NOTICE OF MEETING

Meeting:	**AUDIT COMMITTEE**
Date and Time:	**FRIDAY, 27 JANUARY 2023, AT 9.30 AM***
Place:	**BRADBURY ROOM - APPLETREE COURT, BEAULIEU ROAD, LYNDHURST, SO43 7PA**
Enquiries to:	**E-mail: andy.rogers@nfdc.gov.uk** **Tel: 023 8028 5070**

PUBLIC PARTICIPATION:

Members of the public may watch this meeting live on the Council's website.

***Members of the public may speak in accordance with the Council's public participation scheme:**

(a) immediately before the meeting starts, on items within the Audit Committee's terms of reference which are not on the public agenda; and/or

(b) on individual items on the public agenda, when the Chairman calls that item. Speeches may not exceed three minutes.

Anyone wishing to speak should contact the name and number shown above no later than 12.00 noon on Tuesday, 24 January 2023.

Kate Ryan
Chief Executive

Appletree Court, Lyndhurst, Hampshire. SO43 7PA
www.newforest.gov.uk

This agenda can be viewed online (https://democracy.newforest.gov.uk).
It can also be made available on audio tape, in Braille and large print.

AGENDA

Apologies

1. MINUTES

To confirm the minutes of the meeting held on 28 October 2022 as a correct record.

2. DECLARATIONS OF INTEREST

To note any declarations of interest made by members in connection with an agenda item. The nature of the interest must also be specified.

Members are asked to discuss any possible interests with Democratic Services prior to the meeting.

3. PUBLIC PARTICIPATION

To note any issues raised during the public participation period.

4. INTERNAL AUDIT PROGRESS REPORT 22/23 (Pages 3 - 14)

To consider the Internal Audit progress report for 2022/23.

5. TREASURY MANAGEMENT STRATEGY REPORT 2023/24 (Pages 15 - 40)

To consider the Treasury Management Strategy 2023/24 to 2025/26 including the Annual Treasury Management Investment Strategy for 2023/24 (and the remainder for 2022/23), together with the Treasury Indicators.

6. INVESTMENT STRATEGY 23/24 (Pages 41 - 48)

To consider a proposed Investment Strategy for 2023/24, including Treasury Management Investments and Property Investments.

7. UPDATED RISK MANAGEMENT POLICY AND STRATEGIC RISK REGISTER (Pages 49 - 62)

To receive an update relating to the Strategic Risk Register.

8. REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA) (Pages 63 - 66)

To receive a summary of the Council's use of its powers under the Regulation of Investigatory Powers Act 2000 (RIPA).

9. AUDIT COMMITTEE WORK PLAN (Pages 67 - 68)

To consider the Audit Committee's Work Plan.

10. MEETING DATES 2023/24

To agree the following dates of meetings (all at 9.30 am):

31 May 2023
28 July 2023
27 October 2023
26 January 2024
22 March 2024

11. ANY OTHER ITEMS WHICH THE CHAIRMAN DECIDES ARE URGENT

To:

Councillors

Alan Alvey (Chairman)
Emma Lane (Vice-Chairman)
Hilary Brand
Jack Davies

Councillors

Martyn Levitt
Alan O'Sullivan
Ann Sevier
John Ward

AUDIT COMMITTEE – 27 JANUARY 2023

INTERNAL AUDIT PROGRESS REPORT 2022-23 – DECEMBER 2022

1. INTRODUCTION

1.1. The purpose of this report is to provide the Audit Committee with an overview of internal audit activity completed in accordance with the approved audit plan and to provide an overview of the status of 'live' reports.

2. SUMMARY

2.1. Under the Accounts and Audit (England) Regulations 2015, the Council is responsible for:

- ensuring that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of functions and includes arrangements for the management of risk; and

- undertaking an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.

2.2. In accordance with the Public Sector Internal Audit Standards and the Council's Internal Audit Charter, the Chief Internal Auditor is required to provide a written status report to the Audit Committee, summarising:

'communications on the internal audit activity's performance relative to its' plan.'

2.3. Appendix A summarises the performance of Internal Audit for 2022-23 to 31st December 2022.

3. FINANCIAL IMPLICATIONS

3.1. The audit plan consists of 400 audit days including 18 audit days provided to the New Forest National Park Authority under the current Service Level Agreement. The Council's budget for 2022-23 reflects these arrangements.

4. CRIME AND DISORDER IMPLICATIONS

4.1. There are no crime and disorder implications arising directly from this report, however inadequate audit coverage may result in areas of control weakness, unacceptable risks or governance failings as well as the increased potential for error and fraud.

5. ENVIRONMENTAL MATTERS & EQUALITY AND DIVERSITY IMPLICATIONS

5.1. There are no matters arising directly from this report.

6. RECOMMENDATION

6.1. The Audit Committee note the content of the progress report, attached as Appendix A.

For Further Information Please Contact:
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E-mail: antony.harvey@hants.gov.uk

Background Papers:
Internal Audit Plan 22-23

Internal Audit Progress Report 2022-23

December 2022

New Forest District Council

New Forest
DISTRICT COUNCIL

Southern Internal Audit Partnership

Assurance through excellence and innovation

Contents:

1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

> ***'Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.'***

The standards for 'proper practices' are laid down in the Public Sector Internal Audit Standards [the Standards – updated 2017].

The role of internal audit is best summarised through its definition within the Standards, as an:

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

New Forest District Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations' objectives.

2. Purpose of report

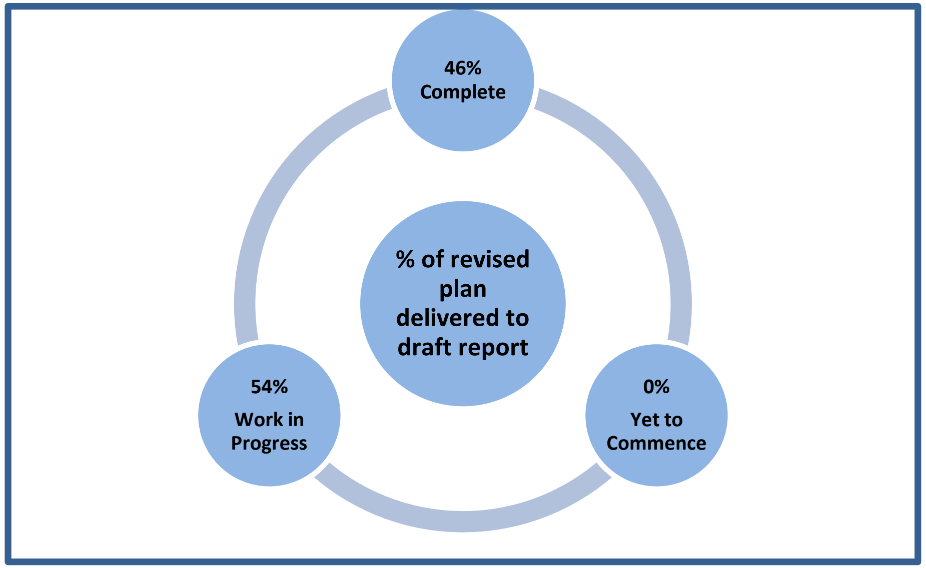
In accordance with proper internal audit practices (Public Sector Internal Audit Standards), and the Internal Audit Charter the Chief Internal Auditor is required to provide a written status report to 'Senior Management' and 'the Board', summarising:

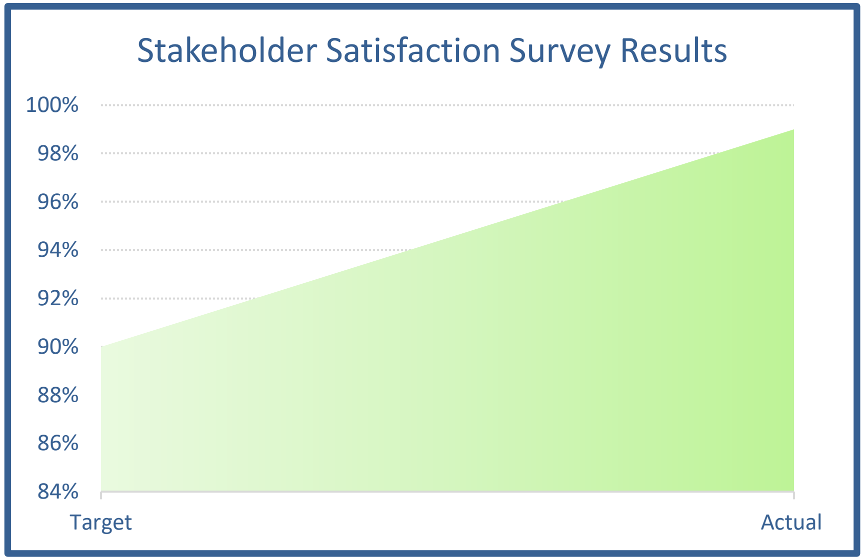
- The status of 'live' internal audit reports;
- an update on progress against the annual audit plan;
- a summary of internal audit performance, planning and resourcing issues; and
- a summary of significant issues that impact on the Chief Internal Auditor's annual opinion.

Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review. The assurance opinions are categorised as follows:

Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

3. Performance dashboard





Compliance with Public Sector Internal Audit Standards

An External Quality Assessment of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2020. The report concluded:

'The mandatory elements of the International Professional Practices Framework (IPPF) include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards. There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles.

It is our view that the Southern Internal Audit Partnership conforms to all 64 of these principles.

We have also reviewed SIAP conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN).

We are pleased to report that SIAP conform with all relevant, associated elements.'

