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Date: Wednesday, 15 November 2023

Dear Sir or Madam

The Audit Committee – Thursday, 23 November 2023, 10.30 am – Kenn Room

A meeting of the Audit Committee will take place as indicated above.

The agenda is set out overleaf.

Yours faithfully

Assistant Director Legal & Governance and Monitoring Officer

To: Members of the Audit Committee

Councillors:

Patrick Keating (Chairperson), Marcia Pepperall, Joe Tristram and Richard Tucker (Vice Chairperson).

This document and associated papers can be made available in a different format on request.

Agenda

1. Public Participation (Standing Order 17)

To receive written submissions from any person who wishes to address the Committee. The Chairperson will select the order of the matters to be received.

Please ensure that any submissions meet the required time limits and can be read out in five minutes (up to a maximum of 30 minutes).

Requests and full statements must be submitted in writing to the Assistant Director Governance and Monitoring Officer, or to the officer mentioned at the top of this agenda letter, by noon on the day before the meeting and the request must detail the subject matter of the address.

2. Apologies for absence and notification of substitutes

3. Declaration of Disclosable Pecuniary Interest (Standing Order 37)

A Member must declare any disclosable pecuniary interest where it relates to any matter being considered at the meeting. A declaration of a disclosable pecuniary interest should indicate the interest and the agenda item to which it relates. A Member is not permitted to participate in this agenda item by law and should immediately leave the meeting before the start of any debate.

If the Member leaves the meeting in respect of a declaration, he or she should ensure that the Chairperson is aware of this before he or she leaves to enable their exit from the meeting to be recorded in the minutes in accordance with Standing Order 37.

4. Minutes 21 September 2023 (Pages 5 - 12)

21 September 2023 to approve as a correct record (attached)

5. Matters referred by Council, the Executive, other Committees and Panels (if any)

None.

6. Risk Register - Update Report (Pages 13 - 22)

Report of Head of Business Insight, Policy and Partnerships (attached)

7. Internal Audit Update Report November 2023 (Pages 23 - 34)

Report of Head of Audit and Assurance (attached)

8. 2023/24 Treasury Management Mid-year Report and 2024/25 Strategy Update (Pages 35 - 60)

Report of Head of Finance (attached)

9. **Business Continuity Co-Ordination - Update Report** (Pages 61 - 66)

Report of Emergency & Business Continuity Manager (attached)

10. **Urgent business permitted by the Local Government Act 1972 (if any)**

Any item of business which the Chairperson is of the opinion should be considered at the meeting as a matter of urgency by reason of special circumstances (to be specified in the Minutes). For a matter to be considered as an urgent item, the following question must be addressed:

"What harm to the public interest would flow from leaving it until the next meeting?" If harm can be demonstrated, then it is open to the Chairperson to rule that it be considered as urgent. Otherwise the matter cannot be considered urgent within the statutory provisions.

Exempt Items

Should the Audit Committee wish to consider a matter as an Exempt Item, the following resolution should be passed -

"(1) That the press, public, and officers not required by the Members, the Chief Executive or the Director, to remain during the exempt session, be excluded from the meeting during consideration of the following item of business on the ground that its consideration will involve the disclosure of exempt information as defined in Section 100I of the Local Government Act 1972."

Also, if appropriate, the following resolution should be passed –

"(2) That members of the Council who are not members of the Audit Committee be invited to remain."

Mobile phones and other mobile devices

All persons attending the meeting are requested to ensure that these devices are switched to silent mode. The chairman may approve an exception to this request in special circumstances.

Filming and recording of meetings

The proceedings of this meeting may be recorded for broadcasting purposes.

Anyone wishing to film part or all of the proceedings may do so unless the press and public are excluded for that part of the meeting or there is good reason not to do so, as directed by the Chairperson. Any filming must be done as unobtrusively as possible from a single fixed position without the use of any additional lighting, focusing only on those actively participating in the meeting and having regard to the wishes of any members of the public present who may not wish to be filmed. As a matter of courtesy, anyone wishing to film proceedings is asked to advise the Chairperson or the Assistant Director Legal & Governance and Monitoring

Officer’s representative before the start of the meeting so that all those present may be made aware that it is happening.

Members of the public may also use Facebook and Twitter or other forms of social media to report on proceedings at this meeting.

Emergency Evacuation Procedure

On hearing the alarm – (a continuous two tone siren)

Leave the room by the nearest exit door. Ensure that windows are closed.

Last person out to close the door.

Do not stop to collect personal belongings.

Do not use the lifts.

Follow the green and white exit signs and make your way to the assembly point.

Do not re-enter the building until authorised to do so by the Fire Authority.

Go to Assembly Point C – Outside the offices formerly occupied by Stephen & Co

North Somerset COUNCIL

Minutes

of the Meeting of

The Audit Committee
Thursday, 21 September 2023

Kenn Room

Meeting Commenced: 10.35 am Meeting Concluded: 12.36 pm

Councillors:

Patrick Keating (Chairperson)

Marcia Pepperall
Joe Tristram
Richard Tucker (Vice Chairperson)

Independent Members: Peter Bray, Sharon Colk

Also in attendance: Barrie Morris (Grant Thornton)

Officers in attendance: Amy Webb (Director of Corporate Services), Melanie Watts (Head of Finance), Mark Anderson (Principal Accountant (Resources0), Steve Ballard (Principal Accountant (Closure and Systems)), Peter Cann (Head of Audit and Assurance) and Hazel Brinton (Committee Services Manager).

AUD 1 Election of Vice Chairperson for Municipal Year 2023-24

Resolved: that Councillor Tucker be elected as Vice Chairperson of the Audit Committee for Municipal Year 2023-24.

The Committee noted that an additional member nominated by the Conservative Party and Independents Group was required for a full committee. Councillor Pepperall would take this forward with her group leader.

AUD 2 Declaration of Disclosable Pecuniary Interest (Standing Order 37)

None declared.

AUD 3 Minutes of the meeting held on 9 March 2023

Resolved: that the minutes of the meeting be approved as a correct record.

AUD 4 Q1 Risk Management Update 2023-24

The Corporate Services Director explained the risk management process which followed the Risk Management framework approved by the Audit Committee in November 2022 and gave assurance that the process was followed across the council. She added that the National Risk Register had also been considered by the council earlier in the year and risks resulting from this exercise were known as “principal risks”.

She noted that the level of some risks had changed, and new ones had been added particularly as a result the cost-of-living crisis, but mitigations were being developed via a council-wide action plan. A review had been undertaken of the council’s buildings in light of the recent issues with Reinforced Autoclaved Aerated Concrete (RAAC) and following an initial assessment of schools, the council had been assured that there was no issue with school buildings and that the majority of other buildings were unaffected. One off funding had been approved to conduct additional survey work. The situation would continue to be monitored and resourced appropriately.

Members raised questions and received answers from officers on the following areas: whether any other building in North Somerset had issues with “High Aluminia Cement Concrete” (HACC); what percentage of council buildings were affected by RACC; whether the council had any risk around pay equality issues as experienced by Birmingham City Council; whether there was a set ratio for councils for borrowing limits versus income and whether North Somerset Council was close to it; how the council would prioritise dealing with high residual risks given budget constraints; whether the council had loans out with other local authorities and how mature the council was with the cyber-attack risk.

The Corporate Services Director agreed to arrange an informal update on cyber security with the Audit Committee.

Resolved: That the Q1 updates to the 2023/24 Strategic Risk Register and escalated risks from the Directorate Risk Registers be noted.

AUD 5 **Internal Audit Update September 2023**

The Head of Audit and Assurance (Audit West) presented the report on the Audit and Assurance Annual Report 2022-2023 and Update Report 2023-2024.

He noted that the report was later than usual due to the local elections and included an update on key pieces of audit work completed in the current financial year. He added that a summary of the headline information for the financial year 2022-23 was presented in section 4 of the report and that all but two of the audits completed had an overall audit opinion of satisfactory to excellent. Two audit reports were issued where it was considered that the overall systems of internal controls were weak – ICT Mobile Devices and Mandatory Training for Staff. He noted however that all recommendations made in the audit were agreed and had since been followed up with management to confirm they had been implemented. He informed members that a new Learning and Development System had been procured to be implemented in October 2023 which should address the key issues identified and further audit work would be conducted after this.

The Head of Audit and Assurance highlighted that one main audit investigation had been completed in the 2022-23 financial year in relation to two allegations within the Place Directorate. Neither allegation was substantiated but opportunities for improvement were identified, and recommendations made. Additionally, he informed members of the audit work completed around Counter Fraud for 2022-23 which could be found in the March 2023 report to the committee.

Members were informed of the completion of the Internal Audit Plan for 2022-23. 48 pieces of audit work were in the plan of which 42 had been completed. Those that had been deferred to 2023-24 were in the Internal Audit Plan for that year. They also received information around the implementation of recommendations of which two had not been agreed including one relating to financial assessments for adult care.

The Head of Audit and Assurance summed up with his formal opinion on the Internal Control Framework 2022-23 which had remained as "satisfactory" and the management of risk continues to be reasonable as per the previous year. He would bring back a detailed update to the committee in November on the Internal Audit Plan for 2023-24.

Members asked that more information be provided to the Audit Committee on the security of ICT Mobile Devices by the council's Information and ICT Security Manager.

Members asked questions and received clarification on the following issues: the reasons for the deferment of the 5 items from the 2022-23 Internal Audit Plan; the status of recipients of financial assessments for care; how the financial support given under financial assessments for care was monitored by the council to ensure it was being spent on the care need it had been provided for; progress made with the online solution for financial assessments and interim arrangements and the perception by tax payers of the use of the term "satisfactory".

Resolved: that the Audit Committee noted the Internal Audit Annual Report for 2022-23 and the opinion on the Internal Control environment and noted the update on the 2023-24 Internal Audit and associated work.

AUD 6 **Auditor's Annual Report on North Somerset Council 2021-22**

The representative from Grant Thornton apologised to members for the late delivery of the report for 2020-21 and the lateness of the report for 2021-22. He added that considering this, it was acknowledged that the council could not make progress on the recommendations in the report for 2020-21 and these had therefore not been reported again; only the recommendations for 2021-22 were included. Additional resource has been brought into the Value for Money team to align reporting into the correct year.

He informed members that the report was broadly positive and no further improvement recommendations or statutory recommendations had been made in relation to financial sustainability which had been assessed as "good."

Members asked for clarity around the meaning and impact of a s114 notice in relation to local government finances. Clarification of the implications of a s114 notice was provided by the council's s151 officer and the representative from

Grant Thornton.

The representative from Grant Thornton noted that the financial arrangements put in place by the council and the council's finance team were appropriate but future challenges remained. He added that the external auditors had made some recommendations around governance and improving effectiveness, economy, and efficiency. Discussions around these had been held with the s151 officer but he recognised that the recommendations had been made late in the process and a pragmatic view would be taken around the reporting of these for 2022-23.

Members asked questions and received clarification around the following issues: the materiality level against salaries; the council's commercial investment strategy approved in 2019 and Value for Money around the regeneration plan.

Resolved: that the Auditor's Annual report for 2021-22 be noted.

AUD 7 **External Auditor Reports 2022-23**

The representative from Grant Thornton presented the report on the Audit Plan for 2022-23 which highlighted the programme of work, materiality levels and where work would be focussed around any significant risks.

Turning to the Audit Findings report, the representative from Grant Thornton noted that the report before members set out the current position with the audit and any outstanding matters. He added that progress had been made in respect of the outstanding matters with a small amount of work still to complete. He highlighted the following presumed areas of significant risks to members: materiality which had been discussed previously; the management override of controls and the presumed risk inherent in this; the number of journals being processed; recommendations around the secondary approval of journals; the presumed risk of fraudulent recognition of income; the valuation of land and buildings; investment property valuation with recommendations around processes rather than valuation and the pension fund liability which had decreased significantly in the year.

He added that in all areas there were no significant concerns and that sufficient mitigations were in place for the external auditors to be able to rebut the significant risks as identified in the report. Audit adjustments, disclosure adjustments and the impact of unadjusted misstatements as reported in the paper were brought to members' attention together with the audit fee stated in the accounts which required updating.

In discussing the issue of the number of journals being processed, the representative from Grant Thornton advised that the council was being asked in a constructively challenging manner to consider ways of eliminating some of the journals being processed to improve efficiency as this number was significant albeit some would be automatic journals. Members asked questions on recommendations on how the number of journals being processed could be reduced. Officers responded that the system of internal control was being considered with a view to addressing the human factor.

Members asked questions and received clarification on the following issues; whether risk was increased with the number of journals being processed; the number of outstanding Declarations of Interest by councillors with regard to related parties' transactions; the outstanding audit of the accounts and financial viability of the North Somerset Environment Company (NSEC); the deficiency in the internal control noted in Audit Findings report around purchase orders and the provision by Grant Thornton of non-audit services;

Officers agreed to update members on the matter of the outstanding NSEC accounts. The representative from Grant Thornton advised that the Audit Findings report would be updated and brought back to the next committee meeting although with the agreement of the committee and providing that there were no material changes to the accounts, he would liaise via the Chairperson to sign with delegated authority from the Audit Committee, the updated and final Audit Findings Report. He would also ask for a Letter of Representation. He aimed to complete outstanding matters and have a signed audit opinion by the end of September.

Resolved: that the External Auditors' reports be noted.

AUD 8 **Statement of Accounts 2022-23 and Annual Governance Statement**

The Director of Corporate Services representative presented the report and advised members that the purpose of the report was to agree the revised draft financial statements 2022-23. He noted that the draft accounts were published on the council's website on 31 May and that amendments agreed to date were noted in the reports pack. One further amendment was to be updated in order to finalise the accounts. He informed members that the audit work was ongoing, and an unqualified audit opinion was expected.

He added that in order to support members in their role of approving the accounts, all members had now attended the Chartered Institute of Public Finance and Accountancy (CIPFA) training and that an informal workshop on the draft financial statements had also been held to explain their roles in approving the accounts. This provided members with the key messages within the accounts and an opportunity to question officers on the accounts and the format of the report in response to last year's feedback. He noted that the report set out the statutes behind the accounts, members' role in approving them and the steps they could take in approving the accounts. He added that the draft audit opinion would be included when received from Grant Thornton and that the accounts did not yet include the relevant approval signatures.

He advised members that the template Letter of Representation had been received from the external auditors. The Audit Committee was requested to agree the letter be signed by the Chairperson before presentation at the next Audit Committee meeting in November. Approval was also sought for the use of electronic signatures for the Chairperson and Chief Finance Officer.

Members noted that the informal workshop was helpful in supporting them in their roles in signing off the reports and thanked officers for the adaptations to the narrative report which was now much clearer.

Resolved:

(1) that the Audit Committee:

a. noted the adjustments to the financial statements as set out in the external auditor’s report.
b. had considered the matter(s) raised in the Annual Governance Statement.
c. delegated approval of the draft letter of representation to the Chairperson of the Audit Committee; and

(2) that subject to any comments under 1 above, the Audit Committee:

a. approved the Statement of Accounts for 2022/23, subject to, any amendments necessary upon quantification of the impact of any issues arising from on-going work by the external auditors.
b. would arrange for the Chairperson of the council’s Audit Committee and the Chief Financial Officer to electronically sign the Accounts for 2022/23 as representing a ‘true and fair view’ of the financial position as at 31 March 2023, following any amendments necessary upon quantification of the impact of any issues arising from on-going work by the external auditors.
c. would arrange for the Leader of the Council and the Chief Executive Officer to formally approve the Council’s Annual Governance Statement as part of the financial accounts, and electronically sign accordingly.

