan in place which is monitored by senior officers and members. o) Commercial project(s) for additional income generation as well as wider economic, social and regeneration purposes p) Housing Investment Programme q) Robust assessment of potential new investments through a proper due diligence and business case process to ensure that the Council is not exposed to an unacceptable level of risk either on an individual basis or when considering the entire investment portfolio r) Specialist legal and taxation advice taken as required s) Active Treasury Management in conjunction with regular advice and updates from specialist Treasury Management Advisors t) Cabinet Members regularly briefed u) All necessary strategies, policies and procedures in place to fully comply with CIPFA and MoHCLG codes and regulations with regular review			

				v) Established approval process for agreement of business cases for new investment from the Council's Growth Fund and Invest to Save/Capacity Fund. w) All reports to SMT and Cabinet include a financial comment prepared by, or on behalf of the Council's 151 officer, that identifies the financial implications arising from the recommendations to avoid significant additional ongoing commitments being committed without appropriate consideration.			

Ref	Risk	Likelihood Without Controls	Impact Without Controls	What are we doing to manage the risk? (Controls)	Lead Executive Director / Director	Likelihood With Controls	Impact With Controls
R3	Losing skills, knowledge and experience (retention & recruitment) in relation to staffing.	Very High without controls Change since last review =	High without controls – Financial Reputation Service Change since last review =	a) Workforce Development Strategy in place with focus on delivering ambition of the Council being employer of choice. Strategy will focus on: • 'Our workforce will have the skills and abilities to deliver our priorities and will have the opportunity to further develop • Our managers will be leaders and will empower staff to deliver our priorities • 'Our organisation will be more diverse and inclusive	D Sidaway	**Medium with controls** Change since last review =	**High with controls –** **Service Reputation Finance** Change since last review =

				offering a voice and fair treatment for all’ • ‘Our workplace will be healthy and we will support our employees’ wellbeing’ b) Senior Management, SDM and team leader development programmes. c) Each service area has a workforce plan considering • skills gap analysis and needs • apprenticeships d) Specific HR policies: • use of market factor weighting for key groups • flexible working policy • staff benefit schemes e) “Grow your own” scheme for roles that are hard to recruit to. f) Review of induction programme and ongoing training and development completed g) Lean Review of recruitment process and the development of the Council’s employment “offer” h) Council values, ethos, rewards and recognition i) Annual Personal Performance and Development discussions for all staff along with regular one to one meetings involving employees and their line managers.			

				j) Staff awards ceremony to celebrate and encourage outstanding performance. k) Review of the use of apprentices			

Ref	Risk	Likelihood Without Controls	Impact Without Controls	What are we doing to manage the risk? (Controls)	Lead Executive Director / Director	Likelihood With Controls	Impact With Controls
R4	Significant business interruption affecting ability to provide priority services, e.g. critical damage to Council buildings, pandemic, etc.	Very High without controls Change since last review =	Very High without controls – Physical Reputation Service Change since last review =	a) Each Service Delivery Team has Business Continuity Plans to enable them to respond appropriately (people, systems etc.), these are reviewed annually and updated following team changes and or incidents. b) Continuity plans tested in live environment during the pandemic and also through scenario testing. c) Serious Incident Protocol has been adopted. d) Continue to invest in ICT capital programme. Data centre investment complete. e) Improvement/upgrade/replacement of key ICT systems ICT controls – Disaster Recovery facilities in place based on Priority Services in line with Business Continuity Plans. f) Roll out of "office 365" and the cloud computing. g) Investment in cyber security and awareness programme and training (see risk 7 also).	Angie Astley/Jo Britton	**Low with controls** Change since last review =	**Very High with controls –** **Service Reputation** Change since last review =

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				h) Implementation of a 3rd generation firewall. i) Strong and effective support provided by corporate IDT team to support the implementation of new service specific and corporate systems and upgrades to these systems which also ensures effective system testing arrangements. j) Implementation of Climate Change Adoption Plan			

Ref	Risk	Likelihood Without Controls	Impact Without Controls	What are we doing to manage the risk? (Controls)	Lead Executive Director / Director	Likelihood With Controls	Impact With Controls
R5	Inability to manage the health & safety risks in delivering the council's functions (including building security and cyber security). .	Very High without controls Change since last review: =	Very High without controls – Physical Reputation Financial Change since last review: =	a) Reviewing, writing and monitoring of health and safety policies through SMT and Health and Safety Committee. b) Risk based health and safety audit process of service areas and local authority managed schools, which not only audit implementation of health and safety policies but also proactively identifies shortcomings, actions and controls that need to be in place to manage those risks. c) Significant findings of the audits are reported back though SMT	Jo Britton / Director of Public Health	**Low with controls** Change since last review: =	**Very High with controls –** **Physical Reputation Finance** Change since last review: =

				and Health and Safety Committee. d) Internal Health and Safety work to Health and Safety Executive (HSE) guidance and revise Policies and Procedures to ensure compliance with legal standards. Revisions reported back through SMT and reported via regular Trade Union meetings. e) Lone worker and lone member risk assessments undertaken and appropriate processes are in place (and use of the Stay Safe system). f) Building security kept under review. g) System in place for reporting all accidents, incidents and near misses. Non reportable accidents investigated by service area. h) All reportable accidents are investigated by Internal Health and Safety Team and significant findings reported to Health and Safety Committee. Other findings reported back to relevant Service area management i) Training provided on Health and Safety through a mixture of e-learning and face to face. j) Essential learning training for all employees includes health and safety and fire safety awareness.			

				k) Regular meetings with Trade Unions l) Coordination and management of Personal Safety Precautions Risk Register to ensure safety of employees. m) Appointed Cyber Security Manager to review and improve cyber security where required. n) Cyber security part of essential learning for all employees. o) Corporate review of list of 1st aiders to ensure adequate resource in place p) Corporate review of list of fire marshals to ensure adequate resource in place q) Enhanced risk assessments for specific individual/services r) Updated personal safety training s) Increased security at main Council buildings and at meetings.			

