

NOTICE OF MEETING

Meeting: AUDIT COMMITTEE

Date and Time: FRIDAY, 28 OCTOBER 2022, AT 9.30 AM*

Place: BRADBURY ROOM - APPLETREE COURT, BEAULIEU ROAD, LYN DHURST, 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, 25 October 2022.

Kate Ryan
Chief Executive

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

This Agenda is also available on audio tape, in Braille, large print and digital format

AGENDA

Apologies

1. MINUTES

To confirm the minutes of the meeting held on 29 July 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 2022-23 (Pages 3 - 16)

To receive the Internal Audit progress report.

5. TREASURY MANAGEMENT MID-YEAR MONITORING REPORT FOR 2022/23 (Pages 17 - 30)

To receive the Treasury Management Mid-Year Monitoring Report for 2022/23.

6. UPDATE ON EXTERNAL AUDITOR APPOINTMENT - 2023/24 (VERBAL UPDATE)

To receive a verbal update on the appointment of the External Auditor in 2023/24.

7. AUDIT COMMITTEE WORK PLAN (Pages 31 - 32)

To consider the Audit Committee's Work Plan.

8. MEETING DATES 2023/24

To agree the following dates of meetings

31 May 2023 at 9.30am

28 July 2023 at 9.30am

27 October 2023 at 9.30am

26 January 2024 at 9.30am

22 March 2024 at 9.30am

9. 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

EMT – 11 OCTOBER 2022
AUDIT COMMITTEE – 28 OCTOBER 2022

INTERNAL AUDIT PROGRESS REPORT 2022-23 – SEPTEMBER 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 30 September 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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Background Papers:

Internal Audit Plan 22-23

Internal Audit Progress Report 2022-23

September 2022

New Forest District Council



**Southern Internal
Audit Partnership**

Assurance through excellence
and innovation

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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

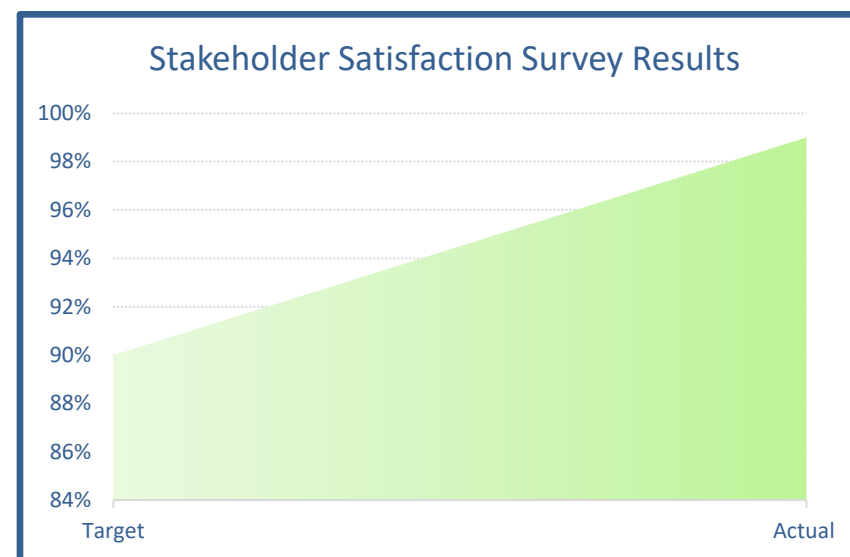
In accordance with proper internal audit practices (Public Sector Internal Audit Standards), and the Internal Audit Charter the Chief Internal Auditor is required to provide a written status report to 'Senior Management' and 'the Board', summarising:

- 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
Housing Finance Management – Tenancies *	Feb 21	SM (HO)	Reasonable	7	0	7			
Northgate Application Review *	Mar 21	SM (ICT)	Reasonable	4	0	4			
Accounts Receivable and Debt Management	May 21	SM (R&B)	Reasonable	5	0	4		1	
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	
IT Disaster Recovery Planning & Business Continuity *	Nov 21	SM (ICT)	Limited	13	0	13			
Financial Stability – Medium Term Financial Planning & Budget Monitoring	Jan 22	EHF&CS	Substantial	2	0	1	1		
HR Performance Management	Feb 22	SM (HR)	Reasonable	6	2	4			
Affordable Housing Development Objectives and Delivery - New Homes Strategy *	Mar 22	EHPR&E	Reasonable	1	0	1			
Payroll *	Mar 22	SM (HR)	Substantial	1	0	1			
Tree management	Apr 22	SM (OS)	Reasonable	19	2	17			
Information Security – Website	Apr 22	SM (ICT)	Reasonable	9	7	0		2	
Risk Management *	May 22	SM (FIN)	Limited	8	0	8			
Building Control	May 22	EHPR&E	Reasonable	9	6	3			
Use of Agency Staff	Jun 22	SM (HR)	Limited	10	1	9			
Lease Income and Charges	Aug 22	SM (EV)	Reasonable	2	2	0			
Statutory Safety Checks - Corporate Estate	Aug 22	SM (EV)	Reasonable	6	3	3			
Community Safety Partnership	Sep 22	SM (EV)	Reasonable	2	2	0			
Total							4	10	0

* 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	EHP&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 July 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, either within the planned Q4 Information Governance review or in 2023-24 depending upon the progress with the project.

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)	✓	✓					
Climate Emergency / Green Agenda	EHPR&E							Q3
Programme & Project Management	EHF&CS							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

Audit Review	Sponsor	Scoping	Terms of reference	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
Business Continuity	SM (E&R)							Q4
Emergency Planning	SM (E&R)							Q4
Risk Management	SM (FIN)							Q4
Human Resources								
HR – Use of Agency Staff	SM (HR)	✓	✓	✓	Jun 22	Jun 22	Limited	
HR Strategy and Monitoring Frameworks	SM (HR)							Q3
Core Financial Systems								
NNDR	SM (R&B)							Q4
Accounts Receivable and Debt Management	SM (R&B)	✓	✓	✓	Sep 22			
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 Governance – Service Management (Theme TBC)	SM (ICT)							Q4
IT Disaster Recovery and Business Continuity Planning (follow-up)	SM (ICT)	✓	✓	✓				
PCI DSS Advice	EHF&CS	n/a	n/a					
Portfolio Themes								
Homelessness	SM (HO)	✓						
Housing Management (new system)	SM (HO)							Q4
Housing Asset Management – Electrical Safety Checks	SM (HC&AM)							Q4

Audit Review	Sponsor	Scoping	Terms of reference	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
Housing Asset Management – Legionella Checks	SM (HC&AM)	✓						
Open Spaces – Safety Checks	SM (OS)	✓	✓	✓				
Leisure Contract Management	EHP&O	✓	✓	✓				
Fleet Management (follow-up phase 2)	SM (W&T)	✓	✓	✓	Jun 22			
Environmental Health – Food Hygiene Inspections	SM (E&R)							Q3
Boundary Commission Changes	SM (E&BI)							Q4
Engineering Works	EHPR&E	✓	✓	✓	Sep 22			
Keyhaven	EHPR&E	✓	✓	✓	Jul 22			

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.

*Agreed June 2022

Audit reviews removed from the plan (excluded from rolling work programme)	Comment
None	

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AUDIT COMMITTEE 28 OCTOBER 2022

TREASURY MANAGEMENT MID-YEAR MONITORING REPORT 2022/23

1. PURPOSE

- 1.1. New Forest District Council has adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code), last updated in 2021. The CIPFA Code requires the Council to approve a treasury management strategy before the start of the year and a semi-annual and annual treasury outturn report. The purpose of this report is therefore to meet this obligation by providing an update on the performance of the treasury management function at the mid-year point.