AUD 9 **Treasury Management Out-turn Report 2022-23**

The representative of the Corporate Services Director presented the report. He informed members that the report considered three principal areas of the Treasury Management outturn for 2022-23 and the council’s treasury management activities for the first four months of 2023-24. He highlighted the appendices to members which covered economic updates and gave the context for both years in terms of activities including the impact of inflation and interest rate rises. He noted that inflation impacted the council’s capital programme, cash outflow and the council’s borrowing requirements.

Members were informed that the key driver was cashflows but forecasting these was challenging under current circumstances. The council did however have data which supported cash flow modelling, and which was sense checked throughout the year. He added that the key aim of treasury management was to have sufficient cash at the right time to fulfil cash outflows.

He highlighted the performance indicators set out in the appendices to the report to members and which covered affordability and managing risk. He added that flexibility was required to carry out unexpected actions and explained that the notes to the accounts contained a number of financial instruments which fed directly into this.

The officer indicated the key message to members: no external borrowing by the council; an increase in investment income; the types of investment carried out by the council and the counterparties the council dealt with including a list from the council’s treasury advisors of those which were approved and those not recommended and the council’s green investment balance.

He directed members' attention to appendices to the report which gave information on the 2022-23 and 2023-24 outturn performance indicators. These confirmed that the council had complied with both its mandatory authorised limit and mandatory operational limit for external debt. He added that the treasury management team had an active strategy for assessing interest rate exposure that fed into the setting of the annual budget and the quarterly budget update.

The Director of Corporate Services representative informed members that next year's treasury management strategy would be brought to the Audit Committee in November and January and would be driven by the CIPFA Treasury Management Code. The main change for 2023-24 was a commitment to develop a strategy for Environmental, Social and Governance considerations and this would also be included for 2024-25. Workshops held with the previous Audit Committee members had determined the priorities and these would be tested with current Audit Committee members.

Members asked questions and received clarification on the significant investment income increase compared to budget; confirmation that the council was underneath its own permitted level of borrowing; how the council proposed to cover the £50m budget shortfall; the management of prudential borrowing and how the council compared to other authorities in terms of its cash balances and reserves.

Resolved: That the Audit Committee noted:

- the treasury management out-turn monitoring report to 31 March 2023 which includes performance, prudential indicators, and commercial investments.
- the in-year performance to 31 July 2023
- the proposed matters for inclusion in the treasury management strategy 2024/25

Chairperson

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North Somerset Council

Report to the Audit Committee

Date of Meeting: 23 November 2023

Subject of Report: Q2 Risk Management update 2023/24

Town or Parish: ALL

Officer/Member Presenting: Emma Diakou, Head of Business Insight, Policy and Partnerships

Key Decision: NO

Reason: Information item

Recommendations

That the Audit Committee note the Q2 updates to the 2023/24 strategic risk register and escalated risks from the directorate risk registers.

1. Summary of Report

Our Business Planning Framework is designed to monitor progress against our Corporate Plan priorities and against our vision for an ***open, fair, green*** North Somerset. We do this on an annual basis by developing and implementing Annual Directorate Statements. These are the business plans for the five council directorates (Adults, Children's Services, Corporate Services, Place, and Public Health and Regulatory Services) and give the key strategic commitments for the year ahead. Progress against these commitments is monitored by key projects and their milestones, and by a number of Key Corporate Performance Indicators (KCPIs). Alongside these commitments, and in line with the council's Risk Management Strategy, directorate risk registers are developed and include any risks which might challenge achievement of our priorities. These risk registers, along with the national and regional risk registers, are reviewed to develop an over-arching Strategic Risk Register, where high level risks are escalated and held. Progress on commitments, and against risk registers are reviewed quarterly by Directorate Leadership Team, by Corporate Leadership Team, by Executive Members, by Scrutiny Panels, and the Audit Committee. This is our Integrated Performance and Risk Management Framework.

This paper gives an update on the directorate risk registers and against the Strategic Risk Register as of end Q2.

2. Policy

The Corporate Plan is the council's overarching strategic document. It is the only plan which covers the full range of the council's responsibilities and is an important tool to help focus our effort and resources on the right things. By prioritising a clear set of commitments, the Corporate Plan also helps local people to hold the council to account for its performance and challenge it to improve.

Our Risk Management Strategy supports us to make honest, evidence-based decisions and realise opportunities through a good understanding of risks and their likely impact. The strategy outlines the process for the development of strategic and directorate risk registers which detail the risks faced by North Somerset Council in relation to achieving our aims and priorities as defined in the Corporate Plan. The strategy also details how the identified risks should be analysed and treated.

3. Details

Our risk management framework is structured in line with best practice guidance from HM Treasury. It includes a cycle of risk identification, risk analysis and control, and risk monitoring and reporting.

- Risk identification: the process to understand the scope of risk across the organisation and where those risks are held.
- Risk analysis and control: the process to understand the type of risks, the severity of them, and how they will be treated.
- Risk monitoring and reporting: the process by which risks are monitored and reported in an integrated, timely and accurate way.

Fig 1.1: risk management cycle

Risks are identified by Directorate Leadership teams (for directorate risk registers) and Corporate Leadership team (for the Strategic Risk Register) on a quarterly basis as part of good business planning.

Once risks have been identified they need to be assessed to understand the likelihood and the impact of the risk, this is an essential part of the risk management framework and is done following a three-step process and using the standard risk management matrix (fig 1.2).

- Step one - inherent risk: This is the first assessment of the risk and is meant to understand the risk if no action is taken to manage it. The risk is scored on the likelihood of it happening and then the impact if it does happen.

- Step two - action: If the first assessment of the inherent risk shows that it is unlikely to happen and/or will have little impact, then there will usually be no need to take any action to manage the risk and it can simply be accepted. However, if the assessment shows it is likely to happen and/or will have an impact then officers should seek to identify if there are actions that can be put in place to mitigate it, or in the case of an opportunity to exploit it (the risk treatment).

- Step three - residual risk: This is the second assessment of the risk and is meant to re-evaluate the risk taking into consideration the effectiveness of any identified actions. Once again, the risk is scored on likelihood and impact. Following this second assessment the risk is either accepted or the activity associated with it ceased (the risk treatment).

Progress against identified risks are reviewed quarterly by Directorate Leadership Team, by Corporate Leadership Team, by Executive Members, by Scrutiny Panels, and the Audit Committee.

Page 15

Fig 1.2: risk management matrix

	Rare – less than a 5% chance	Unlikely – 6% to 20% chance	Possible – 21% to 50% chance	Likely – 51% to 80% chance	Almost certain – 80% plus
Critical – a major loss to a service including disruption of more than five days with significant impact on staff, a complete failure of project, affecting more than 25% of a budget, litigation/claims/fines of £1m plus, not meeting our legal duties and putting at risk individuals at risk, impacting on several themes in the Climate Emergency Strategy	LOWMED	MEDIUM	HIGH	HIGH	HIGH
High – service disruption of three to five days with high impact on staff, extreme delay to a project, affecting 16% to 25% of a budget, litigation/claims/fines of up to £1m, significant impact for at risk individuals, impact on at least two of the thematic areas in the Climate Emergency Strategy.	LOW	MEDIUM	MEDHIGH	HIGH	HIGH
Medium – service disruption two to three days with some impact on staff, impact on a project a failure of benefits, affecting 6% to 15% of a budget, litigation/claims/fines of up to £500k, there are some safeguarding and duty of care impacts, impacts on at least one of the thematic areas in the Climate Emergency Strategy	LOW	LOWMED	MEDIUM	MEDHIGH	HIGH
Low – minimal service disruption with minimal impact of staff, minimal impact to a project, affecting 1% to 5% of a budget, litigation/claims/fines of up to £250k, consideration to be given to safeguarding and duty of care impacts, minimal impact to the thematic areas in the Climate Emergency Strategy.	LOW	LOWMED	LOWMED	MEDIUM	MEDIUM
Negligible – little service disruption with little impact of staff, minimal impact to a project, affecting up to 1% of a budget, litigation/claims/fines of up to £100k, minimal or no safeguarding and duty of care impacts, not impacting any of the thematic areas in the Climate Emergency Strategy.	LOW	LOW	LOW	LOWMED	LOWMED

Strategic risk register:
The Strategic Risk Register is agreed annually at a risk workshop with members of Corporate Leadership Team and quarterly thereafter. In this workshop a review of the following is undertaken:

- The national risk register:
- The regional risk register from the Local Resilience Forum
- Directorate risk registers
- Medium-term financial plan savings

Any risks agreed from the national risk register are considered PRINCIPAL RISKS given they are likely to have an impact beyond North Somerset borders either regionally or nationally.

To note, following updates to the national risk register, two new principal risks have been added to the Strategic Risk Register.

As of the end of Q2 there were 13 risks in the strategic risk register as follows:

- PRINCIPAL RISK: There is a pandemic event which negatively impacts on the health and wellbeing of the residents of North Somerset.
- PRINCIPAL RISK: There is a malicious attack against people and/or buildings in North Somerset or surrounding areas which is a risk to life and limb.
- PRINCIPAL RISK: There is a disaster event impacting people and/or buildings in North Somerset or surrounding areas which is a risk to life and limb.
- PRINCIPAL RISK: There is coastal flooding in North Somerset which negatively impacts on people, businesses, and communities in North Somerset.
- PRINCIPAL RISK: There is a cyber-attack which damages the infrastructure of North Somerset Council and impacts on the organisation's ability to carry out our statutory duties.
- NEW Q2 PRINCIPAL RISK: Advances in Artificial Intelligence (AI) systems and their capabilities pose a risk.
- NEW Q2 PRINCIPAL RISK: There is a risk of an extended period of high temperatures leading to heatwaves and/or wildfires.
- There is a local risk that the council will fail to meet the 2030 net zero target, and this will contribute to a negative impact on the wellbeing and or/viability of human, animal, and plant health in North Somerset.
- The council is not able to balance its budget due to demand on services and achievement of Medium-term Financial Plan savings.
- The council is unable to deliver capital projects within the approved resource envelope either due to unmanageable cost increases and/or lack of governance.
- The condition of our corporate estate/assets pose an increasing financial, operational, and reputational risk.
- There is a widening of the inequality gap in North Somerset, or we are not able to reduce the current gap, leading to poorer life outcomes for vulnerable residents including life expectancy.
- The council is not able to successfully recruit when needed leading to capacity issues in key areas which impact on the delivery of statutory services, key projects, and/or increases workloads on existing staff.

Of these risks, nine scored HIGH at inherent risk scoring, two scored MEDIUM/HIGH, and two MEDIUM. All were given a risk treatment to MITIGATE. At residual risk scoring level, six scored HIGH, four scored MEDIUM/HIGH, one scored MEDIUM, and two scored LOW/MEDIUM. All were given a final risk treatment to ACCEPT.

Fig 1.3: detail of the Strategic Risk Register as of Q2 with inherent scores, mitigations, and residual scores. Note, risks are sorted by Q2 residual scoring:

Risk ref	Risk	Q1 inherent risk	Q2 residual risk	Inherent direction of travel	Mitigations	Q1 residual risk	Q2 residual risk	Residual direction of travel
SR1	PRINCIPAL RISK: There is a pandemic event which negatively impacts on the health and wellbeing of the residents of North Somerset.	MEDIUM	MEDIUM	STABLE	Continued use of Local Resilience Forum and national guidance and planning processes. Close working with UK Health Security Agency around scenario planning.	LOW MEDIUM	LOW MEDIUM	STABLE
SR2	PRINCIPAL RISK: There is a malicious attack against people and/or buildings in North Somerset or surrounding areas which is a risk to life and limb.	MEDIUM	MEDIUM	STABLE	Continued cross directorate planning around emergencies and crime and disorder work.	LOW MEDIUM	LOW MEDIUM	STABLE
SR3	(NEW Q2) PRINCIPAL RISK: There is a risk of an extended period of high temperatures leading to heatwaves and/or wildfires.	N/A new risk as of Q2	MEDIUM HIGH	N/A new risk as of Q2	Public messaging and community resilience work is underway to manage risk and prevent harm using national guidance and plans.	N/A new risk as of Q2	MEDIUM	N/A new risk as of Q2
SR4	PRINCIPAL RISK: There is a disaster event impacting people and/or buildings in North Somerset or surrounding areas which is a risk to life and limb.	MEDIUM	MEDIUM	STABLE	Risk increases into the winter due to possible severe weather episodes. Strong working with the Local Resilience Forum in planning for response. Review at Corporate Leadership Team of capacity and capability to be carried through during 2023/24.	LOW MEDIUM	MEDIUM	NEGATIVE
SR5	There is a widening of the inequality gap in North Somerset, or we are not able to reduce the current gap, leading to poorer life outcomes for vulnerable residents including life expectancy.	HIGH	HIGH	STABLE	Development of Council wide health inequalities action plan underway built into the Corporate Plan process. Based on role we can play but recognising wider impacts e.g., cost of living crisis and national policy.	MEDIUM HIGH	MEDIUM HIGH	STABLE

Risk ref	Risk	Q1 inherent risk	Q2 residual risk	Inherent direction of travel	Mitigations	Q1 residual risk	Q2 residual risk	Residual direction of travel
SR6	The council is not able to successfully recruit when needed leading to capacity issues in key areas which impact on the delivery of statutory services, key projects, and/or increases workloads on existing staff.	HIGH	HIGH	STABLE	Recruitment team now in place, focus on children's social care.	MEDIUM HIGH	MEDIUM HIGH	STABLE
SR7	(NEW Q2) PRINCIPAL RISK: Advances in Artificial Intelligence (AI) systems and their capabilities pose a risk.	N/A new risk as of Q2	HIGH	N/A new risk as of Q2	The risk is primarily about the impact on data protection of AI and ensuring that AI capability, when introduced into our decision making, is legally compliant and non-discriminatory. A best proactive AI policy document has been drafted for adoption.	N/A new risk as of Q2	MEDIUM HIGH	N/A new risk as of Q2
SR8	There is a local risk that the council will fail to meet the 2030 net zero target, and this will contribute to a negative impact on the wellbeing and or/viability of human, animal and plant health in North Somerset.	HIGH	HIGH	STABLE	Ongoing work to deliver the Climate Emergency Action Plan. Create and adopt path to net zero with clear quantified timelines, resources, and data. Adopt adaptation plan.	HIGH	HIGH	STABLE
SR9	PRINCIPAL RISK: There is coastal flooding in North Somerset which negatively impacts on people, businesses, and communities in North Somerset.	HIGH	HIGH	STABLE	Local Flood Risk Management Strategy has been published. Pilot project with Department for the Environment Food and Rural Affairs being prepared to increase flood awareness in high risk Weston communities. Capital projects being carried out to Victorian sea defences at Clevedon and Weston.	HIGH	HIGH	STABLE
SR10	PRINCIPAL RISK: There is a cyber-attack which damages the infrastructure of North Somerset Council and	HIGH	HIGH	STABLE	Ongoing roll out of cyber training and phishing training across the organisation. Strategic cyber risk sessions held regularly.	HIGH	HIGH	STABLE

Risk ref	Risk	Q1 inherent risk	Q2 residual risk	Inherent direction of travel	Mitigations	Q1 residual risk	Q2 residual risk	Residual direction of travel
	impacts on the organisation's ability to carry out our statutory duties.							
SR11	The council is not able to balance its budget due to demand on services and achievement of Medium-term Financial Plan savings.	HIGH	HIGH	STABLE	Budget monitoring and financial controls in place, risk register and reporting. Consider use of reserves and Medium-term Financial Plan process.	HIGH	HIGH	STABLE
SR12	The council is unable to deliver capital projects within the approved resource envelope either due to unmanageable cost increases and/or lack of governance.	HIGH	HIGH	STABLE	Review of capital budget sponsored by executive, decisions required to prioritise and determine scope (so, ceasing some activity).	HIGH	HIGH	STABLE
SR13	The condition of our corporate estate/assets pose an increasing financial, operational, and reputational risk.	HIGH	HIGH	STABLE	Complete Strategic Assessment Management Plan assessments. Deliver programme of improvements / adaptations / disposals. Prioritise those with greatest health and safety and service delivery risks.	HIGH	HIGH	STABLE

Directorate risk registers:
As per the Risk Management Strategy, all directorate risks that score as HIGH at inherent scoring are escalated for consideration at Corporate Leadership team.