Ref	Risk	Likelihood Without Controls	Impact Without Controls	What are we doing to manage the risk? (Controls)	Lead Executive Director / Director	Likelihood With Controls	Impact With Controls
R6	Inability to deliver effective information governance.	Very High without controls Change since last review =	Very High without controls – Financial Reputation	a) The Council has an Information Governance Framework which includes the Corporate Information Security Policy (CISP) and other policies (Data protection, Information Sharing policies)	D Sidaway	**Low with controls** Change since last review =	**High with controls – Reputation Finance** Change since =

			Change since last review =	b) Small dedicated team promoting sound Information Governance within the Council and ensuring that good practice is shared across the Council c) Training and awareness programme put in place and Information Governance modules form part of induction and essential learning programmes. d) Data Protection Officer reports regularly to SMT on IG related matters e) Data Protection Officer attends a number of management team meetings. f) General Data Protection Regulations 2018 implemented. g) SMT oversight of reported data breaches h) All data breaches recorded, investigated and lessons learnt identified i) Detailed report is sent to relevant Director in respect to breaches occurring in their service area j) Directors email all employees that have contributed to a data breach or incident highlighting the potential consequences. k) Information Governance related posters in all main Council buildings l) Staff complete randomly generated questions on data			last review

				protection/information security every quarter m) Regular bulletins on information governance related matters published in staff news letter n) Completion of annual Data Security and Protection (DSP) toolkit. o) Annual Governance Statement process encompasses key information governance related matters p) Key elements of information governance and IDT security are audited by an external company.			

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Ref	Risk	Likelihood Without Controls	Impact Without Controls	What are we doing to manage the risk? (Controls)	Lead Executive Director / Director	Likelihood With Controls	Impact With Controls
R7	Inability to respond adequately to a significant emergency affecting the community and/or ability to provide priority services.	High without controls Change since last review =	Very High without controls – Environment Financial Service Change since last review =	a) Work collaboratively with other LRF partner agencies, maintaining effective working relationships with the relevant bodies b) Maintain appropriate levels of trained staff to be able to respond to an emergency, for example, to set up rest centres. c) Maintaining appropriate, risk based contingency plans (Civil Resilience Manager) which are reviewed on regular basis d) Operation 'Tangent' – multi agency plan to respond to	Exec Directors / Director of Public Health	**Very low with controls** Change since last review =	**Very High with controls –** **Service Reputation Finance** Change since last review =

				landslide in the Gorge is in place and is being reviewed e) Individual Service Delivery Managers are responsible for maintaining and exercising their Business Continuity Plan. These plans would be coordinated corporately and the emergency plan activated if necessary. f) Provider contract monitoring in place. g) Public health mechanisms in place to manage response to significant incidents. h) Corporate budget contingency of £3.95m available to cover unforeseen costs arising up to Bellwin threshold where relevant.			

Ref	Risk	Likelihood Without Controls	Impact Without Controls	What are we doing to manage the risk? (Controls)	Lead Executive Director / Director	Likelihood With Controls	Impact With Controls
R8	Inability to respond to impact of climate emergency on severe weather events including heat, cold and flood.	High without controls Change since last review =	Very High without controls – Environment Reputation Financial Change since last review =	a) Investment in highways capital programme. b) Corporate capital budget specifically for projects that support climate emergency projects is included within capital programme. c) Monitor ground stability in the Gorge and water levels. d) Use and testing of flood barriers in Ironbridge	A Astley	**Medium with controls** Change since last review =	**High with controls –** **Environment** **Reputation** **Finance** Change since last review =

				e) Working with street scene contractors to monitor impact on public realm. f) Adoption of Climate Emergency Becoming Carbon Neutral action plan which includes a commitment to ensuring that its operation and activities are carbon neutral by 2030. g) Delivering a wide range of schemes to reduce carbon emissions. h) Driving partnership engagement and action on climate change through the Telford and Wrekin Borough Climate Change Partnership i) Addressing biodiversity through actions plans. j) Climate Emergency is at the forefront of the Council's priorities. k) New Council priority defined – 'Our natural environment is protected – we are taking a leading role in addressing the climate emergency l) Strong relationships with key partners including the Environment Agency. m) Work of the Environment Scrutiny Committee n) Adoption of new Local Plan o) Implementation of Climate Change Adoption Plan			

Risks Removed for Register

Ref	Risk	Reason for Removal	Date of Removal
R9	Inability to respond to the impact and implications of Brexit.	This risk is no longer applicable.	27/1/2022

Document Version Control

Version	Date	Author	Sent To	Comments
n/a	19/1/21	R Montgomery	SMT	Approval prior to register presented to Audit Committee and Cabinet
2022.2	27/1/22	R Montgomery	SMT	Update of register in respect to additions/changes to mitigating actions and deletion of risk R9
2022.2.1	23/12/22	R Montgomery	SMT	Update in relation to mitigating actions against each risk.
2023.2.2	10/1/24	R Montgomery	SMT	Includes updates provided by SMT