4. Analysis of 'Live' audit reviews

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Total Management Action(s)	Not Yet Due	Complete	Overdue		
							L	M	H
Accounts Receivable and Debt Management *	**May 21**	**SM (R&B)**	**Reasonable**	**5**	**0**	**5**			
Income Collection and Banking	Jun 21	SM (R&B)	Reasonable	4	2	2			
Main Accounting and Reconciliations	Jun 21	SM (R&B)	Reasonable	3	0	0	3		
Cyber Security	Jul 21	SM (ICT)	Reasonable	8	0	5		3	
Coastal Management and Protection	Oct 21	SM (C&PF)	Reasonable	4	0	0		4	
Financial Stability – Medium Term Financial Planning & Budget Monitoring *	**Jan 22**	**EHF&CS**	**Substantial**	**2**	**0**	**2**			
HR Performance Management	Feb 22	SM (HR)	Reasonable	6	0	4		2	
Tree management	Apr 22	SM (OS)	Reasonable	19	2	17			
Information Security – Website	Apr 22	SM (ICT)	Reasonable	9	0	2		5	2
Building Control	May 22	EHPR&E	Reasonable	9	3	3		2	1
Use of Agency Staff	Jun 22	SM (HR)	Limited	10	1	9			
Lease Income and Charges	Aug 22	SM (EV)	Reasonable	2	1	0		1	
Statutory Safety Checks - Corporate Estate	Aug 22	SM (EV)	Reasonable	6	3	3			
Community Safety Partnership	Sep 22	SM (EV)	Reasonable	2	2	0			
Accounts Receivable and Debt Management	Oct 22	SM (R&B)	Reasonable	3	2	1			
Keyhaven Income *	**Nov 22**	**EHPR&E**	**Reasonable**	**3**	**0**	**3**			
Total							**3**	**17**	**3**

* Denotes audits where all actions have been completed since the last progress report

Audit Sponsor		Audit Sponsor	
Executive Head of Financial and Corporate Services (S151 Officer)	EHF&CS	Executive Head of Governance and Housing	EHG&H
Service Manager (Revenues & Benefits)	SM (R&B)	Service Manager (Housing Maintenance)	SM (HM)
Service Manager (Human Resources)	SM (HR)	Service Manager (Housing Options, Rents, Support and Private Sector Housing)	SM (HO)
Service Manager (Estates & Valuation)	SM (E&V)	Service Manager (Housing Strategy & Development)	SM (HS&D)
Service Manager (ICT)	SM (ICT)	Service Manager (Housing Compliance & Asset Management)	SM (HC&AM)
Senior Manager (Finance)	SM (FIN)	Service Manager (Elections & Business Improvement)	SM (E&BI)
Executive Head for Planning, Regeneration and the Economy	EHPR&E	Service Manager (Democratic Services)	SM (DS)
Service Manager (Policy and Strategy)	SM (P&S)	Service Manager (Estate Management & Support Services)	SM (EM&SS)
Service Manager (Development Management)	SM (DM)	Service Manager (Legal)	SM (L)
Service Manager (Coastal)	SM (C)		
Executive Head of Partnership and Operations	EHP&O		
Service Manager (Environment & Regulation)	SM (E&R)		
Service Manager (Waste & Transport)	SM (W&T)		
Service Manager (Open Spaces)	SM (OS)		

5. Executive Summaries of reports published concluding a 'Limited' or 'No' assurance opinion

No new audits have concluded with a 'Limited' or 'No' Assurance Opinion since the September 2022 progress report.

6. Planning & Resourcing

The Internal Audit Plan for 2022-23 was agreed by EMT and approved by the Audit Committee in March 2022. The audit plan remains fluid to provide a responsive service that reacts to the changing needs of the Council. Progress against the plan is detailed within section 7.

A significant records management project is underway to review retention schedules and ensure that documents are held in line with the schedules following the migration of all records from the Council's legacy document management system (Meridio) to Microsoft SharePoint. Records Management has been identified as area for future audit coverage in 2023-24.

7. Rolling Work Programme

Audit Review	Sponsor	Scoping	Terms of reference	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
Corporate / Governance Framework								
Performance Management Framework	SM (E&BI)	✓	✓					Q4
Lease Income and Charges	SM (EV)	✓	✓	✓	Jul 22	Aug 22	Reasonable	
Community Safety Partnership	SM (EM&SS)	✓	✓	✓	Aug 22	Sep 22	Reasonable	
Statutory Safety Checks - Corporate Estate	SM (EV)	✓	✓	✓	Aug 22	Aug 22	Reasonable	
Information Governance	ENG&H	✓						Q4
Fraud Framework	SM (R&B)	n/a	n/a	✓				On-going
Business Continuity	SM (HR)	✓	✓					Q4
Emergency Planning	SM (E&R)	✓						Q4
Risk Management (Follow-up)	SM (FIN)	✓						Q4
Human Resources								
HR – Use of Agency Staff	SM (HR)	✓	✓	✓	Jun 22	Jun 22	Limited	
Payroll Spine Review and Awards	SM (HR)	✓						Q4
Core Financial Systems								

Audit Review	Sponsor	Scoping	Terms of reference	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
Accounts Receivable and Debt Management	SM (R&B)	✓	✓	✓	Sep 22	Oct 22	Reasonable	
Main Accounting and Reconciliations	SM (R&B)	✓	✓	✓				
Grant Certifications								
Test and Trace Payment Scheme	SM (R&B)	n/a	n/a	✓	n/a	Jun 22	n/a	6 Grants Certified
Contain Outbreak Management Fund	SM (E&R)	n/a	n/a	✓	n/a	Jul 22	n/a	Grant Certified
Information Technology								
Identity Management	SM (ICT)	✓	✓	✓				
IT Asset Management	SM (ICT)	✓						Q4
IT Disaster Recovery and Business Continuity Planning (Follow-up)	SM (ICT)	✓	✓	✓	Dec 22		n/a	
Portfolio Themes								
Homelessness	SM (HO)	✓	✓	✓				
Housing Asset Management – Electrical Safety Checks	SM (HC&AM)	✓						Q4
Housing Asset Management – Legionella Checks	SM (HC&AM)	✓	✓	✓				
Open Spaces – Safety Checks	SM (OS)	✓	✓	✓	Dec 22			
Leisure Contract Management	EHP&O	✓	✓	✓	Oct 22	Nov 22	Substantial	
Fleet Management (follow-up phase 2)	SM (W&T)	✓	✓	✓	Jun 22			
Environmental Health – Food Hygiene Inspections	SM (E&R)	✓	✓	✓				
Boundary Commission Changes	SM (E&BI)	✓						Q4
Engineering Works	EHPR&E	✓	✓	✓	Sep 22		Limited	
Keyhaven Income	EHPR&E	✓	✓	✓	Jul 22	Nov 22	Reasonable	

Annex 1 - Adjustments to the plan

Audit reviews added to the plan (included in rolling work programme above)	Comment
HR – Use of Agency Staff *	Carried forward from 2021-22 plan as work in progress at the time of the Annual Internal Audit Report and Opinion.
Fleet Management (follow-up phase 2) *	Carried forward from 2021-22 plan as work in progress at the time of the Annual Internal Audit Report and Opinion.
Test and Trace Payment Scheme *	Government funding requiring formal certification that expenditure has been in accordance with the grant conditions.
Contain Outbreak Management Fund *	Government funding requiring formal certification that expenditure has been in accordance with the grant conditions.
Payroll Spine Review and Awards **	Review to provide assurance over the process followed to apply adjustments to payroll following a spine review and pay award.

*Agreed June 2022

Audit reviews removed from the plan (excluded from rolling work programme)	Comment
Programme & Project Management **	Defer the review due to key officer leaving and recruitment of a replacement to lead on this area.
Climate and Nature Emergency **	Defer the review to enable a recent officer appointment to progress this area.
HR Strategy and Monitoring Frameworks **	Defer pending the development of a new strategy. Review replaced with the Payroll Spine Review and Awards audit.
Housing Management (new system) **	Defer the review due to the delayed implementation of the new housing management system. A potential review of data migration to the new system is being explored.
NNDR **	Defer the review due to pressures on the team to respond to additional requirements from Central Government and activities required in advance of the billing process.

** Proposed January 2023

AUDIT COMMITTEE – 27 JANUARY 2023

TREASURY MANAGEMENT STRATEGY REPORT 2023/24

1. RECOMMENDATIONS

The Audit Committee is recommended to request Council to approve the key element of this report:

1.1. The Treasury Management Strategy 2023/24 to 2025/26 including the Annual Treasury Management Investment Strategy for 2023/24 (and the remainder for 2022/23.) and the Treasury Indicators contained within Annex A.

1.2. That authority is delegated to the Section 151 Officer, who in turn delegates to Hampshire County Council's Director of Corporate Operations, as agreed in the Service Level Agreement, to manage all Council investments (other than the high yield investment portfolio) and borrowing according to the Treasury Management Strategy Statement as appropriate.

2. INTRODUCTION

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

2.2. Treasury risk management at the Council is conducted within the framework of the CIPFA Code which requires the Council to approve a Treasury Management Strategy Statement (TMSS) before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

2.3. Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

3. POLICIES AND APPROVALS REQUIRED

3.1. Treasury Management Strategy Statement

The Treasury Management Strategy Statement sets out how the Council's treasury service will support the capital expenditure and financing decisions taken over the three-year period from 2023/24 to 2025/26. The day-to-day treasury management function and the limitations on activity through treasury indicators are also set out in the statement.

This report has been prepared prior to the adoption of the Capital Programme for 2023/24 and subsequent years. Therefore, the target indicators may be subject to minor variation. These indicators are targets only and minor adjustments will not be reported.

Any adjustments to the treasury management limits will be reported.

3.2. Treasury Management Investment Strategy

Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in Public Services: Code of Practice (the CIPFA Code). This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

The Treasury Management investment strategy sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss.

This strategy is shown in Annex A in Section 5.

The above policies and parameters provide an approved framework within which officers undertake the day-to-day treasury activities.

This strategy aims to strike a balance between allowing for current investment levels to continue, whilst also considering the Council's intention to directly invest in both commercial and residential property.

4. ENVIRONMENTAL IMPLICATIONS

4.1. There are no environment implications arising from this report.

5. CRIME AND DISORDER IMPLICATIONS

5.1. There are no crime and disorder implications arising from this report.

For Further Information Please Contact:

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Background Papers:

Investment Strat. 2023/24
Capital Strat. 2023/24

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TREASURY MANAGEMENT STRATEGY 2023/24 – 2025/26

1. INTRODUCTION

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

1.2. Treasury risk management at the Council is conducted within the framework of the CIPFA Code which requires the Council to approve a Treasury Management Strategy Statement (TMSS) 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.