As of end Q2 the following risks were not already represented within the current strategic risks and so discussed for assurance that these risks were being appropriately managed.

- Risk that we do not deliver sustainable change in Children's Services at the right pace of the improvement journey (Children's directorate).
- Risk that there is non-compliance with mandatory training programmes (Corporate Services directorate).
- Risk that we cannot assure ourselves that we are meeting our Health and Safety requirements (Corporate Services directorate).

Commitments
Annual Directorate Statement commitments are rated at the end of each quarter using the following framework:

Fig 1.4: risk management matrix

GREEN	Successful delivery of this commitment is highly likely. There are no major outstanding issues that at this stage appear to threaten delivery
GREEN/AMBER	Successful delivery of this commitment is likely but there are some minor outstanding issues that need to be resolved to ensure delivery.
AMBER	Successful delivery of this commitment appears feasible, but issues already exist requiring management attention. These appear resolvable at this stage and if addressed promptly should not present further problems.
AMBER/RED	Successful delivery of this commitment may be unachievable. Issues already exist requiring immediate management attention to ensure delivery.
RED	Successful delivery of this commitment appears to be unachievable. There are major issues which at this stage do not appear to be manageable or resolvable.

All Annual Directorate Statement commitments that were AMBER/RED or RED were reviewed as at end of Q2 to identify if a risk was aligned to them within the strategic and directorate risk registers and if not, to consider whether they should be. This ensures a clear link between the business planning framework and the risk management framework.

As of end Q2, 11 commitments were rated AMBER/RED. 1 commitment was RED. Of these AMBER/RED and RED commitments all were reflected in the strategic and/or directorate risk registers.

4. Consultation
As part of the Business Planning Framework all tier three managers (assistant directors and heads of service) and above contribute to their Annual Directorate Statement and their risk register. These are then agreed by Directorate Leadership teams, Corporate Leadership team and with the relevant Executive members. Annual Directorate Statements are published for all staff to view on the intranet.

The views of residents, staff and other stakeholders all helped to shape the development of the Corporate Plan on which the Annual Directorate Statements and aligned risk registers are based.

5. Financial Implications

The strategic risk register includes the following risk: The council is not able to balance its budget due to demand on services and achievement of Medium-term Financial Plan savings.

6. Legal Powers and Implications

Regular risk reporting is a requirement of robust corporate governance.

7. Climate Change and Environmental Implications

The business planning framework contributes to the council's vision to be open, fair and green. As part of this, all Annual Directorate Statements for 2022/23 include an organisational-wide commitment and associated strategic risk to deliver the Climate Emergency Strategy and action plan. Progress against this is monitored quarterly as part of this Integrated Performance and Risk Management Framework.

The Strategic Risk Register includes the following risk: There is a local risk that the council will fail to meet the 2030 net zero target, and this will contribute to a negative impact on the wellbeing and or/viability of human, animal, and plant health in North Somerset.

8. Risk Management

This report considers risk management across the organisation aligned to the Corporate Plan and Annual Directorate Statements. There would be a negative impact on corporate governance if this information was not provided on a regular basis. The inherent score for this is HIGH. Once mitigating actions are applied (provision of this report) the risk drops to LOW.

Fig 1.5: risk management score

	Inherent risk score (likelihood)	Inherent risk score (impact)	Inherent risk score	Mitigations	Residual risk score (likelihood)	Residual risk score (impact)	Residual risk score
Negative impact on corporate governance if risk information is not provided.	5 (almost certain)	4 (high impact on legal duty to provide robust corporate governance)	HIGH	Information provided on a quarterly basis.	1 (rare)	1 (negligible impact on legal duty to provide robust corporate governance)	LOW

9. Equality Implications

The Integrated Performance and Risk Management Framework includes Key Projects and Key Corporate Performance Indicators. A number of these are equality objectives and reported to the Equalities Group.

Equality implications are also considered throughout the risk management process.

10. Corporate Implications

It is a requirement as part of the Business Planning Framework for all directorates to hold a risk register that is aligned to their business plan and considered at least quarterly by their Directorate Leadership Team. A Strategic Risk Register is held by Corporate Leadership Team and reviewed at least quarterly by Corporate Leadership Team, by Executive members, by Scrutiny Panels and by Audit Committee.

11. Options Considered

Risk registers are a requirement of the Business Planning Framework.

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Background Papers:

- North Somerset Corporate Plan: Organisational priorities | North Somerset Council (n-somerset.gov.uk)
- National risk register: 2023_NATIONAL_RISK_REGISTER_NRR.pdf (publishing.service.gov.uk)
- Adults directorate Annual Directorate Statement 2022/23
- Children's directorate Annual Directorate Statement 2022/23
- Corporate Services directorate Annual Directorate Statement 2022/23
- Place directorate Annual Directorate Statement 2022/23
- Public Health and Regulatory Services Annual Directorate Statement 2022/23
- North Somerset Council Risk Management Strategy: Risk Management Strategy (n-somerset.gov.uk)
- Management of Risk - principles and concepts: The Orange Book – Management of Risk – Principles and Concepts (publishing.service.gov.uk)

North Somerset Council

Report to the Audit Committee

Date of Meeting: 23rd November 2023

Subject of Report: Internal Audit Update November 2023

Town or Parish: None

Officer/ Member Presenting: Peter Cann - Audit West

Key Decision: No

Recommendations

The Audit Committee is asked to:

- Note progress in delivery of the 2023/24 Annual Internal Audit Assurance Plan.
- Note the associated Fraud prevention and unplanned work that has been completed.

1. Summary of Report

This report provides an update on progress in delivering the 2023/24 Annual Assurance Plan and summarises activity from 1st April to 1st November 2023.

2. Policy

The work of the Internal Audit Service is to provide independent assurance to the council's senior officers and members that governance, risk management and controls are sufficient in ensuring delivery of the council's objectives.

3. Details

The summary position as of November 2023 is as follows:

- Work on the plan continues to progress and as at the 1st November approximately 60% of audit activity was in progress or complete.
- There have been no audit reports issued to date where it was considered that the overall systems of control provided limited or no assurance.
- All recommendations that were due to be implemented have been followed up.
- One investigation was started and completed. Separate to this, time has been spent on further internal and external whistleblowing concerns.
- Due to the additional time spent on unplanned work, it is estimated that some planned audit activity may have to be deferred into the following year's plan.
- The National Fraud Initiative exercise has delivered estimated savings of c£161k.
- We continue to highlight the importance of fraud prevention throughout the Council, including published information and guidance in association with International Fraud Awareness Week.

1) SIGNIFICANT ISSUES

Assurance Levels and Significant Risks

1.1 From the audits completed since April 2023 where an assurance rating has been given, there have been no internal audit reports issued to date where it was considered that the systems of internal control were poor (Level 1) or weak (Level 2).

1.2 A number of weak controls were however identified during an investigation that was completed by the Internal Audit Service and these are reported in section 1.4 of this report.

Investigations and Unplanned Work

1.3 There have been two whistleblowing referrals made by employees during the financial year. One of these was investigated by the Internal Audit Service, whilst the other was discussed with Management and referred to them to deal with. These are as follows:

1.4 <u>Employee Whistleblowing Investigation (1)</u>

An allegation was made that two other employees were conducting a relationship at times when they should have been working.

The Head of Audit and Assurance, alongside Human Resources, investigated the matter. It was found that whilst the original allegation could not be fully substantiated, other instances of non-compliance with Council policy around time recording and leave were identified in respect of one of the officers. The resulting action was:

- Actions being followed up with the employee to ensure adequate recording of time and leave,
- Reminders to teams involved regarding the policy for time and leave recording,
- A verbal warning, to be retained on file for 12 months, was issued to one employee.

1.5 <u>Employee Whistleblowing Referral (2)</u>

An employee contacted the Head of Audit to make allegations about practices which were said to have taken place within the Children's Social Services Directorate.

Due to the nature of the referral, it is not possible to detail the findings within this report. Committee Members are assured however, that this was matter was reviewed and referred onwards to an Assistant Director who then looked into the concerns and held necessary discussions with staff that the allegations were against. It was subsequently concluded that there were no issues with the practices that had been followed and therefore no further action was required.

1.6 In addition to the internal whistleblowing referrals described above, an external concern was received through the Council's Whistleblowing/ Fraud email inbox, which described safeguarding concerns about a local charity. The concern was in the form of a complaint letter and included allegations of discrimination, harassment, and poor governance at the charity. It also included a concern over safeguarding arrangements and the letter alleged the employment of a known offender.

A version of the letter also appeared to have been sent to a range of commissioners and funders of the charity. The Council do not have any contractual arrangement in place with the charity, however NSC have made grant payments to them over recent years. The Head of Audit contacted the complainant and advised them that the primary point of contact for investigation, given as the complaint related to a charity and not a direct operation of the Council, would be the Charity Commission. The complainant was also signposted to the North Somerset Safeguarding Adults Board (NSSAB), where they could make a detailed safeguarding referral.

1.7 Unplanned Work - Clevedon Seafront/ Hill Road Scheme

Internal Audit were also asked to complete an independent review of the life of the Clevedon Seafront / Hill Road scheme. The purpose of the review was to understand whether there are any areas that North Somerset Council could learn from when planning and undertaking similar work in the future.

The Internal Audit report was presented to the Council's Executive on 6th September:

Executive Meeting - 06/09/2023

The report was also distributed to the Audit Committee and an informal meeting to discuss the report was held on 14th September.

Counter Fraud

1.8 Fraud Awareness Week

On an annual basis in November, 'International Fraud Awareness Week' is held. This year it covered the period 12th-18th November and to coincide with this, we produced an article for The Knowledge along with a separate newsletter for staff. The newsletter discussed fraud and reminded staff of the counter-fraud arrangements at North Somerset Council:

International Fraud Awareness Week - Newsletter

1.9 Data Analytics

Data matching on internal datasets held by the Council takes place throughout the year in order to prevent and detect internal fraud and error. This matching is partly completed via IDEA – an internal audit data analytics software tool. The work completed in 2023/24 did not identify any fraud, however, it did identify 84 potential duplicate payments totalling £29,637 which had already been picked up by Accounts Payable and already cancelled or reversed. One further duplicate payment was identified to the value of £228.96 which had not previously been picked up but has now been recovered.

Further details of the tests undertaken and findings are shown on the following page:

No	Match type	Fraud or Error Identified	Value of Fraud /Error	Total matches identified	Comments
1	Duplicate payments by invoice number, supplier I.D. and amount.	No	n/a	84	A total of 84 potential duplicate payments were identified from the data match. The total value of the matches was £29,637. However, the average value was only £705, due to the highest value invoice being for £20,000. The matches were investigated, and it was identified that that the payments had already been identified by Accounts Payable and had been either cancelled off or reversed. As a result, no outstanding duplicates remained.
2	Duplicate payments by invoice number and amount.	1 error	£228	136	A total of 136 potential matches were identified from the initial data matching. For 1 invoice for £228.96 was identified as being a duplicate, and accounts payable have confirmed that the money has been recovered. No other issues of genuine duplicates were identified, with the matches either being separate payments or having previously been identified and corrected by accounts payable.
3	Supplier gap detection - General Suppliers.	No	n/a	8	A total of 8 gaps were detected in the general supplier file. All the gaps had been previously identified and were the result of issues when the Agresso system was originally set up. No new gaps have been detected.
	Supplier gap detection - Ukraine Grant programme.	No	n/a	7	A total of 7 gaps were detected in the supplier numbers for the Ukraine support payment, no payments have been made and the suppliers were never set up on the system.
	Closed Covid-19 Suppliers.	No	n/a	2	All of the suppliers that had been set up to received Covid-19 payments had been closed down on the system, with the exception of two which were identified as part of the audit. The two open Covid suppliers have subsequently been closed.
4	Duplicate suppliers by bank account.	No	n/a	162	A total of 162 potential matches were identified. These were reviewed and legitimate reasons for the matches exist.

5	Payroll match by bank account.	No	n/a	19	A total of 19 matches were identified relating to staff that had duplicate bank details. The matches were reviewed, and steps taken to ensure that the employees were real. The issue is primarily the result of staff using joint bank accounts with their partner.
6	Duplicate National Insurance Number.	No	n/a	0	No staff were identified as having duplicate national insurance numbers. Staff with multiple jobs were reviewed. No issues with sickness or exceeding maximum hours worked were identified.
7	Over retirement age checked. Employees under the age of 18.	No No	n/a n/a	60 3	A total of 60 employees were identified as being over the retirement age. There is no obligation for staff over retirement age to retire. A review of the staff identified that they were employed mainly in casual or part time roles. A total of 3 employees were identified as being below the age of 18. One employee was 15 the other two 17 years old. All of the roles were casual and appear to be compliant with guidance for employment of individuals under 18.
8	Creditors to payroll by bank details.	No	n/a	116	A total of 116 transactions were identified. A sample of transactions were reviewed, and no concerns were identified.

1.10 National Fraud Initiative (NFI)

The Internal Audit function also carry out other anti-fraud activity, such as co-ordinating the National Fraud Initiative (NFI) on behalf of the Council's Section 151 Officer.

The NFI is a Cabinet Office initiative, matching data from a large number of public and private sector organisations. These organisations provide data from their systems as prescribed by the Cabinet Office. The data is then matched and data matching reports are made available for each participating organisation to review. It is for each organisation to make the necessary enquiries and any identified fraud is recorded within the NFI system to enable the effectiveness of the initiative to be monitored.

For Local Authorities such as North Somerset Council, example data sets for matching purposes include; Housing Benefit, Adult Social Care Personal Budgeting and Disabled Parking (Blue Badges).

Results from 2022/23 NFI Exercise

The results from the latest exercise have given estimated savings as follows:

Report title	Total matches	Fraud/ errors	Outcome	Cabinet Office Estimates	Total
Housing Benefits	46	0	£0.00	£0.00	£0.00
CTax Reduction Scheme	220	3	£519.35	£116.16	£635.51
Payroll	29	0	£0.00	£0.00	£0.00
Blue Badges	808	185	£0.00	£120,250	£120,250
Waiting List	135	0	£0.00	£0.00	£0.00
Creditors	1377	1	£40,544.52	£0.00	£40,544.52
Procurement	20	0	£0.00	£0.00	£0.00
TOTAL	**2635**	**189**	**£41,063.87**	**£120,366.16**	**£161,430.03**

i) Blue Badges – Estimated Savings £120,250

The Blue Badges matches were in relation to service users that have passed away but the badges remained active. It should be noted that the savings are based on Cabinet Office estimated national ‘averages’ for the worth of a badge (street value of badges are worth much more in London for example). There is no confirmation that any of the badges have been used inappropriately, as a result the estimated savings provided by NFI might not reflect actual savings to the council.