2. SUMMARY

- 2.1. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code and provides an update on the performance of the treasury management function at the mid-year point.
- 2.2. The Council's treasury management strategy was most recently updated and approved at a meeting of the Council in February 2022. 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 risk are therefore central to the Council's treasury management strategy.
- 2.3. Treasury management in the context of this report is defined as:

"The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 2.4. This mid-year report sets out the performance of the treasury management function for the period April – September 2022, to include the effects of the decisions taken and the transactions executed within this period.
- 2.5. Hampshire County Council's Investments & Borrowing Team has been contracted to manage the Council's treasury management balances since March 2014 but overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.
- 2.6. All treasury activity has complied with the Council's revised Treasury Management Strategy and Investment Strategy for 2022/23, and all

relevant statute, guidance and accounting standards. In addition, support in undertaking treasury management activities has been provided by the Council's treasury advisers, Arlingclose.

- 2.7. The Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The latest iteration of the Council's Capital Strategy, complying with CIPFA's requirement, was approved by full Council in February 2022.

3. EXTERNAL CONTEXT

- 3.1. The following sections outline the key economic themes against which investment and borrowing decisions have been made so far in 2022/23.

Economic commentary

- 3.2. The ongoing conflict in Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak. The UK political situation towards the end of the period following the 'fiscal event' increased uncertainty further.
- 3.3. The economic backdrop during the April to September period continued to be characterised by high oil, gas and commodity prices, ongoing high inflation and its impact on consumers' cost of living, no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China's zero-Covid policy.
- 3.4. UK inflation remained extremely high. Annual headline CPI hit 10.1% in July, the highest rate for 40 years, before falling modestly to 9.9% in August. RPI registered 12.3% in both July and August.
- 3.5. The Bank of England increased the official Bank Rate to 2.25% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises of 0.25% in each of the following two MPC meetings, before hiking by 0.50% in August and again in September. August's rise was voted by a majority of 8-1, with one MPC member preferring a more modest rise of 0.25%. the September vote was 5-4, with five votes for an 0.5% increase, three for an 0.75% increase and one for an 0.25% increase. The Committee noted that domestic inflationary pressures are expected to remain strong and so given ongoing strong rhetoric around tackling inflation further Bank Rate rises should be expected.
- 3.6. Bank of England policymakers noted that any resulting inflationary impact of increased demand would be met with monetary tightening, raising the prospect of much higher Bank Rate and consequential negative impacts on the housing market.

Financial markets

- 3.7. Uncertainty remained in control of financial market sentiment and bond yields remained volatile, continuing their general upward trend as concern over higher inflation and higher interest rates continued to dominate. Towards the end of September, volatility in financial markets was significantly exacerbated by the UK government's fiscal plans, leading to an acceleration in the rate of the rise in gilt yields and decline in the value of sterling.
- 3.8. Due to pressure on private sector pension funds, the Bank of England announced a direct intervention in the gilt market to increase liquidity and reduce yields.

Credit review

- 3.9. Having completed its full review of its credit advice on unsecured deposits at UK and non-UK banks, in May Arlingclose extended the maximum duration limit for five UK banks, four Canadian banks and four German banks to six months. The maximum duration for unsecured deposits with other UK and non-UK banks on Arlingclose's recommended list is 100 days.
- 3.10. Credit default swaps (CDS) are used as an indicator of credit risk, where higher premiums indicate higher perceived risks. Arlingclose continued to monitor and assess credit default swap levels for signs of credit stress but made no changes to the counterparty list or recommended durations. Nevertheless, increased market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

CIPFA Codes

- 3.11. CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20 December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.
- 3.12. The principles of the Prudential Code took immediate effect although local authorities could defer introducing the revised reporting requirements until the 2023/24 financial year if they wish. Due to the timing of publication being towards the end of the budget preparation period for 2022/23 it was agreed that the Council would introduce the revised reporting requirements from 2023/24. The change will include increasing the frequency of Treasury Management reporting to a quarterly basis. The liability benchmark will be included as a mandatory treasury indicator in order to strengthen decision making.

4. LOCAL CONTEXT

- 4.1. At 31 March 2022 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £144.2m, while usable reserves and working capital which are the underlying resources available for investment were £86.5m (principal

invested plus gains on investments with a variable net asset value). These factors are summarised in Table 1.