1.3. Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

2. EXTERNAL CONTEXT

2.1. The following paragraphs explain the economic and financial background against which the TMSS is being set.

2.2. Economic background

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

The Bank of England (BoE) increased the Bank Rate by 0.75% to 3.00% in November 2022 and by 0.50% to 3.50% in December 2022.

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

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

CPI inflation is expected to peak at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to 0% in three years' time if Bank Rate follows the path implied by financial markets with a peak of 5.25%. However, the BoE has stated it considers this path to be too high, suggesting that the peak in interest rates will be lower, reducing the risk of inflation falling too far below target.

2.3. Credit outlook

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

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

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

2.4. Interest rate forecast

The Council's treasury management adviser Arlingclose forecasts that Bank Rate will continue to rise in 2022 and 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target.

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

A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.

3. BALANCE SHEET SUMMARY AND FORECAST

3.1. On 31 December 2022, the Council held £122.5m of borrowing and £61.9m of investments. This is set out in further detail at Appendix B. Forecast changes in these sums are shown in the balance sheet analysis in Table 1.

Table 1: Balance Sheet Summary and Forecast	31/03/22 Actual £m	31/03/23 Estimate £m	31/03/24 Forecast £m	31/03/25 Forecast £m	31/03/26 Forecast £m
General Fund CFR	16.1	26.8	33.8	38.5	53.1
Housing Revenue Account CFR	5.9	9.8	18.9	26.7	34.3
HRA Settlement	122.2	118.1	115.1	112.2	109.3
Total CFR	**144.2**	**154.7**	**167.8**	**177.4**	**196.7**
Less: External borrowing *	(122.5)	(118.3)	(114.0)	(109.9)	(105.8)
Internal borrowing	**21.7**	**36.4**	**53.8**	**67.5**	**90.9**
Less: Balance sheet resources	(109.5)	(90.3)	(80.1)	(75.2)	(72.2)
Investments (or new borrowing) **	**87.8**	**53.9**	**26.3**	**7.7**	**(18.6)**

* shows only loans to which the Council is committed and excludes optional refinancing

** subject to further review (2023/24) to consider the complexities surrounding the business rate relief system and collection fund accounting and timings of payments between financial years between the Council and the government.

3.2. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment.

3.3. The General Fund CFR is showing an increase over the period as the Council looks to roll out its commercial and residential investment strategies as well as a new Waste Collection Strategy. The HRA CFR is also increasing as the Council looks to deliver the accelerated housing programme as per the Housing Strategy to 2026. Table 1 demonstrates that the Council will be internally borrowed beyond the resources available for investment. At this point, an external borrowing position potentially sets in. At the appropriate time the Council will consult with its treasury advisors on how best to service its borrowing requirements, including the possibility of renewing maturing loans on the HRA.

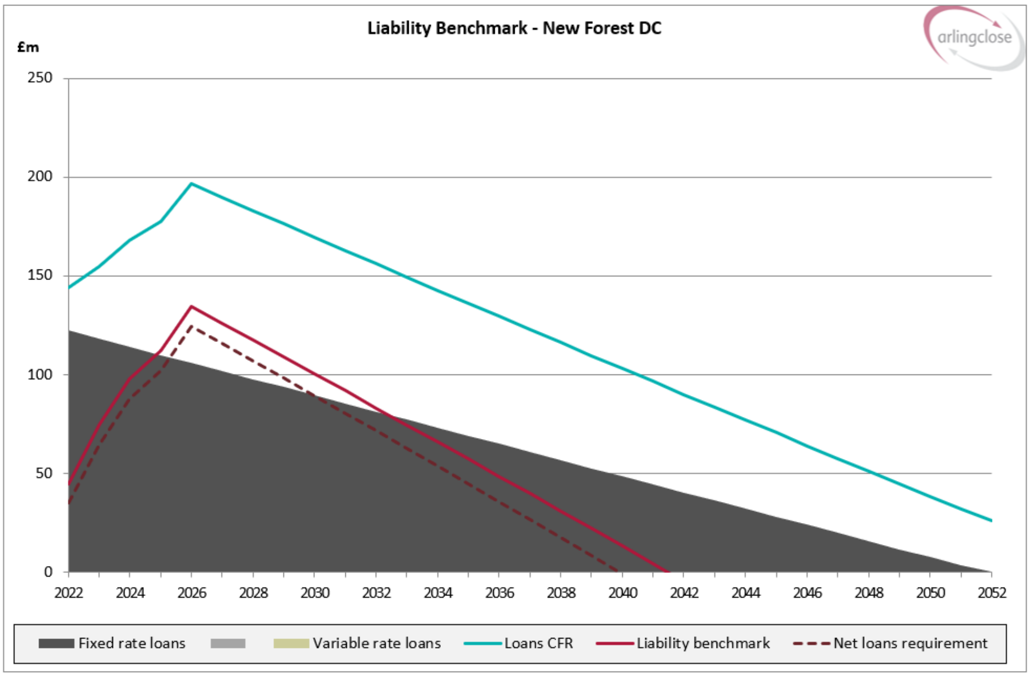
3.4. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2023/24.

3.5. **Liability benchmark**

To compare the Council's actual borrowing against an alternative strategy, CIPFA requires that a liability benchmark is calculated to show the lowest risk level of borrowing. This assumes the same forecasts as Table 1 but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

Table 2: Liability benchmark	31/03/22 Actual £m	31/03/23 Estimate £m	31/03/24 Forecast £m	31/03/25 Forecast £m	31/03/26 Forecast £m
Total CFR	144.2	154.7	167.8	177.4	196.7
Less: Balance sheet resources	(109.5)	(90.3)	(80.1)	(75.2)	(72.2)
Net loans requirement	**34.7**	**64.4**	**87.7**	**102.2**	**124.4**
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0
Liability benchmark	**44.7**	**74.4**	**97.7**	**112.2**	**134.4**

At the start of the period, 31 March 2022, the Council had a Total CFR of £144.2m, external borrowing of £122.6m, balance sheet resources of £109.5m and a liability benchmark of £44.7m. The difference of £21.7m between the CFR and external borrowing is internal borrowing which is where the Council has used its own resources to fund its borrowing requirement.



The liability benchmark is the lowest level of debt the Council could hold if it used all of its balances, reserves and cash flow surpluses to fund its CFR. The Council expects a positive liability benchmark across the forecast period, due to a rising CFR in combination with an expectation that balance sheet resources will drop, which generally means an authority is required to take external borrowing to fund the gap between its resources and the CFR.

The chart also shows that until 31 March 2023 it is expected that the external borrowing the Council has already arranged will be sufficient it being above the minimum borrowing requirement, and so the chart indicates that no additional borrowing would be required to cover the initial two years of the forecast. However, Table 1 forecasts treasury investment balances of £53.9m (subject to further review) as at 31 March 2023; to meet MiFID II (Markets in Financial Instruments Directive) requirements of retaining professional investor status the Council is required to retain an investment balance of at least £10m, and therefore it is indicated that potentially short term borrowing is required to ensure the investment balances remain above £10m.

Based on current estimates it is also expected that additional external borrowing will however be required between 2023 and 2033. Unfortunately, a limitation of liability benchmarking is that the further out the forecast, the less it can be relied upon and so as time passes, the requirement to borrow may change and either may not be there for the whole period or alternatively cash flow requirements that are not known about today may become present later which may require the Council to take additional external borrowing in the future.

4. BORROWING STRATEGY

4.1. The Council currently holds £122.5m of loans. The balance sheet forecast in Table 1 shows that there is expected to be an investment balance of £53.9m as at 31 March 2023 (subject to further review). There may be a requirement to borrow during 2022/23 subject to unknown cashflow requirements, ensuring that investment balances remain above £10m. Any additional borrowing will be considered during the year in light of the cash balances. The Council may also borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £225.5m.

4.2. Objectives

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

4.3. Strategy

Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to use internal resources where possible or to borrow short-term loans to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

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

The Council has previously raised all of its long-term borrowing from the Public Works Loan Board (PWLB) but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council intends to avoid this activity in order to retain its access to PWLB loans. The Council may take the decision to retain the level of current borrowing attributed to the Housing Revenue Account to meet forthcoming pressures related to maintenance and building requirements. The level of borrowing could be retained through rearranging PWLB loans on maturity.

Alternatively, the Council may also arrange forward starting loans during 2023/24, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Council may borrow short-term loans (normally for up to one month) to cover unplanned cash flow shortages.

4.4. Sources of borrowing

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

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

4.5. Other sources of debt finance

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

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

4.6. Short-term and variable rate loans

These loans leave the Council exposed to the risk of short-term interest rate rises, which is monitored through the indicator on interest rate exposure in the treasury management indicators below.

4.7. Debt rescheduling

The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

5. TREASURY INVESTMENT STRATEGY

5.1. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's treasury investment balance has ranged between £58.8m and £105.2m, and balances are expected to reduce over the forthcoming year due to internal borrowing in relation to the capital programme.

5.2. Objectives

The CIPFA Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

5.3. Strategy

Given the increasing risk the Council aims to continue hold investments that provide diversification through greater security and/or higher yielding asset classes. This is especially the case for the estimated funds that are available for longer-term investment.

At 31 December 2022 approximately 64.8% of the Council's investment balances were invested so that they were not subject to bail-in risk, as they were invested in Government investments, pooled property, equity and multi-asset funds, and secured bank bonds. Of the 35.2% of investment balances that were subject to bail-in risk, 83.3% were held in overnight money market funds and cash plus funds which are subject to a reduced risk of bail-in due to the high level of diversification within these investments, and 16.6% were held in overnight bank call accounts for liquidity purposes.

Unfortunately, the availability of appropriate longer term investment opportunities has been reduced in comparison to previous years due to an uncertain economic market and the local authority market has been much reduced due to the amount of funding that has been supplied to the sector from Central Government.

The Council made a payment of £3.98m on 1 April 2022 to prepay its employer's LGPS pension contributions for one year. By making this payment in advance the Council was able to generate an estimated saving of £85,000 over the year on its pension contributions. At the time of writing, the Council's Chief Finance Officer is considering the pre-payment position for 2023/24 – 2025/26 in the light of very different interest rates this time around, in comparison to 3 years ago.