The reason for the matches is due to the fact that the Blue Badges team are not being informed when a service user passes away, and as a result the badges are not being cancelled. It should be noted that evidence was provided that all of the notifications received through the councils “Tell Us Once” system had been processed by the Blue Badges team. An audit review of this system will be considered as part of the proposed 2024-25 audit plan.

ii) Duplicate Payment - £40,544.52

A separate audit review of the ‘root-causes’ of duplicate payments was completed and this included investigation as to how the overpayment of £40,544.52 identified in the NFI was able to occur. Essentially, it was confirmed that this payment was not picked up as would usually happen with a duplicate purchase order number and value, due to the fact that the contract was a value order. With a contract value order, a company can send in multiple invoices across the year against one purchase order number. The purchase order number does however have a financial limit set against it, so once the limit is reached then subsequent invoices would be rejected. Since at the time of the duplicate invoice coming in the limit had not been reached it was accepted.

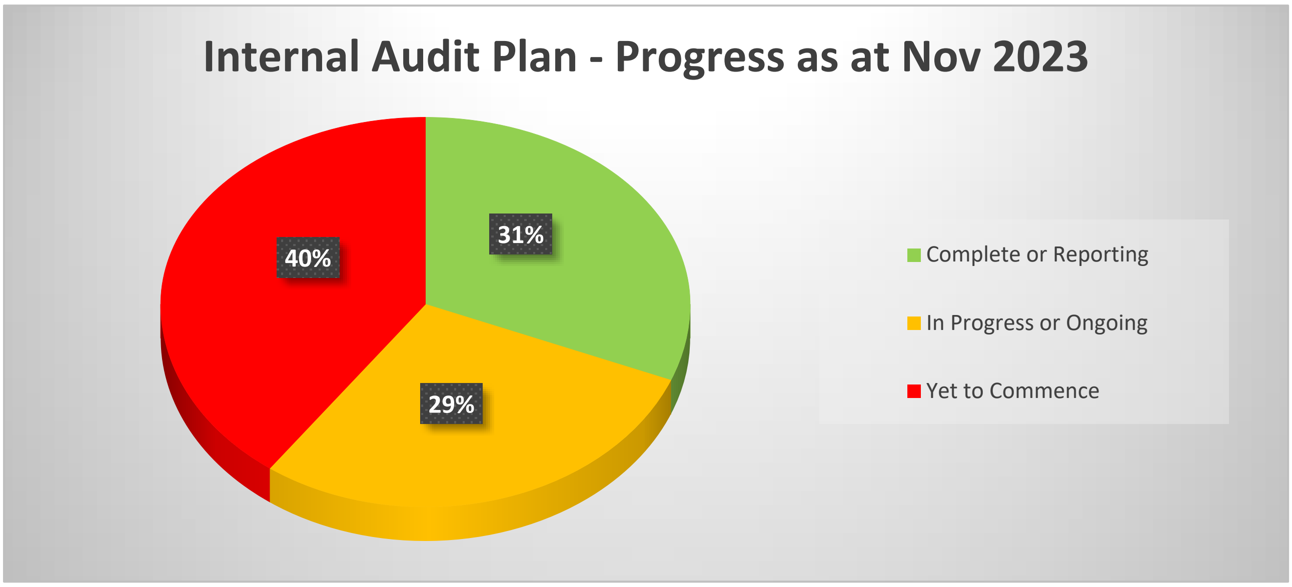
A recommendation has been made that the supplier is added to a watch list on the supplier master file. This will ensure that when any future invoices from the company are received, staff will be prompted about the issue identified in order to improve controls and prevent a recurrence. In addition, enhanced duplicate payment testing by Accounts Payable has been recommended.

The Audit Committee are advised that the duplicate payment of £40.544.52 has been recovered.

2) COMPLETION OF AUDIT PLAN

2.1 There are currently 45 pieces of audit work within the plan. Of the total number of audits:

- 10 Audits had been fully completed and a further 4 were at reporting stage,
- 10 Audits were in progress and a further 3 were ongoing pieces of work,
- 18 Audits were yet to commence, 3 of which we are proposing to defer into 2024/25.



Audit Area	Status	Comments
Metro West – Grant Claim	Complete	Complete - Grant Claim Reviewed, Tested and Approved
Biodiversity – Grant Claim	Complete	Complete - Grant Claim Reviewed, Tested and Approved
Potholes, Highways and City Deal – Grant Claim	Complete	Complete - Grant Claim Reviewed, Tested and Approved
Green Homes Upgrade – Grant Claim	Complete	Complete - Grant Claim Reviewed, Tested and Approved
Clevedon Library – Grant Claim	Complete	Complete - Grant Claim Reviewed, Tested and Approved
Recruitment and Retention	In Progress	Audit in Progress
Customer Services – Performance	Not Started	Audit Not Yet Commenced
Corporate Health and Safety	Not Started	Audit Not Yet Commenced
Duplicate Payments – Root Cause Analysis	Complete	Complete – Level 4, Substantial Assurance. Findings Described in 1.11
Council Tax and NNDR	Complete	Complete – Level 4, Substantial Assurance
Vehicle Mileage Expense Claims	Reporting	Audit at Reporting Stage
ICT – Governance	Not Started	Audit Not Yet Commenced
ICT – Project Management	Not Started	Audit Not Yet Commenced
ICT – Firewalls	Reporting	Audit at Reporting Stage
ICT – Cyber Security Incident Management	In Progress	Audit in Progress
ICT – Cyber Security Logging and Monitoring Arrangements	Reporting	Audit at Reporting Stage

Compliance with Council Procurement Processes	In Progress	Audit in Progress
Governance - Annual Governance Statement	Ongoing	2022/23 Complete, 2023/24 TBC
Governance - Audit Committee, Boards, Advice and Guidance	Ongoing	Ongoing Work - Completed Throughout Year
Local Code of Corporate Governance – Review and Update	Not Started	Ties into AGS - Work Not Yet Commenced
Follow-up of Previous Year Recommendations	Ongoing	Ongoing Work - Completed Throughout Year
Fraud – Data Analytics	Complete	Complete – Findings Described in Section 1.9
Fraud – National Fraud Initiative	Complete	Complete – Findings Described in Section 1.10
Fraud – Training, Advice & Guidance	In Progress	Ongoing Work - Completed Throughout Year
North Somerset Environment Company (NSEC)	Not Started	Audit Not Yet Commenced
Public Health Funerals	In Progress	Audit in Progress
Seafront Concessions	Not Started	Proposed Deferral into 2024/25
Planning Services	Reporting	Audit at Reporting Stage
Parking Services	In Progress	Audit in Progress
CIL & Section 106 Funding	Not Started	Proposed Deferral into 2024/25
Highways – Payment Bonds	Not Started	Audit Not Yet Commenced
Tree Management – Risk Management	Not Started	Audit Not Yet Commenced
Climate Emergency Action Plan	Not Started	Proposed Deferral into 2024/25
Tropicana – Income, Stock Control and Utility Costs	Not Started	Audit Not Yet Commenced
Adult Social Services – New Funding Streams	Not Started	Audit Not Yet Commenced
Housing – Lettings Service	Not Started	Audit Not Yet Commenced
Nursing and Residential Homes – Provider Visits	In Progress	Audit in Progress
Adults Safeguarding - Processes	Not Started	Audit Not Yet Commenced
Unpaid Carers	Not Started	Audit Not Yet Commenced
Local Authority Designated Officer – Statutory Responsibilities	In Progress	Audit in Progress
High Cost Care and Education Packages	In Progress	Audit in Progress
School Financial Value Standards (SFVS)	Not Started	Audit Not Yet Commenced
Safety Value Scheme	Not Started	Audit Not Yet Commenced
Children Missing Education	In Progress	Audit in Progress
Clevedon Seafront/ Hill Road Scheme	Complete	Complete – Findings Described in Section 1.10

2.2 As we pass the halfway stage of the financial year, we review progress against our planned activity and consider the impact of any unplanned work against completion of the overall plan.

2.3 Due to the additional time spent on the investigation within the Place Directorate, and the detailed work on the Clevedon Seafront/ Hill Road Scheme (also within the Place Directorate), it is possible that we may have to defer a small amount of audit activity into 2023/ 2024. The Audits put forward for deferral are all within the Place Directorate, as follows:

- Sea Front Concessions
- CIL & Section 106 Funding
- Climate Emergency Action Plan

The deferral of the above internal audits has been put forward to the Place Directorate Leadership Team for discussion and agreement, the outcome of which will be reported to the Audit Committee.

3) IMPLEMENTATION OF RECOMMENDATIONS

3.1 A total of 27 recommendations have been made this financial year. This includes recommendations made from 2022/23 audits where the reports were issued in 2023/24. Specifically, there were 1 High and 23 Medium rated recommendations, as well as 3 opportunities.

3.2 All of the recommendations that are due to be implemented have been followed up with the officer(s) responsible, however the vast majority were not yet due to be implemented.

4. Consultation

In developing and delivering the Annual Audit Assurance Plan the Internal Audit Service has consulted widely with officers and members.

5. Financial Implications

There are no direct financial implications from this report which is focussed on updates.

6. Legal Powers and Implications

There are no direct legal implications from this report which is focussed on updates.

7. Climate Change and Environmental Implications

The council faces a wide variety of climate change and environmental impacts whilst delivering its many services to residents, some of which have a direct or indirect financial impact or consequence. There are referenced or noted, where appropriate, throughout the report.

8. Risk Management

Significant risks to the council arising from an ineffective Internal Audit Service include lack of internal control, failures of governance and weak risk management. Specific risks include supplementary External Audit Fees and undetected fraud. The Internal Audit Service assists the council in addressing its risk profile. Internal Audit helps by identifying risks, improvement areas and by institutionalising good practice.

9. Equality Implications

Embedded within the audit process is consideration of compliance with statutory guidance and regulations which includes those relating to equality and diversity.

10. Corporate Implications

Failure to deliver the agreed Annual Assurance Plan may result in an inability to provide assurance to officers, members, and the public of the soundness of the council's corporate governance.

11. Options Considered

None

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BACKGROUND PAPERS

Annual Audit Assurance Plan 2023/24   Audit Committee March 2023

Appendix A – Internal Audit Opinions

Assurance Rating	Opinion
Comprehensive Assurance - Level 5	The systems of internal control are **excellent** with a number of strengths and comprehensive assurance can be provided over all the areas detailed in the Assurance Summary
Substantial Assurance – Level 4	The systems of internal control are **good** and substantial assurance can be provided. Only minor weaknesses have been identified over the areas detailed in the Assurance Summary
Reasonable Assurance – Level 3	The systems of internal control are **satisfactory** and reasonable assurance can be provided. However there is one area detailed in the Assurance Summary which requires improvement and specific recommendations are detailed in the Action Plan
Limited Assurance – Level 2	The systems of internal controls are **weak** and only limited assurance could be provided over a number of areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the risk exposure
No Assurance – Level 1	The systems of internal controls are **poor**, no assurance can be given and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure and the issues will be escalated to your Director and the Audit Committee

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North Somerset Council

Report to the Audit Committee

Date of Meeting: 23 November 2023

Subject of Report: 2023/24 Treasury Management Mid-year and 2024/25 update

Town or Parish: All

Officer/Member Presenting: Mark Anderson, Principal Accountant (Resources & Financial Planning)

Key Decision: No

Reason:
Not an Executive decision.

Recommendations

The Audit Committee is asked to note;

- the in-year treasury management performance to 30 September 2023 which includes performance, prudential indicators, and commercial investments.

- the proposed matters for inclusion in the treasury management strategy 2024/25.

1. Summary of Report

1.1 This report informs the Audit Committee of the council's;

- treasury management activities during the first six months of 2023/24 and confirms that the activities have complied with the framework and the treasury management strategy approved by Council in February 2023 (a non-material exception is outlined in para 3.41).

- sets out the framework and issues to be considered when drafting the strategy for the 2024/25 financial year including environmental and climate change considerations.

2. Policy

2.1 Part 1 (7) of the Financial Regulations, sets out the councils' own policy framework with regards to treasury management activities.

2.2 The council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the council to approve, as a minimum, treasury management semi-annual and annual outturn reports.

2.3 This report includes the new requirement in the 2021 Code, mandatory from 1 April 2023, of quarterly reporting of the treasury management and non-treasury prudential indicators.

2.4 The council's treasury management strategy for 2023/24 was approved at a meeting in February 2023. The council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the council's treasury management strategy.

3. Details

3 2023/24 in-year update

3.1 The CIPFA Codes of Practice (Treasury Code and Prudential Code (2021 version) were updated and adopted with effect from 1 April 2023.

3.2 The 2023/24 treasury management strategy reflected the updated code requirements and noted that an ESG strategy would be developed during 2023/24 for adoption within the 2024/25 treasury management strategy. This is addressed further in Section 4 below.

3.3 This update report is a high level summary of the context, activity as at 30 September 2023 and a review of compliance with the performance indicators as set out in the treasury management strategy that was approved by council in February 2023.

Key messages for 2023/24

3.4 **Economic background:** UK inflation remained stubbornly high over much the period compared to the US and euro zone, keeping expectations elevated of how much further the Bank of England (BoE) would hike rates compared to the regions. However, inflation data published in the latter part of the period undershot expectations, causing financial markets to reassess the peak in BoE Bank Rate. This was followed very soon after by the BoE deciding to keep Bank Rate on hold at 5.25% in September, against expectation for another 0.25% rise.

3.5 **Credit review:** Following concerns of a wider financial crisis after the collapse of Silicon Valley Bank and other well publicised banking sector issues, in March Arlingclose reduced the advised maximum duration limit for all unsecured deposits on its recommended counterparty list to 35 days. This stance continued to be maintained at the end of the period. This advice did not apply to deposits made with government or local authorities.

3.6 **Investment income** - following a series of bank base rate increases during 2023/24, gross interest income forecast on all investments is £5.970m, against a budget of £1.542m.

3.7 **Investment returns** - the average rate of investment return for cash deposit type investments managed by the in-house team for 2023/24 is forecast to be 4.60%, which is broadly comparable to that achieved by Tradition (4.13%); and returns of 4.39% are forecast to be achieved on external pooled fund investments.

3.8 **Borrowing -** the council's treasury strategy contained a borrowing requirement of £43m for 2023/24. Changes during the year are reported separately to the Executive through the corporate monitoring process and at 30 September the borrowing requirement was revised to £21m, and the council had not drawn down any external borrowing. No new additional external borrowing has been undertaken during the period and £5.4m of borrowing was repaid, as planned.

3.9 **Cash flows -** £540m of investment cash-flows were managed during the period; there has been a greater number of shorter duration investments compared with the equivalent period last year (£361m). This followed guidance from the council's treasury advisers in March 2023 to limit maximum durations for unsecured deposits to 35 days.

3.10 **Non-treasury management activity** – Commercial investments are forecast to provide an annual yield of 0.0% in 2023/24 after a contribution from the smoothing reserve of £0.1m to smooth annual fluctuations on the council's revenue budget if needed. Details of the financial performance are contained within the following sections of the report. The council currently has no plans to dispose of its commercial investment properties.

3.11 **Compliance -** The Section 151 Officer reports that all treasury management activities undertaken during the period complied fully with the CIPFA code of practice and the council's approved treasury management strategy*. Compliance with specific indicators which were approved by Council in February 2023 is demonstrated in **Appendix 1**. All indicators were within target levels. *The approved counterparty limit of £9m for the council's bank accounts was unavoidably temporarily exceeded over the final weekend in September. Further information is provided in paras 3.40-3.41 below.