Further detail is provided at Appendix B.

5.4. Environmental, social and governance factors

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 does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. 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.

5.5. Business models

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

5.6. Investments targeting higher returns

In order to minimise the risk of receiving unsuitably low investment income, the Council has continued to invest a proportion of steady core balances in externally managed pooled funds, investing in pooled property, equity and multi-asset funds, as part of its higher yielding strategy. This allows diversification into asset classes other than cash without the need to own and manage the underlying assets.

The funds operate on a variable net asset value (VNAV) basis and offers diversification of investment risk, coupled with the services of a professional fund manager; they also offer the potential for enhanced returns over the longer term but are likely to be more volatile in the short-term. All of the Council's pooled fund investments are in the funds' distributing share classes which pay out the income generated.

The CIPFA Code requires the Council to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest yield. As a result, the Council's investments targeting higher yields have been made from its most stable balances and with the intention that they will be held for at least the medium term. This means that the initial costs of any investment and any periods of falling capital values can be overcome and mitigates the risk of having to sell an asset for liquidity purposes, helping to ensure the long-term security of the Council's investments.

The Council's investments in pooled funds fell considerably in value when the coronavirus pandemic hit world markets but have since recovered well. However, difficult markets over the past 12 months means these investments are now worth less in aggregate than the initial sums invested, as shown in Table 3. It is important to take a longer-term approach with a view to being able to ride out periods of market volatility, ensuring the Council is not a forced seller at the bottom of the market.

Table 3: Higher yielding investments - market value performance	Amount invested	Market value at 31/12/2022	Gain/fall in capital value	
			Since purchase	One year
	£m	£m	£m	£m
Pooled property funds	7.60	7.46	(0.14)	(0.88)
Pooled equity funds	3.00	3.29	0.29	(0.03)
Pooled multi asset funds	3.00	2.63	(0.37)	(0.33)
Total	**13.60**	**13.38**	**(0.22)**	**(1.24)**

Money can usually be redeemed from pooled funds at short notice however these investments must be viewed as long-term investments from core balances not required for immediate liquidity requirements. This ensures that even in times of market volatility, the Council will not be a forced seller and will not crystalise capital losses.

The IFRS 9 accounting standard that was introduced in 2018/19 means that annual movements in the capital values of investments need to be reflected in the revenue account on an annual basis, although a five-year statutory override was put in place for local authorities that exempts them from complying with this requirement.

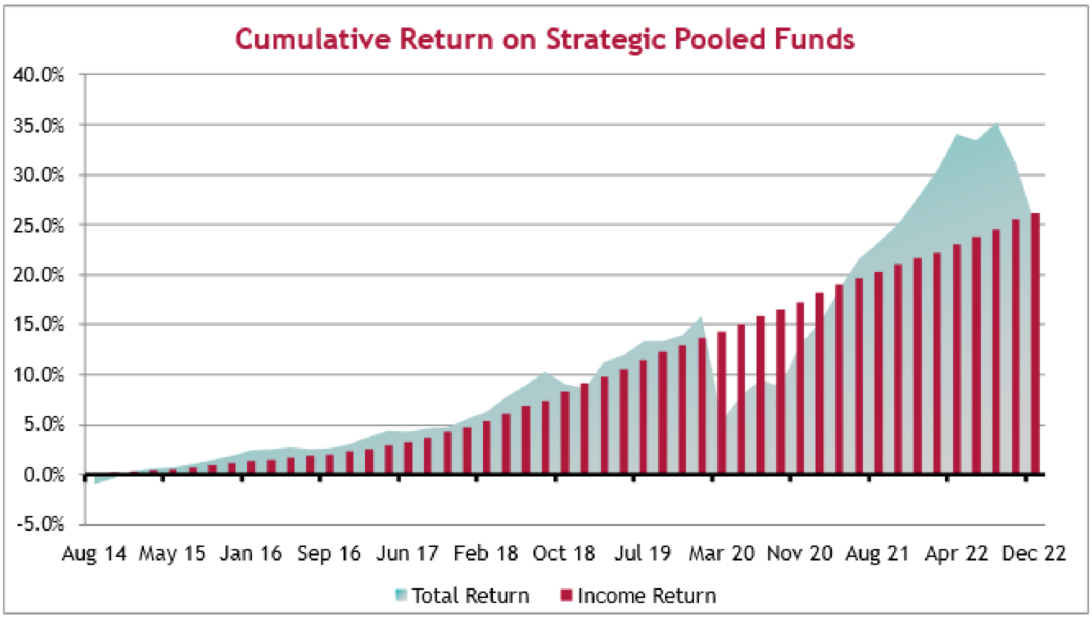
The Council's long-term investments in pooled funds are expected to bring benefits to the revenue budget through higher yields than can be achieved on cash investments. As shown in Table 4, without the allocation to pooled funds the weighted average return of the Council's cash investments would have been 2.59%. By investing in pooled funds, the weighted average return at 31 December 2022 was 2.92%, meaning the allocation to higher yielding investments has added 0.33% to the average interest rate earned by the remainder of the portfolio.

This benefit to the revenue budget is demonstrated in Table 4, using cash balances and average returns at 31 December 2022. It should be noted however that this is a snapshot at a particular point in time and balances and returns do not remain constant over the course of a year.

Table 4: Estimated annual income returns	Cash balance at 31/12/2022 £m	Weighted average return %	Estimated annual income return £m
Short-term and long-term cash investments	48.3	2.59%	1.25
Investments targeting higher yields	13.6	4.09%	0.56
Total	**61.9**	**2.92%**	**1.81**

The performance of these investments and their suitability in meeting the Council's objectives are monitored regularly and discussed with Arlingclose.

The cumulative total return from the Council's investments in pooled equity, property and multi-asset funds since purchase is shown in the graph below. This highlights that despite volatility in the capital value of the funds over 2022, these pooled funds have delivered strong and steady income returns.



5.7. Investment limits

The maximum that will be lent to any one organisation (other than the UK Government) will be £10 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes. Limits are also placed on fund managers as shown in Table 5.

Table 5: Investment limits	Cash limit
Any single organisation, except the UK Central Government	£10m each
UK Central Government	Unlimited
Any group of pooled funds under the same management	£25m per manager

5.8. Approved counterparties

The Council may invest its surplus funds with any of the counterparty types in Table 6, subject to the limits shown.

Table 6: Sector and counterparty limits			
Sector	**Time limit**	**Counterparty limit**	**Sector limit**
The UK Government	30 years	Unlimited	n/a
Local authorities & other government entities	25 years	£10m	Unlimited
Secured investments *	25 years	£10m	Unlimited
Banks (unsecured) *	13 months	£5m	Unlimited
Building societies (unsecured) *	13 months	£5m	£10m

Registered providers	5 years	£5m	£10m
Money market funds *	n/a	£10m	Unlimited
Strategic pooled funds	n/a	£10m	£50m
Real estate investment trusts	n/a	£5m	£10m
Other investments *	5 years	£5m	£10m

This table must be read in conjunction with the notes below

5.9. * Minimum credit rating

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

For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

5.10. Government

Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 30 years.

5.11. Secured investments

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

5.12. Banks and building societies (unsecured)

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

5.13. Registered providers (unsecured)

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

5.14. Money market funds

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

5.15. Strategic pooled funds

Shares or units in diversified investment vehicles consisting of bond, equity and property investments. These funds offer enhanced returns over the longer term but are more volatile in the short term and allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. This sector also includes cash plus funds which are also a type of pooled fund, but are used for short-term funds, with a lower risk appetite. Because strategic pooled funds have no defined maturity date, but are available for withdrawal after a notice period; their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

5.16. Real estate investment trusts (REITs)

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

5.17. Other investments

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

5.18. Operational bank accounts

The Council may incur operational exposures, for example though current accounts, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept low. The Council's operational bank account is with Lloyds and aims to keep the overnight balances held in current accounts as positive, and as close to £0 as possible. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

5.19. Risk assessment and credit ratings

Short and long-term credit ratings from the three main providers (Fitch Ratings, Moody's and Standard and Poor's) are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

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

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

5.20. Other information on the security of investments

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

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

5.21. Liquidity management

The Council has due regard for its future cash flows when determining the maximum period for which funds may prudently be committed. Historic cash flows are analysed in addition to significant future cash movements, such as payroll, grant income and council tax precept. Limits on long-term investments are set by reference to the Council's medium term financial position (summarised in Table 1) and forecast short-term balances.

The Council will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider, except in cases of extreme market stress whereby the Council will be able to invest all of its liquid cash in one provider only, being the Debt Management Office.

6. TREASURY MANAGEMENT PRUDENTIAL INDICATORS

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

6.2. Interest rate exposures

The following indicator shows the sensitivity of the Council's current investments and borrowing to a change in interest rates. Fixed rate investments maturing during the year are assumed to be variable for the remainder of the year.

Table 7: Interest rate risk indicator	31 December 2022 £m	Impact of +/-1% interest rate change £m
Sums subject to variable interest rates		
Investment	45.3	+/- £4.5m
Borrowing	0.0	+/- £0.0m

6.3. 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 borrowing will be:

Table 8: Refinancing rate risk indicator	Upper	Lower

Under 12 months	25%	0%
12 months and within 24 months	25%	0%
24 months and within 5 years	25%	0%
5 years and within 10 years	25%	0%
10 years and above	100%	0%

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

6.4. Principal sums invested for periods longer than a year

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

Table 9: Price risk indicator	2023/24	2024/25	2025/26	2026/27
Limit on principal invested beyond a year	£35m	£35m	£35m	£35m

7. RELATED MATTERS

7.1. The CIPFA Code requires the Council to include the following in its TMSS.

7.2. Financial derivatives

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

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

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

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

7.3. Housing Revenue Account

On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the average % Local Authority 7-day rate.

7.4. Markets in Financial Instruments Directive

The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the s151 Officer believes this is the most appropriate status.

8. Financial Implications

The budget for investment income in 2023/24 is £970,000, whilst the budget for debt interest paid in 2023/24 is £3.951m, based on an average debt portfolio of £118m at an average interest rate of 3.32%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different. Interest paid on any new borrowing will depend on the actual level of borrowing necessary and the interest rates obtained on that borrowing.

9. Other Options Considered

7.5. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Section 151 Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed in Table 10.

Table 10: Alternative strategies and their implications		
Alternative	**Impact on income and expenditure**	**Impact on risk management**
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Arlingclose Economic & Interest Rate Forecast - December 2022

Underlying assumptions:

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

Forecast:

- The MPC remains concerned about inflation but sees the path for Bank Rate to be below that priced into markets.
- Following the exceptional 75bp rise in November, and a further 50bp rise in December 2022, Arlingclose believes the MPC will slow the rate of increase at the next few meetings. Arlingclose now expects the Bank Rate to peak at 4.25.

- The UK economy likely entered into recession in Q3, which will continue for some time. Once inflation has fallen from the peak, the MPC will cut Bank Rate.
- Arlingclose expects gilt yields to remain broadly steady despite the MPC's attempt to push down on interest rate expectations. Without a weakening in the inflation outlook, investors will price in higher inflation expectations given signs of a softer monetary policy stance.
- Gilt yields face pressures to both sides from hawkish US/EZ central bank policy on one hand to the weak global economic outlook on the other. BoE bond sales will maintain yields at a higher level than would otherwise be the case.

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

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

Appendix B – Existing Investment & Debt Portfolio Position at 31 December 2022

Treasury investment position

Investments	30/09/2022 Balance £m	Net movement £m	31/12/2022 Balance £m	31/12/2022 Income return %	31/12/2022 Weighted average maturity years
Short term Investments					
Banks and building societies:					
- Unsecured	10.0	(6.4)	3.6	2.9%	0.00
- Secured	10.7	(4.7)	6.0	0.6%	0.17
Money Market Funds	9.5	8.7	18.2	3.3%	0.00
Government:					
- Local authorities	1.0	(1.0)	0.0	0.0%	0.00
- UK Treasury bills	4.7	1.3	6.0	3.0%	0.18
- UK Gilts	3.0	0.0	3.0	0.1%	0.09
- DMO	6.5	0.0	6.5	2.7%	0.12
Supranational banks	3.9	(3.9)	0.0	0.0%	0.00
Cash plus funds	2.0	0.0	2.0	1.2%	0.01
	51.3	**(6.0)**	**45.3**	**2.5%**	**0.07**
Long term investments					
Banks and building societies:					
- Secured	2.0	1.0	3.0	4.4%	2.19
Government:					
- Local authorities	0.0	0.0	0.0	0.0%	0.00
	2.0	**1.0**	**3.0**	**4.4%**	**2.19**
Long term investments - higher yielding strategy					
Pooled funds:					
- Pooled property*	7.6	0.0	7.6	3.6%	N/A
- Pooled equity*	3.0	0.0	3.0	4.9%	N/A
- Pooled multi-asset*	3.0	0.0	3.0	4.1%	N/A
	13.6	**0.0**	**13.6**	**4.1%**	**N/A**
TOTAL INVESTMENTS	**66.9**	**(5.0)**	**61.9**	**2.9%**	**0.38**

* The rates provided for pooled fund investments are reflective of annualised income returns over the year to 31 December 2022 based on the market value of investments 12 months earlier.

Treasury management Position	31/12/2022 Balance £m	31/12/2022 Rate %
External Borrowing		
- PWLB	122.5	3.3%
Investments		
- Investments	(61.9)	2.9%
Net Debt	**60.6**	

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AUDIT COMMITTEE – 27 JANUARY 2023

INVESTMENT STRATEGY 2023/24

1. RECOMMENDATIONS

1.1. The Audit Committee is recommended to request Council approve the Investment Strategy 2023/24.

2. INTRODUCTION

2.1. The Council currently holds, and intends to increase, its exposure in a variety of Investments held in part for the purpose of generating additional income to the Council.

2.2. By producing this strategy report, the Council is following statutory guidance issued by the Government in January 2018.

3. OVERVIEW OF WHAT IS INCLUDED IN THE INVESTMENT STRATEGY

3.1. **Treasury Management Investments**

The Investment Strategy has regard to the Treasury Management Strategy, which sets out in detail how the Council's treasury service will invest surplus cash, taking into consideration the requirements of the Council's capital programme, and other financing needs. The balance of treasury management investments fluctuates and can exceed £100m at given points during a fiscal period.

3.2. **Property Investments**

The Property investments section of the strategy brings together properties which have been in NFDC ownership for several years, as well as the accumulation of property investment strategies that have been adopted more recently by this Council. Although the primary purpose of these adopted strategies is to support the economic sustainability and regeneration within the District and provide additional housing to support New Forest residents and communities, the strategies also generate a revenue return, hence being prevalent to this investment strategy.

The strategy considers the contribution made by these investments, the security, the risk assessment process and liquidity.

The strategy sets out various performance indicators, designed to assist readers understand the implications of the Council's investing activities on the general fund, and the forecast yields expected from the differing investment categories.

4. ENVIRONMENTAL / CRIME AND DISORDER IMPLICATIONS

4.1. There are no implications arising from this report.

For Further Information Please Contact:	**Background Papers:**
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Kevin Green Finance Manager Deputy Section 151 Officer Telephone: (023) 8028 5067 E-mail: Kevin.Green@nfdc.gov.uk	

APPENDIX 1

Investment Strategy 2023/24

1.0 Introduction

The Authority invests its money for two broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to invest in a sustainable and vibrant New Forest Economy supporting employment and industry; investment income is also earned (known as **property investments**).

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

2.0 Treasury Management Investments

The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments fluctuates and in the past 12 months the Council's investment balance has ranged between £58.8m and £105.2m.

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

Further details: Full details of the Authority's policies and its plan for 2023/24 for treasury management investments are covered in a separate document; the Treasury Management Strategy.

3.0 Property Investments

Contribution: The Council invests in commercial and residential property with the intention of supporting the New Forest economy and community and returning a net income that will be spent on local public services. The Council has established a £50m fund for the purposes of investment in commercial property, inside or within areas immediately adjacent to, the District boundary, and a £10m fund exists for investment in residential property, inside or within areas immediately adjacent to the District boundary. Both funds have been established to support the local New Forest economy and community and both also generate an income return.

The Council can own commercial property directly and has established a wholly owned group of companies for the purposes of investment in residential property. The Council intends to make equity investments into the group of companies and issue loans, on the latter of which the Council will receive interest payments. Both strategies have socio-economic benefits, such as stimulation of local economies through investment in commercial premises and growth in the supply of housing throughout the District.

Security: In accordance with government guidance, the Authority considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs. Three out of the thirteen investment properties owned by this Council as at 31/03/22 have been in the Council's ownership for well over a decade. The first acquisition under the Council Commercial Property Investment Strategy was completed in December 2017, two acquisitions were completed in 2019/20, three acquisitions were made in 2020/21 and 2021/22 and two acquisitions have been made in 2022/23.

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

Table 1: Loans in £millions

Category of borrower	31.3.2022 actual			2023/24
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Subsidiaries	2.673	0.000	2.673	8.000
TOTAL	**2.673**	**0.000**	**2.673**	**8.000**

Table 2: Shares in £millions

Category of company	31.3.2022 actual			2023/24
	Amounts invested	Gains or losses	Value in accounts	Approved Limit
Subsidiaries	0.946	-0.021	0.925	4.000
TOTAL	**0.946**	**-0.021**	**0.925**	**4.000**

The figures as included in tables 1 and 2 above are in relation to the wholly owned group of housing companies. The total initial investment made up of debt and equity is to total £10m. The mix of debt and equity will be fluid, and so for the purposes of setting individual limits, the potential maximum in each instance has been shown hence equating to more than £10m.

Table 3: Commercial Property held generating income in £millions

Property	31.3.21	31.3.2022 actual			2022/23
	Value in Accounts	Gains or (losses)	Additions or (Disposals)	Value in accounts	Additions to date
Hythe Marina	2.535			2.535	
Hardley Industrial Estate	3.865	1.735		5.600	
New Forest Enterprise Centre	0.775	0.308		1.083	
New Milton Health Centre	2.543			2.543	
Land at Beaumont Park Ringwood	2.010		2.528	4.538	4.420
Ampress Car Park	2.123	0.020		2.143	
The Parade, Salisbury Road Totton	1.428	0.176		1.604	
Queensway, New Milton	0.883	0.186		1.069	
Unit 1 Nova Business Park, New Milton	0.538			0.538	
Starbucks		0.016	1.245	1.261	
27 Salisbury Road		0.053	1.850	1.903	
Marks & Spencer New Milton					5.100
Rumbridge Street, Totton					0.235
TOTAL	**16.700**	**2.494**	**5.623**	**24.817**	**9.755**

Note: The table above includes material properties denoted in the accounts as Other Land & Buildings (not used operationally by the Council) and Investment Properties, to reflect different statutory accounting definitions of these assets which all have a wider socio-economic purpose.

Risk assessment: The Authority assesses the risk of loss before entering into and whilst holding property investments. Market research is undertaken regularly, and potential opportunities objectively evaluated by the in-house estates team, utilising external expertise as and when necessary.

The Authority assesses the risk of loss in its residential holdings before entering into and whilst holding loans through regular communication via the board of directors and the Council. The board has the freedom to engage with specialist consultants as and when required.

Purchases of properties and development opportunities are only completed once a full business case has been prepared and signed off by the investment panel, or board, or by the Council if above delegated financial parameters.

Liquidity: Compared with other investment types, property can be relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. The Council will ensure to keep suitable minimum cash balances available, for example to repay capital borrowed.

4.0 Proportionality

The Council is expecting investment activity to assist in achieving a balanced revenue budget. Table 4 below shows the extent to which the expenditure planned to meet the service delivery objectives of the Authority is dependent on achieving the expected net profit from investments, excluding financing costs, over the lifecycle of the Medium -Term Financial Plan. Should it fail to achieve the expected net profit, the Council will continually review and evaluate its services, and their delivery models, ensuring the most efficient service is provided to the residents of the New Forest. Prudent use of reserves can also be considered as a suitable contingency plan for continuing to provide these services in the short term.