2023/24 Balance sheet summary

3.12 Treasury related sums are reflected within the council's balance sheet, with some elements being shown as liabilities and others as assets. An extract of the key components is shown in the table below, together with a comparison of the previous year and the change that has occurred.

Table 1: Treasury Management Balances within the Balance Sheet – 2023/24				
	Balance 31/03/23 £m	**Movement In Year £m**	**Balance 30/09/23 £m**	**Ave Rate %**
Long-term borrowing	128.5	0.0	128.5	3.97
Short-term borrowing	8.9	-5.4	3.5	2.48
Total borrowing	**137.4**	**-5.4**	**132.0**	**3.96**
Long-term investments	10.0	0.0	10.0	4.39
Short-term investments - in-house	134.0	53.0	187.0	4.6
Short-term investments - Tradition	10.0	0.0	10.0	4.13
Total investments	**154.0**	**53.0**	**207.0**	
Net (borrowing) / investments	**16.6**	**58.4**	**75.0**	

3.13 Investment balances at 30 September 2023 were £58.4m higher than at 31 March and this is due to the council's cash inflows usually exceeding its outflows during the first few months of the year. This was exacerbated by a £20.5m receipt of the annual 2023/24 Bus Service Improvement Plan funding on 29 September in a single sum, and £26m funding received from the Integrated Care Board for the annual 2023/24 Continuing Health Care and Funded Nursing Care funding values in two sums.

3.14 On 31 March 2023, the council had net investments of £16.6m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying resources available for investment. These factors are summarised in Table 2 below.

Table 2: Balance Sheet Summary – 2023/24	**31/03/23 Actual £m**	**31/03/24 Forecast £m**
General Fund Capital Financing Requirement	182.3	197.4
Less: Other debt liabilities *	33.4	32.5
Borrowing Capital Financing Requirement	**148.9**	**164.9**
External borrowing**	137.4	132.0
Internal borrowing (over borrowing)	**11.5**	**32.9**

* finance leases and transferred debt that form part of the council's total debt
** shows only loans to which the council is committed and excludes optional refinancing

Treasury investments

3.15 The following three charts analyse the investments at 30 September by credit rating, type, and maturity.

Figure 1: Investments by credit rating

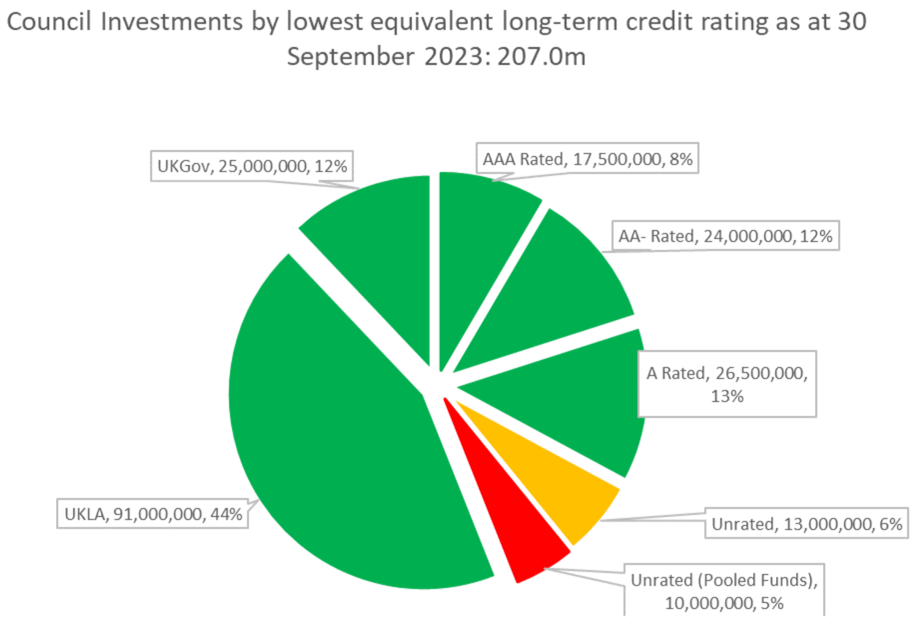


Figure 2: Investments by counterparty type

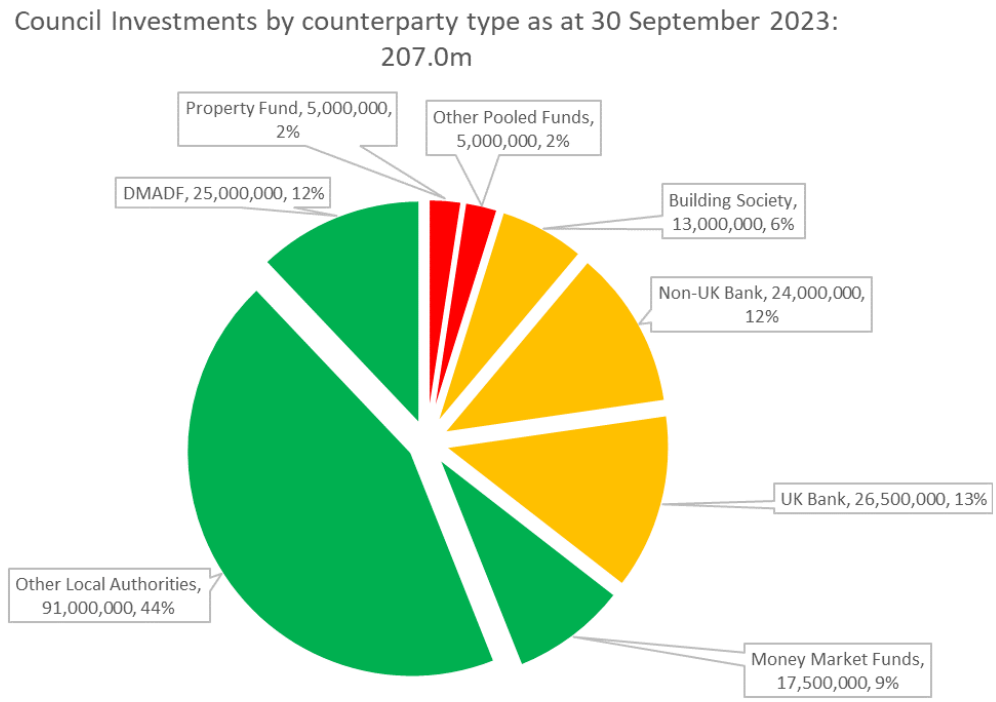
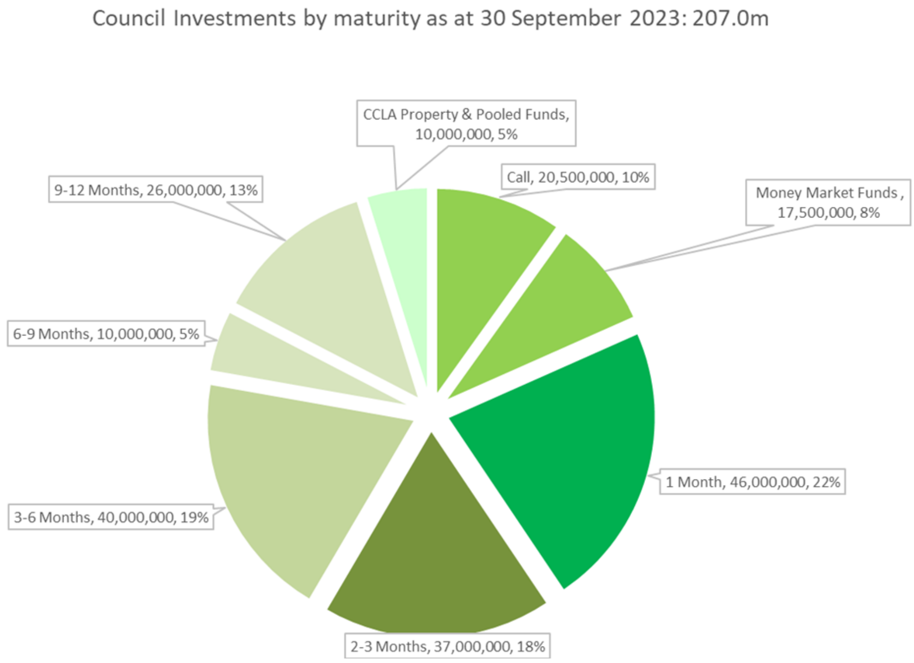


Figure 3: Investments by maturity



3.16 The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 3 below.

Table 3: Investment Benchmarking – Treasury investments managed in-house.

	Credit Score	**Credit Rating**	**Bail-in Exposure**	**Weighted Average Maturity days**	**Rate of Return %**
31.03.2023	5.58	A	25%	117	3.29%
30.09.2023	4.81	A+	32%	93	4.74%
Similar LAs	**4.57**	**A+**	**65%**	**42**	**4.93%**
All LAs	**4.47**	**AA-**	**59%**	**13**	**4.92%**

3.17 When interest rates were rising maturities were kept short, partly to take maximum advantage of rate increases. Since the last update report, market sentiment Is indicating bank rates may be at or near their peak, therefore subject to liquidity requirements, the durations of investment deals placed in recent weeks has increased and we would expect an increase in average maturity days in the council's next update report.

2023/24 Budget implications

3.18 The table below shows that the council is forecasting **£5,970k** from interest income during the year, which is £4,428k more than budgeted. This is due to the increased interest rates.

Table 4: Investments Interest Budget – 2023/24						
	In-House – Cash Deposits £000	Money Market Funds £000	Tradition UK Ltd £000	CCLA Property Fund £000	Other Pooled Funds £000	**Total** **£000**
Interest generated	5,075	155	315	240	185	**5,970**
Investment Interest Budget	1,112	16	15	206	193	**1,542**
Variance to Budget	3,963	139	300	34	-8	**4,428**

3.19 It can be seen through regular reports to the Executive that the current economic backdrop as referred to within para 3.4, continues to have a significant impact on the council's financial position, most notably as a result of rapidly rising inflation increasing its cost base.

3.20 The increase in investment interest shown in the table above is currently being reflected as a budget mitigation, i.e., as a way of reducing overspending in other areas of the budget and means that the council's financial position would be much worse without this windfall. Therefore, the issue of interest rates and their projected levels for next year, should not only be a key consideration within the treasury management strategy, but also feature within the medium term financial strategy proposals.

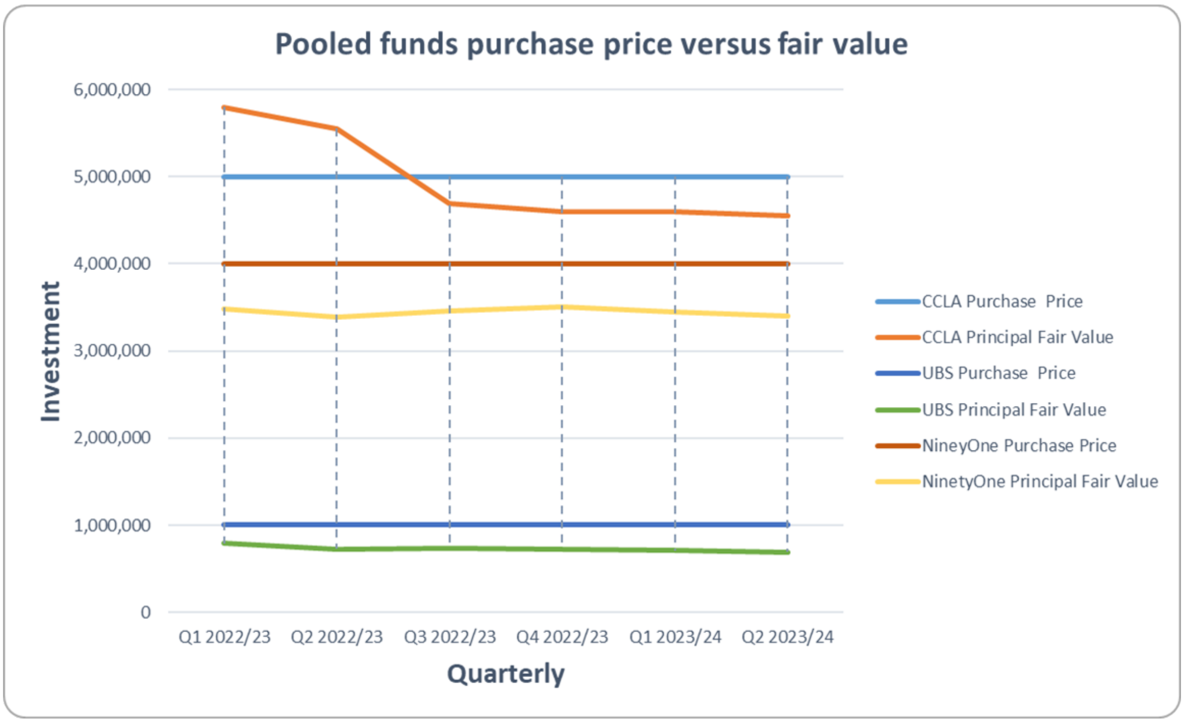
Pooled funds

3.21 £10m of the council's investments is invested in externally managed strategic pooled multi-asset and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated an average income return of £0.4m which is used to support services in year. The council's average income return from its £10m of pooled investment funds was 4.39%.

3.22 Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the council's medium- to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns should exceed cash interest rates.

3.23 The combined share price as at 30 September has marginally decreased since March 2023 after the decreases experienced in the latter half of 2022/23. At 30 September 2023, there is a combined unrealised capital loss of £1.4m, compared with £1.2m at 31 March 2023 and an unrealised capital gain of £0.1m at 31 March 2022. The economic climate's impact on property funds and on bonds and shares is explored further in **Appendix 2**.

Figure 4: Pooled funds purchase price versus fair value



Statutory override

3.24 In April 2023 the Department for Levelling Up, Housing and Communities published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended for two years until 31 March 2025, but no other changes have been made; whether the override will be extended beyond the new date is unknown but commentary to the consultation outcome suggests not. The council will discuss with Arlingclose the implications for the investment strategy and what action may need to be taken.

Non-treasury investments

3.25 The definition of investments in the Treasury Management Code now covers all the financial assets of the council as well as other non-financial assets which the council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e., management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and/or for commercial purposes (made primarily for financial return).

3.26 Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) also includes within the definition of investments all such assets held partially or wholly for financial return.

2023/24 Commercial investments

3.27 As noted in previous reports the council's Commercial Investment strategy was initially approved by Council in July 2017 although was subsequently revised and updated as part of the Capital strategy in February 2019, following recommendation by the Executive. In line with this strategy, the council made two investments in commercial property within the geographical boundary of North Somerset with the aim of earning both an annual return into the revenue budget as well as the potential for long-term capital appreciation. Investment income is received in year through a combination of rental and car parking income at the sites.

3.28 The investments made under the strategy were all agreed in previous years and consist of one outright purchase funded from long term borrowing, the North Worle District Centre, and one property acquired under a finance lease, the Sovereign Centre in Weston-super-Mare. Indicative sums have been set aside for potential improvements to the Sovereign Centre although no decisions to approve spending have taken place because the Council has been able to access grant funding to progress projects. There were no purchases or sale of assets during the 2022/23 financial year and there are no current plans to undertake any further commercial investments in the future.

3.29 Performance and management of these assets is supported by specialist property advisors Montagu Evans and their activity is tailored to the specific requirements of each site. The North Worle site is leased to a single tenant and performance since purchase has been as expected within the original business plan. The Sovereign Centre site is more complex as it is an internal shopping centre within the town centre and has been impacted by several factors since acquisition. Monthly meetings are held on site to discuss all aspects of operational delivery and performance.

3.30 Any financial impacts or issues arising from these commercial investments are within the council's regular budget monitoring framework which is presented to the Executive throughout the year. Decisions surrounding capital investments would follow the council's capital governance routes, which will include Boards such as the Capital Programme, Planning and Delivery Board or the Capital Delivery Strategic Group.

3.31 Details of the financial performance are contained within the following sections of the report and these investments continued to be accounted for as investment properties within the balance sheet. The council currently has no plans to dispose of its commercial investment properties.

2023/24 Cost and valuation

3.32 The council's portfolio of commercial investment property was valued at £23.5m at 31 March 2023 as part of the annual review process and is not remeasured mid-year. The properties will be subject to a further revaluation at the end of March 2024.

2023/24 Income compared to budget

3.33 After servicing costs, fees and borrowing costs and a £0.1m contribution from the smoothing reserve, commercial investments are forecast to generate an annual net return to the revenue budget of £0.0m (2022/23 £0.1m).

3.34 The main Sainsbury's store at North Worle has remained open and trading through the financial year, and the council has continued to receive income as planned.

3.35 Trading operations at the Sovereign Centre have remained steady with the exception of Wilkos which previously contributed 20% of the overall rental income. Discussions are ongoing with potential tenants or to reconfigure the current space.

3.36 The council has created a commercial investment smoothing reserve as part of its risk management measures which is available to smooth annual fluctuations on the council's revenue budget if needed. This would not only cover periods of higher cost prices or income reductions from vacant units, but the reserve would also cover income reductions that may arise because of lease renewals, as they often include rent free periods as part of the renewal terms.

2023/24 Yield / return on investment

3.37 As detailed in **Appendix 1**, combined the council's commercial investments is forecast to provide an annual yield / return on investment of 0.0% in 2023/24 (0.2% in 2022/23) although this is after a forecast contribution from the smoothing reserve of £0.1m.

3.38 Whilst the annual yields are currently below both the original acquisition terms and those defined within the strategy, the council recognises the longer-term place-making impacts that these assets have on the geographical area and the benefits that they provide to residents and the wider community. Therefore, no recommendations are being made about amendments to the investment portfolio at this time.

2023/24 Compliance

3.39 Compliance with specific investment limits is demonstrated in table 5 below and compliance with the authorised limit and operational boundary for external debt is demonstrated in **Appendix 1.**

Table 5: Investment Limits – 2023/24	**2023/24 Maximum**	**30/09/23 Actual**	**2023/24 Limit**	**Complied?** Yes/No
UK Central Government	**no limit**	£25m	50 years	Yes
UK Local Authorities[3]	**£15m**	£10m	25 years	Yes
Banks* and other organisations* (unsecured) whose lowest published long-term credit rating from Fitch, Moody's and Standard and Poor's is:				
AAA	**£30m**	£0	5 years	Yes
AA+	**£25m**	£0	5 years	Yes

AA	**£22m**	£0	4 years	Yes
AA-	**£20m**	£8m	3 years	Yes
A+	**£18m**	£0	2 years	Yes
A	**£16m**	£6m	13 months	Yes
A-	**£13m**	£0	13 months	Yes
UK Building societies (unsecured) that have an asset size of more than £0.4bn*	**£10m**	£6m	13 months	Yes
Money market funds[2] and similar pooled vehicles whose lowest published credit rating is AAA*	**£15m**	£10m max per fund	N/A	Yes
Pooled Investment funds	**£5m per fund**	£5m per fund	N/A	Yes
ESG-focussed short term deposits	**£6m**	£0m	13 months	Yes
The Council's Bank accounts	**net £9m**	net £20.5m	no limit	No*

3.40 * The council aims to maintain an operational daily bank balance of between £400,000 overdraft and £1m credit in its bank accounts on any given day. However, it is recognised that these targets may be exceeded due to factors beyond the council's control. For example, due to unexpected receipts from third parties.

3.41 On the afternoon of Friday 29 September, £20.5m was unexpectedly received from WECA for the Department for Transport's Bus Service Improvement Plan funding for 2023/24. The council was unable to place the funds with the Debt Management Office or any of its Money Market Funds which had all closed for the day. Rather than leave the funds in the general account earning no interest over the weekend, the funds were transferred into the council's deposit account which provides a nominal interest return (currently 2%). However, this meant that the balance held in the council's bank deposit account from Friday to Monday exceeded the net £9m limit in the strategy. The position was subsequently regularised at the earliest possible opportunity on Monday 2 October. Other than this one example where the limit was technically exceeded, however this was entirely due to factors beyond the council's control, all limits were complied with during the period.

2023/24 Borrowing activity and update

3.42 At 30 September 2023 the council held £143.3m of external borrowing on its balance sheet which is held with the following counter-parties;

- £129.4m is held with the Public Works Loan Board (PWLB),
- £2.0m with SALIX,
- £0.6m with Town Councils
- £11.3m managed by Bristol City Council on behalf of 4 councils

3.43 The PWLB is operated by the UK Debt Management Office on behalf of HM Treasury and provides loans to local authorities, and other specified bodies, from the National Loans Fund, with borrowing only available for capital purposes.

3.44 Salix is an executive non-departmental public body, sponsored by the Department for Business, Energy, and Industrial Strategy (BEIS) who deliver government funding to the public sector to improve energy efficiency, reduce carbon emissions and lower energy bills.

3.45 The maturity profile of debt is shown in the table and chart below.

Table 6 Long-term debt profile (principal) as at 30th September 2023		
	Debt £m	Average Rate %
Less than 1 year	3.48	2.19
Between 1 and 2 years	11.57	2.77
Between 2 and 5 years	17.04	3.82
Between 5 and 10 years	32.33	4.50
Over 10 years	67.63	3.99
	132.05	**3.94**

3.46 No new PWLB borrowing was undertaken; £7.5m of existing PWLB loans is due to be repaid by March 2024. £5m of this was repaid at the end of September. Interest payments totalling £5.3m are due to be paid in year.

3.47 SALIX have provided funding to North Somerset for green initiatives, in this case energy efficient replacement street lighting. During the year, the council has made a partial repayment of £0.4m from the original loan funding from SALIX bringing the total loan balance to £2.0m. Borrowing is repayable in 10 equal six-monthly instalments over 5 years. There are no interest obligations on this borrowing, although as a result the council does need to recognise this as a soft loan within its statutory accounts.

3.48 The council's balance sheet also reflects long-term borrowing obligations of £11.3m at the end of the year in respect of the former Avon County Council, which is paid off over a period. A partial repayment of £0.451m will be paid during the year. These loans are currently held and administered by Bristol City Council.

3.49 The Capital Strategy report approved in February 2023 did indicate that the council would be required to borrow £43.5m to fund its capital programme in 2023/24 however, following a series of reviews and rephasing, the revised borrowing forecast for 2023/24 is now £21.0m. Given the surplus cash-flow position, as expected the council has not drawn down any external borrowing in 2023/24. Capital spending plans and forecasts will continue to be reviewed to provide an updated assessment to inform future borrowing decisions and will be a consideration within the 2024/25 Strategy. Core drivers would include capital expenditure spending profiles, market rates, current and future cash-flow forecasts.

4. 2024/25 TM strategy

4.1 Each year the council is required to prepare and approve a strategy that covers its proposed treasury management related activity for the year ahead and sets out the framework, activity, risks, and approaches that the council will use within its operational arrangements.

4.2 The process shows that the draft strategy is reviewed by the Audit Committee each year, it is then considered by the Executive at their meeting in February who then recommend it onto Council for their approval.

4.3 Much of the strategy **framework**, its format and component parts are driven by external legislation, regulation, or good practice, as well as the council's own internal financial regulations and governance arrangements, and so are likely to remain unchanged unless specific changes are made to any of these cornerstones.

4.4 Other than the matters covered below it is proposed that there will be no material changes made to the current operational framework of the Strategy itself, although investment risk levels will be reviewed in light of current economic forecasts, focused upon market changes, counterparties and ratings to ensure the current levels and counter-parties reflect the council's current risk appetite.

Performance Indicators

4.5 Council performance indicators comprise mandated indicators (prudential indicators and treasury management indicators) which will all be included within the 2024/25 strategy and compliance with these will be reported on during 2024/25.

4.6 In addition to the mandatory indicators, the council could adopt two voluntary indicators.

4.7 The first indicator measures its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

4.8 The second potential indicator looks at the council's exposure to interest rate risk by reporting the impact on revenue of a 1% change in interest rates. This is calculated on variable rate investments and borrowing.

4.9 The indicators would be calculated quarterly and reported with the other indicators. Both voluntary indicators are currently reported and can be found in **Appendix 1.**

Environmental Social & Governance (ESG) treasury management policy

4.10 The 2023/24 treasury management strategy contained a commitment to develop a framework for Environmental, Social and Governance (ESG) considerations and incorporating this ESG policy within the 2024/25 treasury management strategy.

4.11 CIPFA Treasury Management Code 2021 includes the requirement that a council's credit and counterparty policies should set out its policies and practices relating to ESG investment considerations, although it is not implied that this policy will currently include ESG scoring or other real-time ESG criteria at individual investment level.

4.12 The ESG policy will therefore include the following statement:

4.13 **ESG policy:** Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the council's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level.

4.14 Based on the results of previous ESG workshops with the Audit Committee, it is proposed to include the following criteria in the council's treasury management ESG policy for 2024/25;

- To set aside an initial sum of up to £6m to invest specifically in ESG-related investments;

- Counterparty value and term limits will still be adhered to – for example if the counterparty limit in the approved strategy is £10m then this limit includes both ESG and non-ESG investment products;

- The duration of ESG investment to be less than 12 months – the council is expected to have a borrowing requirement in the next 2-5 years therefore a longer term ESG investment would not be suitable;

4.15 The council will continue to:

- avoid any direct treasury management investments in fossil fuel related companies;
- engage with advisors to explore and assess the potential for any future investment opportunities in funds with a Renewable Energy & Sustainability focus;

- To continue to maintain funds placed in a “Green Deposit Account”, which is an investment facility that ensures deposits are linked to a wide range of projects in the pursuit of transition to a lower carbon economy. These projects cover a variety of themes including energy efficiency renewable energy, green transport, sustainable food, agriculture and forestry and greenhouse gas emission reductions.

4.16 In addition to the above, it is also proposed to include the following set of ESG principles:

- The council’s ESG investment policy must still be compliant with the external and internal regulatory framework and would therefore continue to give focus to security and liquidity, then yield;

- When investing in banks and funds, the council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

Reporting

4.17 The performance of the council’s ESG investments will be reported separately within the various treasury management reports to the Audit Committee during 2024/25, and this will inform any further refinement of the ESG investment framework which could be reflected in future years’ strategies.

5. Consultation

5.1 Financial information and performance details are included within the council’s monthly budget monitoring processes and key messages are described within the narrative report where required.

6. Financial Implications

6.1 Financial implications are contained throughout the body of the report within the relevant sections however, an additional summary has been included to provide a high-level overview of the key components linked with capital financing and investment decisions.

Table 6 - Budget impacts – capital financing and interest – 2023/24			
	2023/24 Budget £000	**2023/24 Forecast Out-turn £000**	**2023/24 variance £000**
Interest payable on borrowing	5,741	5,300	-441
Interest receivable on investments	-1,542	-5,970	-4,428
Minimum revenue provision	9,187	8,217	-970
Total	**13,386**	**7,547**	**-5,839**
MRP analysis;			
- Supported Borrowing Minimum Revenue Provision	900	900	0
- Prudential Borrowing Minimum Revenue Provision	7,477	6,500	-977
- Ex-Avon Loan Debt Minimum Revenue Provision	445	452	7
- Finance Leases Minimum Revenue Provision	365	365	0

7. Legal Powers and Implications

7.1 This report is for information only and covers the council's required obligations.

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

8. Climate Change and Environmental Implications

8.1 Over recent years the council has made concerted efforts to better understand the extent to which its overarching treasury management strategy has or may have on climate change and other environmental implications. This has been a challenge because many of the decisions relating to either borrowing or investments will have few direct impacts although there could be many indirect impacts though the ongoing actions or decisions of other organisations.

8.2 For example, when the council places a short-term fixed cash deposit type investment with either a bank, building society or another local authority, then its contractual arrangement is linked to the terms of that trade deal (e.g., value, maturity date, interest rate etc). The details relate to the temporary exchange of the cash sum and there are no other restrictions about what will happen with money. The counter-party 'could' then choose to invest it into something that is not supported by the council.

8.3 Until recently the council recognises that it has had limited choice or options in this area however, some degree of change is expected to happen following the emergence of Environmental, Social and Governance (ESG) policies. This is where organisations are choosing to bring other considerations into their treasury strategies and decision-making processes and also introduce new investment products or services to the market.

8.4 The council welcomes the introduction of ESG policies and hopes that they will provide a broader range of opportunities that can be considered within future investment decisions, particularly those that will deliver positive outcomes for climate change and the environment more generally.

8.5 Note that the treasury management strategy for 2023/24, provides for the S151 Officer to develop a framework for up to £6m of ESG related investments through consultation with the members of the Audit Committee and also the council's treasury management advisors Arlingclose.

8.6 The development of the ESG investment policy will not detract from the core functions that need to take place within the existing treasury management strategy, i.e., the management of cash-flows and also meeting the requirements within the approved revenue budget, but it will provide an opportunity to ensure that climate and other environmental implications are considered and reported on.

8.7 An update of work carried out to date is set out in paragraphs 4.1 onwards in the main report.

9. Risk Management

9.1 Members will be aware that there is a direct link between the levels of risk and the levels of return achieved on investment, although there are many other factors which also affect the capital financing budgets.

9.2 The council's treasury management activities expose it to a variety of financial risks, notably:

- credit risk – the risk that other parties might fail to pay amounts due to the council. Includes bail-in risk – the risk that shareholders and depositors in banks and building societies bear losses in the event of counter-party's failure or reduction in net asset value,
- liquidity and re-financing risk – the risk that the council might not have funds available to meet its commitments to make payments as they fall due,
- market risk (interest rate and price risks) – the risk that financial loss might arise for the council because of changes in such measures as interest rates, investment valuations, and stock market movements.

9.3 It should be noted that the council's Treasury Management Strategy sets out how the council manages and mitigates these risks but cannot eliminate risks completely.

9.4 The priority of the Treasury Management Strategy will continue to be the reduction of risk to safeguard public resources.

9.5 The risk appetite of the council is low to give priority to the security of its investments. The council will also aim to achieve the optimum return on its investments commensurate with desired levels of security and liquidity.

10. Equality Implications

10.1 Not applicable, this report is for information only.

11. Corporate Implications

10.1 Treasury management is an integral part of the council's wider financial strategies.

10.2 The safeguarding of public money is critical to the council's reputation, and the measures contained within the report are intended to address member and public concerns and ensure an appropriate balance of return on investment whilst ensuring managing associated risks.

12. Options Considered

11.1 The council is required to undertake a treasury management function to support its financial affairs and there are many options within the component parts.

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Appendices:

Appendix 1 2023/24 In-year performance indicators
Appendix 2 2023/24 External context provided by Arlingclose Ltd (treasury advisers)
Appendix 3 2024/25 Treasury management strategy timeline
Appendix 4 Glossary of terms

Background Papers:
Treasury Management Strategy 2023/24, Executive & Council – February 2023

Appendix 1 2023/24 In-year performance indicators

Prudential Indicators 30 September 2023/24

1.1 The council measures and manages its capital expenditure, borrowing and commercial and service investments with references to the following indicators. It is now a requirement of the CIPFA Prudential Code that these are reported on a quarterly basis.