Table 4: Proportionality of non-treasury Investments (£millions)

	2021/22 Actual	2022/23 Forecast	2023/24 Budget	2024/25 Budget	2025/26 Budget
Gross service expenditure	43.000	37.000	42.000	42.000	42.000
Investment income	1.153	1.504	2.063	2.739	3.158
Proportion	2.7%	4.1%	4.9%	6.5%	7.5%

5.0 Capacity, Skills and Culture

Elected members and statutory officers:

Commercial Property investments are made pursuant to the Asset Investment Strategy approved by the Council in 2017. An experienced team formed from the Council's finance, estates and valuation and legal departments prepare initial assessments and recommendations concerning suitable properties. Prior to entry into a bidding process, approval must be secured from the Portfolio Holder: Finance, Investment and Corporate Services, the Executive Head of Governance and Regulation and the s151 Officer. Prior to entry into binding legal agreements, final approval must be secured from the Chief Executive, the Executive Head of Governance and Regulation and the s151 Officer in consultation with the Portfolio Holder: Finance, Investment and Corporate Services and the Chairman of the Corporate Overview and Scrutiny Panel for transactions up to £5m, and the approval of Cabinet for transactions above £5m. This detailed process of scrutiny and decision making by key senior officers and members ensures the strategic objectives, risk profiles and overall risk exposure for the Council are considered and fully understood.

Commercial deals:

The Cabinet report dated 20th February 2017 is clear (at para 3.8) the Council will take a prudent approach to the management of financial risk and the assessment of possible investments. The criteria for selecting investment assets set out in the Asset Investment Strategy and the steps for selecting assets set out above accord with prudent investment principles and the key decision makers, including the S151 Officer, are involved in the process to ensure compliance.

Corporate governance:

The Asset Investment Strategy makes express reference (at para 2.1) to the Council's Corporate Plan 2016 – 2020 and was prepared in the context of seeking to deliver on those priorities. The objectives remain valid in the context of the updated Community Matters Corporate Plan 2020 – 2024. The process for selecting assets is set out above to ensure accountability, responsibility and authority for decision making on investment activities within the context of the local authority's corporate values.

6.0 Investment Indicators

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

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

Table 5: Total investment exposure in £millions

Total investment exposure	31.03.2022 Actual	31.03.2023 Forecast	31.03.2024 Budget	31.03.2025 Budget	31.03.2026 Budget
Pooled Fund T M investments	13.60	13.60	10.00	10.00	10.00
Other T M investments	71.40	40.30	16.30	0.10	0.10
Subsidiary investments: Loans	2.67	3.71	4.89	6.07	6.07
Subsidiary investments: Shares	0.92	1.36	1.86	2.36	2.36
Commercial investments: Property	24.82	34.57	41.82	48.82	55.82
TOTAL INVESTMENTS	**113.41**	**93.55**	**74.87**	**67.35**	**74.35**
Commitments to lend		-	-	-	-
Guarantees issued on loans		-	-	-	-
TOTAL EXPOSURE	**113.41**	**93.55**	**74.87**	**67.35**	**74.35**

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

All investments made to date, up to and including purchases made in 2022/23 are funded through internal borrowing. It is anticipated that external borrowing will be required to part fund the programme from 2023/24 onwards.

Table 6: Investments funded by borrowing in £millions

Investments funded by borrowing	31.03.2022 Actual	31.03.2023 Forecast	31.03.2024 Budget	31.03.2025 Budget	31.03.2026 Budget
Subsidiary investments: Loans	2.67	3.71	4.89	6.07	6.07
Commercial investments: Property	12.25	21.06	26.86	32.46	38.06
TOTAL FUNDED BY BORROWING	**14.93**	**24.77**	**31.75**	**38.52**	**44.12**

Rate of return received: This indicator shows the investment income received less the associated costs, including the cost of external borrowing where appropriate, as a proportion of the sum initially invested.

Table 7: Investment rate of return (net of costs)

Investments net rate of return	2021/22 Actual	2022/23 Forecast	2023/24 Budget	2024/25 Budget	2025/26 Budget
Treasury management investments	1.03%	2.92%	3.50%	3.50%	3.50%
Subsidiary investments: Weighted Average	2.76%	3.55%	3.41%	3.32%	3.32%
Commercial investments: Property	4.24%	3.83%	4.22%	4.62%	4.48%

Notes to table 7:

As cash balances reduce, the overall TM investment earnings in £000's will reduce. However, the funds that are held by the Council will represent required minimum balances and will continue to be placed within medium-longer term strategic funds, which are higher yielding.

The general increase in the rate of return for Commercial Property is due to the commencement of expected rental income, principally at Crow Lane, for which capital expenditure was previously incurred in advance of rental income being received. As already outlined, the authority does not associate direct borrowing with individual assets. Borrowing will be incurred in the overall context of the Capital Financing Requirement and cash balances.

AUDIT COMMITTEE – 27 JANUARY 2023

UPDATED RISK MANAGEMENT POLICY AND STRATEGIC RISK REGISTER

1. RECOMMENDATIONS

1.1 That Audit Committee are asked to review the Strategic Risk Register as part of the 6 monthly review process (before onward review by Cabinet in March).

2. INTRODUCTION AND PURPOSE

2.1 The Risk Management Policy (Appendix 1) has been created to give clarity of approach to risk management at the Council, and to helpfully define process and roles and responsibilities. This gives a structured approach to ensure risks and opportunities are reviewed across all Services, Portfolio's and Corporately, in a consistent way**.**

3. BACKGROUND

3.1 Risk management aims to identify the risks that may impact on the Council achieving its objectives. Its purpose is to evaluate, design and implement effective measures to reduce both the likelihood and potential impact of these risks occurring.

3.2 The Council has a statutory responsibility to have in place arrangements for managing risks under the Accounts and Audit Regulations; which require a sound system of internal control, facilitates the effective exercise of the Council's functions and includes arrangements for the management of risk. As such it features strongly in the Council's Local Code of Practice for Corporate Governance and is one of the primary assurance strands in the Annual Governance Statement, which places significant reliance on a robust risk management framework.

4. STRATEGIC RISK REGISTER

4.1 The Strategic Risk Register (Appendix 1) captures the most significant cross cutting risks to the delivery of the current Corporate Plan and the proposed actions to mitigate these risks.

4.2 These risks have been identified with senior and executive council officers working alongside the Portfolio Holders to ensure a joined-up approach in capturing and documenting these risks.

4.3 The register includes the same 7 Strategic Risks as included on the previously reviewed version of the register. The updated register at appendix 1 provides progress update narrative on the actions required to further manage residual risk, noting that some of the actions are continual, whereas others are finite.

6. FINANCIAL IMPLICATIONS

6.1 There are none arising directly from this report, although strong risk management and a solid understanding of risk helps to support robust financial management.

7. ENVIRONMENTAL MATTERS AND EQUALITY & DIVERSITY IMPLICATIONS

7.1 There are no direct environmental or equality and diversity implications arising from this report.

8. DATA PROTECTION IMPLICATIONS

8.1 There are no data protection implications arising from this report.

For further information
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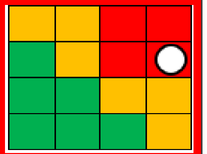
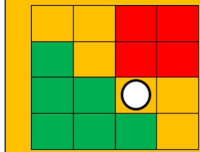
APPENDIX 1

New Forest DISTRICT COUNCIL

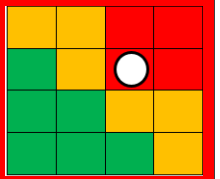
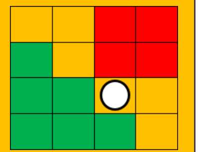
Strategic Risk Register 2020 - 2024 • Jan 2023

1. Supporting Communities

Inherent Risk Score	Current circumstance	Risk Control	Residual Risk Score	Action Required
Likelihood 3 x Impact 4 = High 12 	Communities are likely to be negatively impacted due to the current rate of inflation and specifically the significant increase in fuel, food and utilities. This will create additional pressures on local businesses and job security. Communities are impacted through a shortage of housing including affordable housing Supply being delivered within the District. Lack of 5 years housing land supply/ will fail Housing Delivery Test in Nov 2022 The Council needs to do more to support communities with enhanced digital channels for transacting and communicating with the Council. There will also be some challenges around the delivery of the Freeport	A. Community focussed initiatives and funding streams B. Targeted support to voluntary and community sectors C. Engagement in key fundamental activities and discussions, eg; Solent Freeport, County Deals D. Close working partnership with the Community Safety Partnership with identified priorities as part of annual Partnership Plan E. Active engagement with skills advisory group F. Review and application of the Council's Local Plan, including active monitoring of the implementation G. Roll out of Digital Strategy - 'Customer First, Digital by design' H. Corporate Plan 2020-2024 I. Collaborative working with key partners as part of the Cost of Living Steering Group to implement a Poverty Action Plan J. Implementing a referral system to partners to support vulnerable residents K. Regular engagement with the voluntary sector L. Proactively working with developers/providing enabling infrastructure/ review of Local Plan M. Collaborative working through the Solent Freeport Consortium Limited, and presence on the board, and it's various sub-committees.	Likelihood 2 x Impact 3 = Medium 6 	A. Allocate resource to support Corporate Plan priorities Progress Update: Ongoing consideration within annual budget proposals. B. Continue to work in partnership with other public sector partners to explore new and existing opportunities to deliver to residents and businesses Progress Update: The council is engaged in relevant partnerships and governance to secure community benefit. Examples include the Solent Freeport C. Resident Survey to be completed to further understand the needs and requirements of our residents Progress Update: Resident survey has now been concluded and the results are in the process of being analysed. The survey provides important information about our residents health, wellbeing and financial circumstances which will continue to be monitored through a bi-annual survey D. Full participation and regular updates on the Cost of Living Steering Group Progress Update: Continued support to the Cost of Living Steering Group is provided, bringing a multi-agency approach to tackling issues affecting the most vulnerable in the community, working alongside the Local Partnership Campaign Manager to explore and promote further support to household.

Strategic Risk Register 2020 - 2024 • Jan 2023

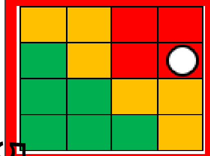
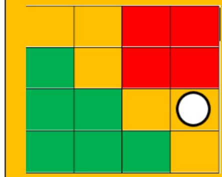
2. Achieving future financial resilience

Inherent Risk Score	Current circumstance	Risk Control	Residual Risk Score	Action Required
Likelihood 3 x Impact 3 = High 9 	Many external economic factors, including the longer-term impact of COVID-19 recovery and the current rate of inflation (cost of living) have an impact on the Council's Medium Term Financial Plan; both in terms of expenditure pressures and the ability to generate new and existing income. Other factors, more specific to the Council include pay award, levelling up, the fair funding review, the impact of a business rate reset and increased salary costs resulting from a need to align pay with the wider market. The Council may also need to do more to support communities due to the potential for closure of local businesses and job losses as a result of the cost of living crisis. Parish and town councils may also find themselves in financial difficulties and may look to the District Council for support.	A. Regular review of the Council's MTFP including reserve levels and future changes to funding B. Annual budget setting for revenue and capital including funding C. Utilisation of external financial support that provides support for funding modelling D. Regular budget monitoring reports and updates to senior officers and Members E. Effective delivery of the transformation plan that includes actions that will support the closing of future budget gaps F. Development of savings plans and invest to save initiatives G. Treasury Management Strategy to ensure the Council is acting within the prudential indicators H. Maintain appropriate level of financial reserves as contingency arrangements to provide resilience over the medium term I. Development of capital plans in accordance with Capital Strategy with full financial appraisal and revenue implications J. Working with Towns and Parishes to maximise opportunities for joint working	Likelihood 2 x Impact 3 = Medium 6 	A. Continue to keep abreast of developments in: - pay award - Fair Funding - National Business Rate Policy - Levelling Up - County Deals Progress Update: Pay Award 22/23 concluded and funded, and additional allowance, beyond 2%, included within 23/24 MTFP. B. Maintain momentum and presence within the delivery of the Solent Freeport Progress Update: Actively ongoing. C. Develop the actions to address the Medium Term Financial Plan Deficit, and see through to delivery Progress Update: Updated MTFP and Budget proposal for 23/24 to be considered by Cabinet on 15 Feb and ultimately adopted by Council on 27 Feb. NEW ACTION D. Development of the Transformation Programme to deliver enhanced services and financial efficiencies to support the delivery of the Medium Term Financial Plan

Strategic Risk Register 2020 - 2024 • Jan 2023

New Forest DISTRICT COUNCIL

3. Ensuring efficient and effective internal control, governance and compliance

Inherent Risk Score	Current circumstance	Risk Control	Residual Risk Score	Action Required
Likelihood 3 x Impact 4 = High 12 	As a local authority we need to show appropriate compliance and controls: - Financial Management Code - Payment Card Industry Data Security Standard Accreditation - Production and publication of various statutory documents - Effectiveness of the Capital Change and Delivery Board - Effectiveness of the new Project Management Framework	A. Annual internal audit plan developed by senior officers and members is targeted at key risks areas and responsive to new areas of risk B. External/internal audit regime C. Annual Assurance Statements compiled testing compliance with key business activities, supporting Annual Governance Statement compilation D. Range of performance indicators that monitor internal controls E. Maintenance of a range of policies that underpin the control framework – Financial Regulations, Counter Fraud Strategy, Risk Management Framework, Contract Procedure Rules coupled with staff training F. Regular reporting at Audit Committee G. Compliance with Transparency Code H. Compliance with Local Code of Corporate Governance I. Key compliance roles identified and assigned ie Section 151 Officer, Monitoring Officer, Data Protection Officer, H&S etc J. Compliance with information governance including the UK General Data Protection Regulation and Data Protection Act 2018 K. Review and update of Business Continuity Plans L. Housing Compliance reported regularly through EMT M. Information Governance Team in place with regular reporting through EMT. N. Financial Regulations and workflows built into core financial system	Likelihood 2 x Impact 4 = Medium 8 	A. Continue through information governance work programme, including updated document retention and destruction schedules for all services. Progress Update: Currently ongoing with schedules for approximately 50% of the Council's business areas being approved and ready for implementation. Further progress is being made on the remaining business areas, with the majority of these close to conclusion. B. Management to undertake actions from the internal audit reports Progress Update: Risk is being managed by regular reports from Audit Committee to EMT as scheduled quarterly. C. To assess the effectiveness of the Capital Change and Delivery Board Progress Update: The Capital and Change Board (CCB) continues to provide governance to significant projects by regularly monitoring progress on delivery times, costs and risks with a call in mechanism for more substantial updates where required.

				D. To assess the effectiveness of the new Project Management framework for projects to ensure appropriate Governance arrangements are in place for all projects. Progress Update: Project Management capacity is a challenge and we will look to do this in 23/24 E. Financial Management Code – to review how the Council complies with the new code Progress Update: An update will be forthcoming to a future Audit Committee.

APPENDIX 1

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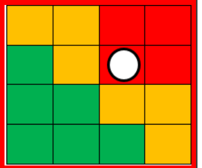
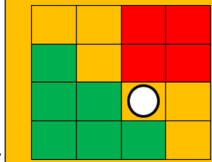
New Forest DISTRICT COUNCIL

4. Creating the right culture, capacity and capability

Inherent Risk Score	Current circumstance	Risk Control	Residual Risk Score	Action Required
Likelihood 3 x Impact 3 = High 9 	The Council needs to attract, recruit and retain the high calibre of employee that it requires to fulfil its expectations in Service delivery. The current Leadership review and subsequent service reviews could create some unrest amongst the current Leadership team and other staff. There is also a risk around the time required to achieve organisational/cultural change. The emergence of Covid-19 has identified that the Council can effectively respond to a change in circumstances to ensure continuous operations. This rigor now needs to be applied to ensure this momentum continues and that positive experiences and benefits achieved as a result of recent changes are not lost, and that negative experience and challenges encountered in service delivery are addressed and improved upon.	A. Employee Forum to encourage collaboration and engender a culture that enables change and innovation B. Learning and development programme providing training, tools and techniques to develop the necessary skills C. Regular 1-1's and annual PDI process D. Investigation and identification of further collaborations that will support building capacity and capability (and resilience) including both public and corporate business E. Staff Suggestion scheme F. Allowance within the council's budget for a pay spine review, to take account of the National Living Wage (NLW) forecast to April 2024 G. Transformation framework in progress H. Communications plan (internal) allowing for regular staff engagement/progress updates I. Staff/union engagement J. Project management/capability K. Performance management and key performance indicators in place L. Staff/officer wellbeing and support M. Development of Workforce Strategy and enabling an agile workforce N. Corporate plan 2020-2024 O. Hybrid working increasing potential pool of staff P. More support and training on virtual working/managing staff Q. Further ICT training to ensure maximum return on investment	Likelihood 2 x Impact 3 = Medium 6 	A. Embedding of new Council Leadership structure Progress Update: Strategic Director roles have been fulfilled and implemented. B. Conduct and then progress learnings from employee survey Progress Update: Employee Survey has been completed; results are being reviewed. C. Undertake leading and developing programmes including fostering leadership skills Progress Update: HR developing plans to work with third parties to deliver relevant exercises and courses D. Keep abreast of developments in pay award negotiations and be ready to respond accordingly. Progress Update: Pay award successfully delivered. E. See through the emerging transformation framework into an approved direction of travel through the democratic process Progress Update: Transformation plan being formulated to include design principles for a new operating model, approach, implementation, and necessary resources. A key aspect of the design principles will be our people strategy and organisational development opportunities. A full business case will be presented to the new administration following the May elections

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				F. Develop and implement associated transformational strategies as necessary Progress Update: Currently ongoing and as per progress update narrative E. G. Continue to identify further opportunities that should be progressed in connection with improving service delivery Progress Update: Currently ongoing H. Allocate resource to support Corporate Plan ambitions Progress Update: Funding set aside in the 22/23 base budget has been allocated to align to corporate plan priorities, and the Council's proposed budget for 2023/24 is in the final stages of development, to further consider the creation of capacity to support corporate plan priorities. I. Continue to work in partnership with other public sector partners to explore new and existing opportunities to deliver to residents and businesses Progress Update: Currently ongoing

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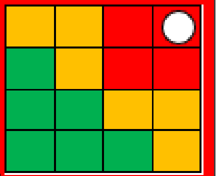
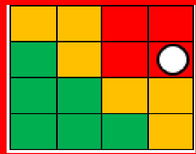
5. Ensuring robust security measures to protect the Council's data and assets from external threats

Inherent Risk Score	Current circumstance	Risk Control	Residual Risk Score	Action Required
Likelihood 4 x Impact 4 = High 16 	This risk relates to the Council's ability to defend itself against the constantly evolving threat from cyber based attack. The Council, in common with other public bodies, should be regarded as a high-profile target given the impact and publicity a successful attack can have. The current insurance market for public sector cyber risks is volatile.	A. Up to date Disaster Recovery plan is in place B. Awareness training of officers and staff on the threats of cyber attacks C. Continued reviewing and tightening of existing IT Security Policy to ensure measures adapt to the changing threat, including awareness, familiarisation and training. D. Acceptable use of IT policy to ensure staff are using equipment safely and appropriately. E. Relationships with other agencies to ensure best practice is established	Likelihood 3 x Impact 4 = High 12 	A. Continued development of O365 services to improve email and anti-virus protections Progress update: The Councils network, Microsoft 365 suite and access controls are continually monitored, assessed and improved in all areas including email security and anti-virus protections. B. Carry out penetration test Progress Update: ICT undertake an annual IT health check which includes a full penetration test. Any vulnerabilities identified within the test are put into a remedial action plan into an order of criticality. C. Ongoing refresher training on cyber risks for all staff Progress Update: Our ICT security eLearning training platform, uSecure periodically sends out security training to all users. This content is updated on a regular basis to ensure its current and contains new and existing threats/risks. The Security Team monitors course participation regularly. D. To look at service provisions externally that can assist with cyber risks. Progress Update: ICT are considering options for a Cyber Incident Response service