1.2 **Capital Expenditure:** The council has undertaken and is planning capital expenditure as summarised below:

Table 1.1 Capital Expenditure

	Actual 2022/23 £m	Forecast 2023/24 £m	Estimate 2024/25 * £m	Estimate 2025/26 £m
Capital investments (£m)	66.5	124.5	154.3	124.2

* There will be some capital expenditure in 2024/25 that arises from a change in the accounting for leases and does not represent cash expenditure. This will be quantified in the 2024/25 strategy.

1.3 There has been £23.7m spend on main General Fund capital projects to date which has included two school expansions £10.8m, Housing £1.5m and various Place schemes (£10.7m) including Banwell Bypass design and planning £2.1m, and Bus Service Improvement Plan £2.2m, and various highways schemes £3.2m. The council has not incurred any capital expenditure on its commercial investments.

1.4 **Capital Financing Requirement:** The council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £21m during 2023/24. Based on the forecast figures for expenditure and financing, the council's estimated CFR is as follows:

1.5 The actual CFR is calculated on an annual basis and is included in each year's statutory accounts. The relationship between total CFR and Loans CFR is shown in the table below.

Table 1.2: Estimates of Capital Financing Requirement in £ millions

	Actual 2022/23 £m	Forecast 2023/24 £m	Estimate 2024/25 * £m	Estimate 2025/26 £m
CFR	182.2	197.4	208.0	235.9
Less: CFR re finance leases	22.1	21.7	21.4	21.0
Less: CFR re ex Avon debt	11.3	10.8	10.4	10.0
Loans CFR	**148.8**	**164.9**	**176.2**	**204.9**

* There will be changes to the CFR in 2024/25 that arise from a change in the accounting for leases and does not represent cash expenditure. This will be quantified in the 2024/25 strategy.

1.6 **Gross Debt and the Capital Financing Requirement:** Statutory guidance is that debt should remain below the capital financing requirement, except in the short term. The council has complied and expects to continue to comply with this requirement in the medium term as is shown below.

Table 1.3: Gross Debt and the Capital Financing Requirement

	Actual 2022/23 £m	Forecast 2023/24 £m	Estimate 2024/25 * £m	Estimate 2025/26 £m	Debt at 30/09/23 £m
Debt (incl. leases)	170.3	160.6	173.7	198.7	165.4
Capital Financing Requirement	182.2	197.4	208.0	235.9	

* There will be changes to the CFR in 2024/25 that arise from a change in the accounting for leases and does not represent cash expenditure. This will be quantified in the 2024/25 strategy.

1.7 **Debt and the Authorised Limit and Operational Boundary:** The council is legally obliged to set an affordable borrowing limit (also termed the Authorised Limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 1.4: Debt and the Authorised Limit and Operational Boundary

	Maximum debt 2023/24 £m	Debt at 30/09/23 £m	2023/24 Authorised Limit £m	2023/24 Operational Boundary £m	Complied? Yes/No
Borrowing	137.5	132.0	225.0	208.0	Yes
Other (ex-Avon debt and finance leases)	33.4	33.4	40.0	35.0	Yes
Total debt	**170.9**	**165.4**	**265.0**	**243.0**	Yes

1.8 Since the operational boundary is a management tool for in-year monitoring it is not significant if the boundary is breached.

1.9 **Net Income from Commercial and Service Investments to Net Revenue Stream:** The council's income from commercial and service investments as a proportion of its net revenue stream has been and is expected to be as indicated below.

Table 1.5: Net Income from Commercial and Service Investments to Net Revenue Stream

	Actual 2022/23 £m	Forecast 2023/24 £m	Estimate 2024/25 £m	Estimate 2025/26 £m
Total net income from service and commercial investments	0.1	0	0	0
Proportion of net revenue stream	0%	0%	0%	0%

1.10 **Proportion of Financing Costs to Net Revenue Stream:** Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. [Note investment income has been removed from the definition of financing costs].

1.11 The net annual charge is known as financing costs; this is compared to the net revenue stream i.e., the amount funded from council Tax, business rates and general government grants.

Table 1.6: Proportion of Financing Costs to Net Revenue Stream

	Actual 2022/23 £m	Forecast 2023/24 £m	Estimate 2024/25 * £m	Estimate 2025/26 £m
Financing costs (£m)	12.7	13.2	11.9	12.0
Proportion of net revenue stream	6.9%	6.25%	5.39%	5.19%

* There will be changes to the financing costs in 2024/25 that arise from a change in the accounting for leases and does not represent additional cost to the council. This will be quantified in the 2024/25 strategy.

Treasury Management Indicators:

1.12 As required by the 2021 CIPFA Treasury Management Code, the council monitors and measures the following treasury management prudential indicators.

Liability Benchmark:

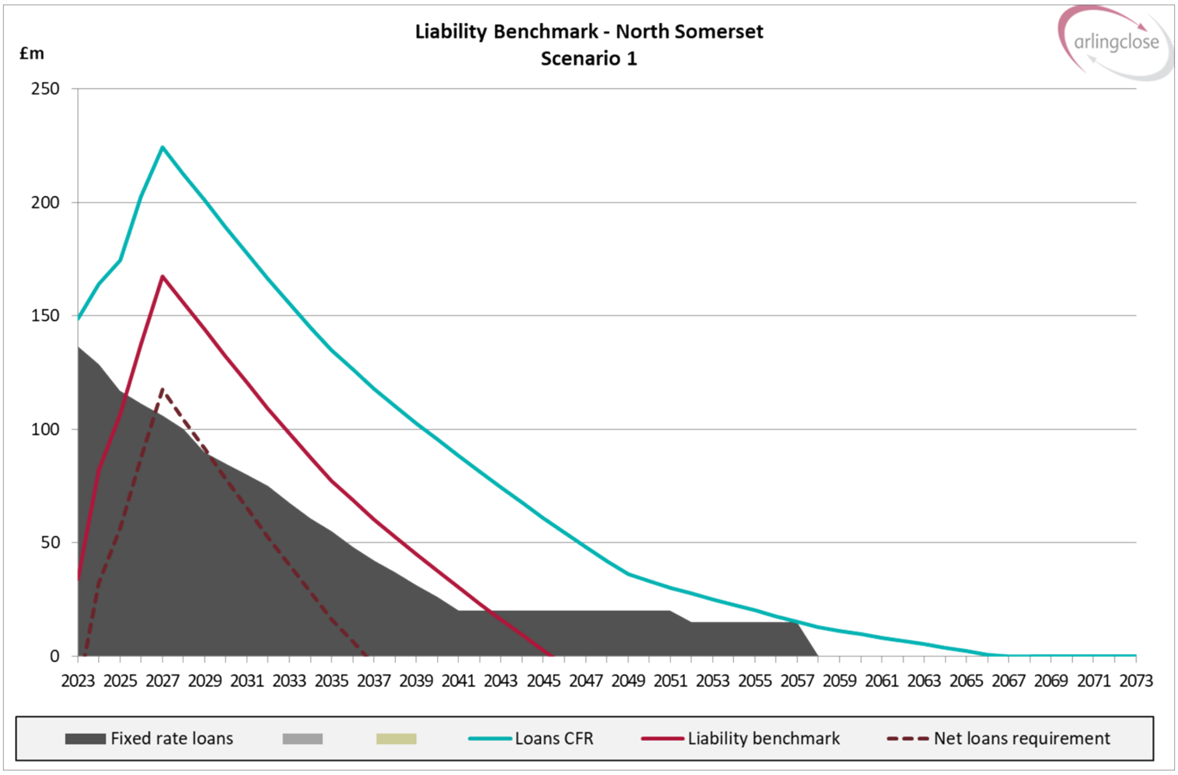
1.13 This new indicator compares the council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £50m required to manage day-to-day cash flow.

Table 1.7: Liability Benchmark

	Actual 2022/23 £m	Forecast 2023/24 £m	Estimate 2024/25 * £m	Estimate 2025/26 £m
Loans CFR	148.8	164.0	174.6	202.5
Less: Balance sheet resources	-164.8	-132.0	-117.9	-115.0
Net loans requirement	**-16.0**	**32.0**	**56.7**	**87.5**
Plus: Liquidity allowance	50.0	50.0	50.0	50.0
Liability benchmark	**34.0**	**82.0**	**106.7**	**137.5**

1.14 The liquidity allowance has been calculated as the strategic pooled funds balance of £10m plus an amount that we don't want cash balances to fall below. This would therefore be around £50m.

1.15 Following on from the medium-term forecast above, the long-term liability benchmark assumes no capital expenditure funded by borrowing after 2027/28, minimum revenue provision on new capital expenditure based on asset life and income, expenditure and reserves all increasing by inflation of 2.5% p.a. This is shown in the chart below together with the maturity profile of the council's existing borrowing.



1.16 The chart is indicating that the current debt portfolio (the grey shaded area) is initially more than the projected borrowing requirement (the red line, liability benchmark) illustrated where the top of grey area is above the red line. The difference between the two is surplus cash. However, it also indicates that there may be a c.£26m net borrowing requirement in 2025/26 (where the red line moves above the grey area).

1.17 The actual net borrowing requirement will change based on many factors including, timing of delivery against the approved capital programme, the level of balance sheet resources available, (e.g., new funding from government, or changes to spending patterns.

1.18 Whilst borrowing may be above the liability benchmark, strategies involving borrowing which is significantly above the liability benchmark carry higher risk.

1.19 **Maturity Structure of Borrowing:** This indicator is set to control the council's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

Table 1.8: Maturity Structure of Borrowing

	Upper Limit	Lower Limit	30/09/23 Actual	Complied?
Under 12 months	50%	0%	1.89%	Yes
12 months and within 24 months	30%	0%	8.15%	Yes
24 months and within 5 years	40%	0%	13.83%	Yes
5 years and within 10 years	50%	0%	24.92%	Yes
10 years and above	100%	0%	51.21%	Yes

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

1.21 **Long-term Treasury Management Investments:** The purpose of this indicator is to control the council's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management limits are:

Table 1.9: Long-term Treasury Management Investments

	2023/24	2024/25	2025/26	No fixed date
Limit on principal invested beyond a year	£40m	£40m	£40m	£10m
Actual principal invested beyond a year	£0m	£0m	£0m	£10m
Complied?	Yes	Yes	Yes	Yes

1.22 Long-term investments with no fixed maturity date include strategic pooled funds but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

Additional indicators

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

Table 1.10: Security

Credit risk indicator	2023/24 Target	30/09/23 Actual	Complied?
Portfolio average credit score	6.1	4.81	Yes

1.24 **Interest Rate Exposures:** This indicator is set to control the council's exposure to interest rate risk. Bank Rate rose by 1.0% during the period, from the prevailing rate of 4.25% on 1st April to 5.25% by 30th September.

Table 1.11: Interest rate exposure

Interest rate risk indicator	2023/24 Target	30/09/23 Actual	Complied?
Upper limit on one-year revenue impact of a 1% rise in interest rates	£1m	£0.4m	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	£1m	£0.4m	Yes

1.25 For context, the changes in interest rates during the period were:

	31/03/23	30/09/23
Bank Rate	4.25%	5.25%
1-year PWLB certainty rate, maturity loans	4.78%	5.69%
5-year PWLB certainty rate, maturity loans	4.31%	5.22%
10-year PWLB certainty rate, maturity loans	4.33%	5.26%
20-year PWLB certainty rate, maturity loans	4.70%	5.64%
50-year PWLB certainty rate, maturity loans	4.41%	5.43%

Appendix 2 2023/24 External context provided by Arlingclose Ltd (treasury advisers)

2023/24 Economic background:

1.1 UK inflation remained stubbornly high over much the period compared to the US and euro zone, keeping expectations elevated of how much further the Bank of England (BoE) would hike rates compared to the regions. However, inflation data published in the latter part of the period undershot expectations, causing financial markets to reassess the peak in BoE Bank Rate. This was followed very soon after by the BoE deciding to keep Bank Rate on hold at 5.25% in September, against expectation for another 0.25% rise.

1.2 Economic growth in the UK remained relatively weak over the period. In calendar Q2 2023, the economy expanded by 0.4%, beating expectations of a 0.2% increase. However, monthly GDP data showed a 0.5% contraction in July, the largest fall to date in 2023 and worse than the 0.2% decline predicted which could be an indication the monetary tightening cycle is starting to cause recessionary or at the very least stagnating economic conditions.

1.3 July data showed the unemployment rate increased to 4.3% (3mth/year) while the employment rate rose to 75.5%. Pay growth was 8.5% for total pay (including bonuses) and 7.8% for regular pay, which for the latter was the highest recorded annual growth rate. Adjusting for inflation, pay growth in real terms were positive at 1.2% and 0.6% for total pay and regular pay respectively.

1.4 Inflation continued to fall from its peak as annual headline CPI declined to 6.7% in July 2023 from 6.8% in the previous month against expectations for a tick back up to 7.0%. The largest downward contribution came from food prices. The core rate also surprised on the downside, falling to 6.2% from 6.9% compared to predictions for it to only edge down to 6.8%.

1.5 The Bank of England's Monetary Policy Committee continued tightening monetary policy over most of the period, taking Bank Rate to 5.25% in August. Against expectations of a further hike in September, the Committee voted 5-4 to maintain Bank Rate at 5.25%. Each of the four dissenters were in favour of another 0.25% increase.

1.6 Financial market Bank Rate expectations moderated over the period as falling inflation and weakening data gave some indication that higher interest rates were working. Expectations fell from predicting a peak of over 6% in June to 5.5% just ahead of the September MPC meeting, and to then expecting 5.25% to be the peak by the end of the period.

1.7 Following the September MPC meeting, Arlingclose, the authority's treasury adviser, modestly revised its interest forecast to reflect the central view that 5.25% will now be the peak in Bank Rate. In the short term the risks are to the upside if inflation increases again, but over the remaining part of the time horizon the risks are to the downside from economic activity weakening more than expected.

1.8 The lagged effect of monetary policy together with the staggered fixed term mortgage maturities over the next 12-24 months means the full impact from Bank Rate rises are still yet to be felt by households. As such, while consumer confidence continued to improve over the period, the GfK measure hit -21 in September, it is likely this will reverse at some point. Higher rates will also impact business and according to S&P/CIPS survey data, the UK manufacturing and services sector contracted during the quarter with all measures scoring under 50, indicating contraction in the sectors.

1.9 The US Federal Reserve increased its key interest rate to 5.25-5.50% over the period, pausing in September following a 0.25% rise the month before, and indicating that it may have not quite completed its monetary tightening cycle.

1.10 Having fallen throughout 2023, annual US inflation started to pick up again in July 2023, rising from 3% in June, which represented the lowest level since March 2021, to 3.2% in July and then jumping again to 3.7% in August, beating expectations for a rise to 3.6%. Rising oil prices were the main cause of the increase. US GDP growth registered 2.1% annualised in the second calendar quarter of 2023, down from the initial estimate of 2.4% but above the 2% expansion seen in the first quarter.

1.11 The European Central Bank increased its key deposit, main refinancing, and marginal lending interest rates to 4.00%, 4.50% and 4.75% respectively in September, and hinted these levels may represent the peak in rates but also emphasising rates would stay high for as long as required to bring inflation down to target.

1.12 Although continuing to decline steadily, inflation has been sticky, Eurozone annual headline CPI fell to 5.2% in August while annual core inflation eased to 5.3% having stuck at 5.5% in the previous two months. GDP growth remains weak, with recent data showing the region expanded by only 0.1% in the three months to June 2023, the rate as the previous quarter.

Financial markets:

1.13 Financial market sentiment and bond yields remained volatile, with the latter generally trending downwards as there were signs inflation, while still high, was moderating and interest rates were at a peak.

1.14 Gilt yields fell towards the end of the period. The 5-year UK benchmark gilt yield rose from 3.30% to peak at 4.91% in July before trending downwards to 4.29%, the 10-year gilt yield rose from 3.43% to 4.75% in August before declining to 4.45%, and the 20-year yield from 3.75% to 4.97% in August and then fell back to 4.84%. The Sterling Overnight Rate (SONIA) averaged 4.73% over the period.

Credit review:

1.15 Having completed a review of its credit advice on unsecured deposits at UK and non-UK banks following concerns of a wider financial crisis after the collapse of Silicon Valley Bank purchase of Credit Suisse by UBS, as well as other well-publicised banking sector issues, in March Arlingclose reduced the advised maximum duration limit for all banks on its recommended counterparty list to 35 days. This stance continued to be maintained at the end of the period.

1.16 During the second quarter of the period, Moody's revised the outlook on Svenska Handelsbanken to negative from stable, citing concerns around the Swedish real estate sector.

1.17 Having put the US sovereign rating on Rating Watch Negative earlier in the period, Fitch took further action in August, downgrading the long-term rating to AA+, partly around ongoing debt ceiling concerns but also an expected fiscal deterioration over the next couple of years.

1.18 Following the issue of a Section 114 notice, in September Arlingclose advised against undertaking new lending to Birmingham City Council, and later in the month cut its recommended duration on Warrington Borough Council to a maximum of 100 days.

1.19 Arlingclose continued to monitor and assess credit default swap levels for signs of ongoing credit stress and although no changes were made to recommended durations over the period, Northern Trust Corporation was added to the counterparty list.

Externally managed pooled funds:

1.20 Financial market conditions were volatile during the six-month period. Global bond yields rose and remained elevated as it became apparent that policymakers were looking to keep rates high for some time amid persistently higher core inflation and tight labour markets.

1.21 The UK, Euro area and US equity markets were initially helped by resilient growth data and diminishing talk of recession. A weaker currency and better-than-expected fundamentals were broadly supportive for UK equities. Much of the US stock market's performance was driven by a small number of mega stocks and enthusiasm over artificial intelligence. However, the global outlook was clouded by the slowdown in China. On a sectoral level, the energy sector was supported by higher oil prices and expectation of decreasing supply due to OPEC+ group agreeing on production cuts. The FTSE All Share index was marginally lower at the end of the 6-month period at 4127 on 30/9/23 v 4157 on 31/3/23. The MSCI All Countries World Index was higher at 2853 on 30/9/23 v 2791 on 31/3/23.

1.22 For existing longer-term investors in fixed income securities, the prospect of a higher-for-longer rate environment weighed on sentiment. Yields rose in Q2 2023 on the expectation that central banks would continue hiking rates but fell in August as investors grew confident that policy rates were close to their peak, then rose again in September as oil prices climbed above $90/barrel. There was also some effect from quantitative tightening by the Bank of England. This affected capital values of the council's multi-asset funds where there was some offset from equity performance.

1.23 Investor sentiment for UK commercial property was more settled than in Q3 and Q4 of 2022 when the sharp rise in bond yields resulted in a big fall in property valuations. There were signs of returning investor interest, occupier resilience and a perception that the downturn in commercial real estate may be bottoming out. It helped rental income and led to some stabilisation in capital values. However, the combination of high interest rates and bond yield, higher funding costs and the prospect of sluggish economic growth constrain the outlook for commercial property.

1.24 The combination of the above had a marginal negative effect on the combined value of the council's strategic funds since March 2023.

Appendix 3 2024/25 TM Strategy timeline

- **November 2023:** Informal audit committee briefing by treasury advisors including validation of ESG priorities, and to seek member views on proposed local TM indicators to include in the 2024/25 strategy.

- **November 2023:** Audit Committee – 2023/24 Mid-year report and 2024/25 strategy update (this report).

- **November 2023:** Engagement with the Audit Committee Chair to capture feedback from the November reports regarding the 2024/25 strategy.

- **January 2024**: Updated 2024/25 strategy and 2023/24 Q3 update.

- **January/February 2024**: 2024/25 strategy to Executive for onward recommendation to Council.

- **February 2024:** Council approval of 2024/25 strategy.

Appendix 4 Glossary of terms

Authorised Limit – the maximum amount of external debt at any one time in the financial year.

Bank Rate – the Bank of England base rate.

Capital Financing Requirement – financing needs of the council – i.e., the requirement to borrow.

CIPFA - the Chartered Institute of Public Finance and Accountancy. The institute is one of the leading professional accountancy bodies in the UK and the only one which specialises in the public sector. It is responsible for the education and training of professional accountants and for their regulation through the setting and monitoring of professional standards. Uniquely among the professional accountancy bodies in the UK, CIPFA has responsibility for setting accounting standards for a significant part of the economy, namely local government. CIPFA's members work, in public service bodies, in the national audit agencies and major accountancy firms.

CLG – Communities and Local Government – see MHCLG.

Counterparty – the organisation the council is investing with.

Credit Rating – an assessment of the credit worthiness of an institution.

Creditworthiness – a measure of the ability to meet debt obligations.

ESG – Environmental, Social and Governance based investment decisions.

Finance Lease - a finance lease is a lease that is primarily a method of raising finance to pay for assets, rather than a genuine rental. The latter is an operating lease. The key difference between a finance lease and an operating lease is whether the lessor (the legal owner who rents out the assets) or lessee (who uses the asset) takes on the risks of ownership of the leased assets. The classification of a lease (as an operating or finance lease) also affects how it is reported in the accounts.

Gilts – long term fixed income debt security (bond) issued by the UK Government and traded on the London Stock Exchange.

LIBID – London Interbank BID Rate – the interest rate at which London banks are willing to borrow from one another.

MHCLG – Ministry of Housing, Communities and Local Government. The Government department that sets policy on supporting local government, communities and neighbourhoods, regeneration, housing, planning building and the environment and fire. The name for this Government department has recently changed and is now known as **DLUHC**, which is the **Department for Levelling Up, Housing and Communities**.

Minimum Revenue Provision - the minimum amount which must be charged to an authority's revenue account each year and set aside towards repaying borrowing.

Money Market - the market in which institutions borrow and lend.

Money Market Rates – interest rates on money market investments.

Ninety-One – one of the council's cash managers who invest in multi-asset funds. They were previously known as Investec.

Operational Boundary – the most likely, prudent but not worst-case scenario of external debt at any one time.

Pooled Funds – investments are made with an organisation who pool together investments from other organisations and apply the same investment strategy to the portfolio. Pooled fund investments benefit from economies of scale, which allows for lower trading costs per pound, diversification, and professional money management.

Prudential Code – a governance procedure for the setting and revising of prudential indicators. Its aim is to ensure, within a clear framework, that the capital investment plans of the council are affordable, prudent, and sustainable and that treasury management decisions are taken in accordance with good practice.

Prudential Indicators – indicators set out in the Prudential Code that calculates the financial impact and sets limits for treasury management activities and capital investment.

PWLB (Public Works Loans Board) - a central government agency which provides long and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow. Local authorities can borrow to finance capital spending from this source.

Sovereign – the countries the council can invest in.

Tradition UK Ltd – is one of the council's cash managers who manage £10m of investments on our behalf. Tradition place funds in fixed term cash deposits with a range of financial institutions.

Treasury Management – the management of the council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risk associated with those activities and the pursuit of optimum performance with those risks.

Treasury Management Practices – schedule of treasury management functions and how those functions will be carried out.

Variable Net Asset Value money market funds – the principal invested may fluctuate below that invested.

North Somerset Council

Report to the Audit Committee

Date of Meeting: 23/11/23

Subject of Report: Business Continuity

Town or Parish: All

Officer/Member Presenting: Alex Stafford, Emergency and Business Continuity Manager

Key Decision: No

Reason: Information item

Recommendations
That the Audit Committee notes the update on Business Continuity co-ordination.

1. Summary of Report

Our overall Business Continuity (BC) planning, preparedness and response is co-ordinated by the Emergency Management Unit (EMU), whilst planning and response to service level disruption rests with critical services.

The paper provides an overview of the activities undertaken in the last 12 months to maintain and improve North Somerset Council's planning and response to BC events.

2. Policy

North Somerset Council's Business Continuity Management Strategy 2019-20 provides the Council's overarching strategy for Business Continuity Management (BCM) The Strategy's aim and objectives are:

- Direct available resources to ensure that the council's critical services and resources have robust, reliable and effective business continuity plans in place, which are subject to regular review and testing
- Improve the integration of business continuity management into the culture and working practices of the council, its partnerships, contracts and the civil sector
- Meet the relevant requirements of the Civil Contingencies Act 2004
- Obtain commitment from all responsible officers for the implementation of all the actions specified in the Business Continuity Management action plan.

At a national level, the Civil Contingency Act 2004 requires all Category 1 responders, which include local authorities, to have BC management in place.

3. Details

In order to maintain and improve BC over the last 12 months, the EMU has completed the following activities.

Critical Service BC Plan Template has continued to be rolled out across critical services. Completion rate is currently 88%, however all outstanding services have committed to completing the outstanding plans by the end of November 2023. Targeted DLT sessions have been held with directorates with outstanding BC plans.

The aim and objectives of the plan are:

- To safeguard the safety and welfare of staff, service users and visitors
- To identify those critical business activities within a service which should attract priority in the allocation of limited resources
- To maintain or resume provision of critical service functions at the earliest opportunity
- To return the service to business as normal as swiftly as possible
- Provide an overview of the corporate response.

The plan provides critical services with the following:

- The principles of the council's approach to Business Continuity
- Procedures to be followed in the event of service disruption
- A Business Impact Analysis (BIA) tool to set out the target recovery times, and minimum resourcing requirements, in order to protect or re-commence minimum acceptable service delivery
- A template for service specific recovery plans for dealing with service disruption.

MS Teams areas have been implemented for all directorates which will improve access to BC plans within all directorates.

Exercise Screen Lock conducted with CLT on the 14 June 23, the aim and objectives of the exercise were:

Aim - improve the organisation's understanding of the likelihood and impacts of a cyber-attack and consider the strategic response to such an attack.

Objectives

- Share an understanding of the risks of a cyber attack
- Share information of the likely impacts of a cyber attack
- Review the strategic decision making process in response to a cyber incident
- Inform future cyber and business continuity planning.

Following a debrief of the exercise, an action plan was produced which includes 23 actions. 20 actions (86%) are complete, with the outstanding actions in progress.

A follow-up to exercise Screen lock is schedule for 20 March 2024.

BC impacts and additional requirements in preparation for the closure of Castlewood continue to be fed into the Accommodation Strategy Programme. These include:

- Back-up power generation in the Town Hall
- Location of the Emergency Control Centre.

A community resilience event with the voluntary sector was conducted in May 23. The focus of the event was to raise awareness of climate change and it's impacts on BC.

The above activity was completed under resourcing pressures due to the EMU being 0.5FTE short on resources Jan 23 – May 23 and 1 FTE short May 23 – Sep 23, the team remains 0.5 FTE short. The EMU is a small (total FTE is 1.5) and specialist team which means small fluctuations such as this result in significant impact on the team's capacity.

Due to the resourcing pressures described above, the following planned activity was not completed over the last 12 months and is now scheduled for completion in the coming year.

- Review, update and renew BC Corporate Strategy – Includes applying COVID learning, aligning with EM plans and guides, ensuring compliance with statutory duties and in line with best practise
- Review, update and renew BC Corporate Plan – Includes applying COVID learning, aligning with EM plans and guides, ensuring compliance with statutory duties and in line with best practise. The Plan must define BC response roles and responsibilities at Corporate, Directorate and Service level

Ongoing activities include:
- Reviewing contractors and suppliers BC arrangements
- Ongoing plan maintenance and cyclical reviews
- Exercising BC plans
- Responding to BC events
- Promotion of BC to local business and voluntary sector.

4. Consultation

The criteria for defining a critical service is agreed by CLT and contained within the corporate BC strategy and service plans. The criteria was review by each directorate's Directorate Leadership Teams (DLTs) to establish each critical services and a responsible manager.

5. Financial Implications

No financial decisions are required from this report, however failure of a critical service or failure to discharge a statutory duty may result in financial implications such as fines, litigation costs or a loss of revenue.

Costs

N/A

Funding

N/A

6. Legal Powers and Implications

The Civil Contingency Act 2004 requires all category 1 responders, which includes local authorities, to have Business Continuity Management (BCM) in place. Additionally, under the act, local authorities are required to provide BC advice and assistance to the commercial sector and voluntary organisations.

Failure to discharge this duty can have a secondary impact of NSC not discharging any other statutory duties through the failure of a critical service.

7. Climate Change and Environmental Implications

Climate change impacts will increase the number of BC impacting events due to increased severe weather events. Having robust BCM in place will not reduce the likelihood or severity of these events, however BCM will reduce their impact on critical services.

8. Risk Management

At a national level, central government produces the National Security Risk Assessment (NSRA). The NSRA identifies and assesses the most serious risks facing the UK and is used to determine the common consequences of these risks occurring.

At a local level, the Avon and Somerset Local Resilience Forum which includes NSC, localise the NSRA to produce a Community Risk Register (CRR). The CRR determines which risks require detailed and specific emergency and BC planning. For example, the EMU produces plans for fuel shortage and severe weather (heatwave and winter) which are specific BC impacting events.

Any specific or emerging risks that require corporate wide planning/mitigation are escalated via the risk management process through PHRS's directorate risk register to the strategic risk register.

The risk to NSC if robust BCM is not in place can be scored as HIGH, likelihood "Almost certain", Impact "critical" on the below risk matrix. However, good BCM can reduce the impacts of BC events to MEDIUM, likelihood "Almost certain", Impact "Low".

Likelihood

Impact	Rare	Unlikely	Possible	Likely	Almost certain
Critical	LOW/MED	MEDIUM	HIGH	HIGH	HIGH
High	LOW	MEDIUM	MED/HIGH	HIGH	HIGH
Medium	LOW	LOW/MED	MEDIUM	MED/HIGH	HIGH
Low	LOW	LOW/MED	LOW/MED	MEDIUM	MEDIUM
Negligible	LOW	LOW	LOW	LOW/MED	LOW/MED

9. Equality Implications

An Equality Impact Assessment is not completed for the BC plans, however critical services are required to complete Equality Impact Assessments in line with policy. Not having robust BCM in place will reduce the likelihood of a critical service failing, which could disproportionally affect the most vulnerable service users.

10. Corporate Implications

The Corporate BC Strategy and Plan both need updating. The updates to the Strategy may include mandatory training, directorate roles, etc. these will be new requirements and workload across critical services.

The Corporate Plan is already in line with existing Emergency Management processes and is tested regularly by exercises and actual BC events.

11. Options Considered

Do nothing – this is not an option as BCM is a statutory duty under the CCA 2004 and underpins critical services ability to function during a BC impacting event. This approach may also result in financial implications described in section 5. No resource requirements.

Light touch – this approach can lead to gaps and short comings in planning and response to BC impacting events, it may also result in financial implications described in section 5. Minimal resource requirements.

Current approach – comprehensive and defensible approach, ensuring statutory duties under the CCA are met and that services do not fail if impacted by a BC event. Requires ongoing resource investment at the current level.

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Appendices:

None

Background Papers:

Corporate BC Plan
Corporate BC Strategy
Service BC Plan Template.

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