APPENDIX 1

DELIVERING FOR OUR COMMUNITIES

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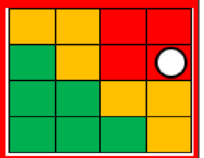
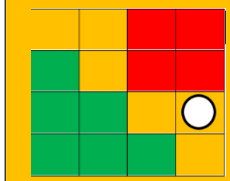
New Forest DISTRICT COUNCIL

6. Ability to be agile and shift focus in response to policy and national political change

Inherent Risk Score	Current circumstance	Risk Control	Residual Risk Score	Action Required
Likelihood 3 x Impact 4 = High 12 	The significance of the current cost of living crisis and inflation, coupled with the need to repay the COVID bill may impact on government priorities and planning. Changes in national politics and general & local elections will have impact. Other legislation that will affect the council include: - Levelling up white paper - The environment bill - Future planning reform - Changes the regulatory landscape to housing. Managing the impact of climate change – impact on the coastline/managing the impact on the Council and communities resulting from increase in number of severe weather events/impact of increased temperature	A. Continuous monitoring of political landscape to allow for early indicators of policy change B. Prudent financial and strategy assumptions to allow for agile responses C. Corporate Plan 2020-2023 reviewed and updated where appropriate as changes identified that could impact on the Council and its plans i.e. Covid-19 D. Section 151 Officer role providing advice to the Council on current/ future financial challenges E. Reports to committee include explicit assessment of implications and therefore should identify/reflect current and future challenges F. Executive to undertake horizon scanning look out/forwards and identify possible challenges ahead G. Membership of Local Government Association etc providing information/insights to the Council H. Members' roles and responsibilities including involvement in local networks, County Council, other agencies and national forums, enabling insight to be gained and shared with the Council I. Staff membership of professional bodies enabling own development and also providing for insights through membership of challenges that may present themselves to the Council J. Officer/member forums and networks K. Review of Coastal Strategy and Actions. Climate Change Action Plan	Likelihood 2 x Impact 4 = Medium 8 	A. Making sure the workforce is aware that training is available. Progress Update: Currently ongoing and will be supported through a new corporate learning management system, ready early 2023/24. B. Ensuring professional training availability as this impacts departments e.g., Planning and Legal Progress Update: Currently ongoing and will be supported through a new corporate learning management system, ready early 2023/24. C. Encouraging staff to undertake professional development and service-related training. Progress Update: Currently ongoing and will be supported through a new corporate learning management system, ready early 2023/24.

				D. Prepare and implement the national changes arising out of the new Social Housing Charter, which represents the biggest change in social housing for 40 years. Progress Update: Work has been ongoing for the last 2 years to prepare and implement the necessary changes including report to Housing & Homelessness Overview & Scrutiny Panel on new resources required.

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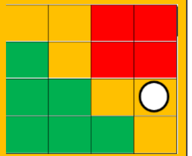
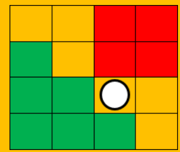
New Forest DISTRICT COUNCIL

7. Delivering Council Services through adverse conditions

Inherent Risk Score	Current circumstance	Risk Control	Residual Risk Score	Action Required
Likelihood 2 x Impact 4 = Medium 8 	The following may affect the delivery of Council Services from a national and local perspective: - Natural disasters / local power outages - Workforce Strike Action - Global Pandemic - Terrorism - Riot/Rebellion - Flooding - Major pollutions of surface waters and groundwaters - Adverse Weather - Fire - Nuclear Powered Vessels related to pollution - Coastal Erosion - Industrial Strikes	A. Business Continuity framework and individual service continuity plans B. Threat response plans which will include ICT Infrastructure response, alternative accommodation provisions and reallocation of staff. C. Emergency Planning Strategy and defined roles assigned D. Hybrid Working E. Communication with NFDC residents on all platforms e.g. social media	Likelihood 2 x Impact 3 = Medium 6 	A. Annual programme of Emergency Planning training to be established Progress Update: Currently Ongoing. Robust training continues to be arranged and carried out for officers involved in emergency planning. Work continues in ensuring business continuity plans are in place, including for interruptions due to energy outages. B. Review and challenge of functional Service Continuity Plan and Conclude Business Continuity Planning. Progress Update: Currently Ongoing C. Review Hybrid Working Progress Update: Review completed and Hybrid Working Policy updated and adopted. D. Establish a dedicated role for focussing on emergency planning and business continuity to increase capacity for service to manage this risk Progress Update: Recruitment looking to conclude early 2023 E. Training and exercising to establish a strategic and tactical response including an agreed rota Progress Update: New rota system implemented.

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New Forest District Council

				F. Set up links to Town and Parish councils as they would be involved in implementing actions through adverse conditions. Progress Update: Currently Ongoing

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AUDIT COMMITTEE – 27th JANUARY 2023

THE REGULATION OF INVESTIGATORY POWERS ACT 2000

1. INTRODUCTION

1.1 The purpose of this report is to provide the Audit Committee with a summary of the Council's use of its powers under the Regulation of Investigatory Powers Act 2000 (RIPA).

1.2 RIPA provides a statutory framework whereby certain surveillance and information gathering activities can be authorised and conducted by the Council in a lawful manner where they are carried out for the prevention and detection of crime and, in some cases, for the prevention of disorder.

1.3 The Council has two policies ('the policies') relating to its use of RIPA:

1.3.1 Surveillance Policy – updated February 2022 (**which members can find here: http://forestnet/article/2238/Surveillance**)

1.3.2 Policy for the Acquisition of Communications Data – updated January 2019 (**which members can find here: POLICY FOR THE ACQUISITION OF COMMUNICATIONS DATA**)

1.4 The Legal Services Manager is required to report to the Audit Committee annually on the Council's use of RIPA.

2. BACKGROUND

2.1 When the Human Rights Act 1998 came into force in 2000 it made the fundamental rights and freedoms contained in the European Convention on Human Rights (ECHR) enforceable in the UK.

2.2 Article 8 of the ECHR provides that individuals have the right to respect for private and family life and Article 6 of the ECHR provides that individuals have the right to a fair trial.

2.3 The use of covert surveillance techniques is considered to be an interference with this Article 8 right and therefore RIPA provides a framework to render lawful surveillance activities which might otherwise be in breach of the ECHR. It is also aimed at ensuring that evidence obtained against a person to be used in criminal proceedings is obtained in a fair manner.

2.4 RIPA regulates three surveillance techniques available to local authorities, namely:

2.4.1 Directed surveillance - covert surveillance which is carried out as part of a specific investigation and is likely to involve the obtaining of private information about the person under investigation;

2.4.2 Covert Human Intelligence Sources (CHIS) – use of a person who establishes and maintains a relationship with the person under investigation in order to obtain and disclose information; and

2.4.3 The acquisition and disclosure of communications data - obtaining information from communication service providers (e.g. the postal service, telephone companies and internet companies) about the use made of a service (e.g. itemised billing, internet connections or records of registered post) and user information (e.g. subscriber names, addresses or other customer information).

2.5 RIPA provides that the above activities may be authorised by local authorities but must be necessary and proportionate.

3. THE COUNCIL'S USE OF RIPA

3.1 The Council uses its powers under RIPA infrequently.

3.2 The Council has not authorised any surveillance activities under RIPA since the last report to the Audit Committee in January 2022.

4 TRAINING

4.1 In accordance with the policies further training will take place in 2023. However, where a RIPA investigation is contemplated, the relevant officers are required to contact Legal Services in advance so an update training session can be provided.

5 INVESTIGATORY POWERS COMMISSIONER INSPECTION

5.1 The Investigatory Powers Commissioner's Office (IPCO) provides independent oversight of the use of investigatory powers by public authorities and the Council was most recently subject to a remote assessment in 2022.

6. ENVIRONMENTAL IMPLICATIONS

6.1 There are no environmental implications arising from this report.

7. CRIME AND DISORDER IMPLICATIONS

7.1 The Council's use of RIPA relates to the prevention and detection of crime and, in some cases, the prevention of disorder. It is essential the Council complies with RIPA if covert surveillance techniques are used in order to prevent legal challenge and ensure that evidence obtained is admissible in criminal proceedings. As stated above, the Council rarely uses its powers under RIPA.

8. CONCLUSION

8.1 RIPA provides the Council with a statutory framework to follow so that it may carry out various covert investigatory activities in a lawful manner.

8.2 The Council uses its powers under RIPA infrequently, but when use is made of such powers it is essential that this is done in accordance with the law and the Council's policies.

9. RECOMMENDATION

It is recommended that:-

Members note the use made by the Council of its powers under RIPA.

Further Information
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Email: nigel.hewitson@nfdc.gov.uk

Background Papers
Published documents

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Audit Committee Work Plan 2023 - 2024

DATE	WORK / REPORTS
24 March 2023	External Audit Results Report for the year ended 31 March 2022 Final Annual Governance Statement 21/22 Final Annual Financial Report 21/22 Internal Audit Progress Report 22/23 Internal Audit Charter 23/24 Internal Audit Plan 23/24 Compliance with the CIPFA Financial Management Code - Update Payment Card Industry Data Security Standards (PCI DSS – Update)
28 July 2023	Internal Audit Progress Report Annual Internal Audit Report and Opinion 22-23 External Audit Outline Audit Plan for the year ended 31 March 2022? Draft Annual Financial Report 22/23 Treasury Management Annual Outturn Report 22/23 Final Accounts 22/23 Bad Debts write off Report Fraud – Annual Report 22/23 CIPFA Financial Management Code: Assessment of Compliance
27 October 2023	Internal Audit Progress Report 2023-24 Treasury Management Mid-Year Monitoring Report 23/24
26 January 2024	Internal Audit Progress Report 2023-24 External Audit Results Report 2022 Housing Benefit Audit Report 2022 Final Annual Governance Statement 2022 Final Annual Financial Report 2022 RIPA Report Strategic Risk Register Update Treasury Management Strategy Investment Strategy
22 March 2024	Internal Audit Progress Report 2023-24 Internal Audit Charter 2024-25 Internal Audit Plan 2024-25 Review of Financial Regulations