Table 1: Capital Financing Summary

	31/03/22 Balance £m
General Fund CFR	16.1
Housing Revenue Account CFR	5.9
HRA Settlement	122.2
Total CFR	144.2
Financed By:	
External Borrowing	122.6
Internal Borrowing	21.6
Total Borrowing	144.2

- 4.2. The Council's current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, to reduce risk and keep interest costs low. The treasury management position at 30 September 2022 and the change during the year is shown in Table 2.

Table 2: Treasury Management Summary

	31/03/22 Balance £m	Movement £m	30/09/22 Balance £m	30/09/22 Rate %
Long-term borrowing	(118.3)	0.1	(118.2)	3.3
Short-term borrowing	(4.3)	0.0	(4.3)	2.6
Total borrowing	(122.6)	0.1	(122.5)	3.3
Long-term investments	15.9	0.6	16.5	4.0
Short-term investments	46.5	(7.7)	38.8	1.4
Cash and cash equivalents	24.1	(11.6)	12.5	2.0
Total investments	86.5	(18.7)	67.8	2.1
Net borrowing	(36.1)	(18.6)	(54.7)	

Note: the figures in Table 2 at 31 March 2022 are from the balance sheet in the Council's statement of accounts adjusted to exclude operational cash.

- 4.3. The increase in net borrowing of £18.6m shown in Table 2 reflects a decrease in investment balances of £18.7m as well as a repayment at maturity of borrowing of £0.1m in line with the Council's policy on internal borrowing. Further details are provided in the Borrowing Activity and Treasury Investments Activity sections of this report.

5. BORROWING UPDATE

- 5.1. The Council has no plans to borrow to invest primarily for commercial return and so is unaffected by the changes to the Prudential Code.
- 5.2. The Council is not planning to purchase any investment assets primarily for yield, so is able to retain full access to the PWLB.

- 5.3. Further, the Council has invested in pooled funds as part of its Treasury Management strategy. This is not a policy to primarily generate yield but a part of the implementation of the wider Treasury Management strategy to invest the Council's surplus cash and reserves ensuring it is investing its funds prudently, having regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. By investing a diversified portfolio in respect of yield this meets the Council's aim of protecting reserves from high inflation.
- 5.4. The Council is a net borrower and as stated in the Treasury Management Strategy 2022/23, the Council expects a positive liability benchmark across the forecast period, which generally means an authority is required to take external borrowing to fund the gap between its resources and the CFR. Although the Council currently has taken external borrowing, this is not predicted to be sufficient to meet the CFR between 2023 and 2033 and therefore, as a result, further borrowing will be considered by the Section 151 Officer over the coming months and years, if required.
- 5.5. The Section 151 Officer will review the current pooled fund investment prior to making any external borrowing decisions.

6. BORROWING ACTIVITY

- 6.1. At 30 September 2022 the Council held £122.5m of loans, a decrease of £0.1m since 31 March 2022 which was a repayment of borrowing in line with maturity. The vast majority of the outstanding loans are in relation to the resettlement of the HRA in 2012/13. The borrowing position as at 30 September 2022 and movement since 31 March 2022 change are summarised in Table 3.

Table 3: Borrowing Position

	31/03/22 Balance £m	Movement £m	30/09/22 Balance £m	30/09/22 Rate %	30/09/22 WAM* years
Public Works Loan Board	(122.6)	0.1	(122.5)	3.3	14.9
Total borrowing	(122.6)	0.1	(122.5)	3.3	14.9

* Weighted average maturity

- 6.2. The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty 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.
- 6.3. In line with the strategy no new borrowing was undertaken during the period and £0.1m of PWLB loans was allowed to mature without refinancing.
- 6.4. This borrowing strategy has been monitored by Arlingclose and has enabled the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

7. TREASURY INVESTMENT ACTIVITY

7.1. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the six month period from 1 April to 30 September 2022, the Council's investment balance ranged between £58.8m and £95.9m due to timing differences between income and expenditure.

7.2. Table 4 shows investment activity for the Council as at 30 September 2022 in comparison to the reported activity as at 31 March 2022.

Table 4: Treasury investment position

Investments	31/03/2022 Balance £m	Net movement £m	30/09/2022 Balance £m	30/09/22 Income return %	30/09/22 WAM* years
Short term Investments					
Banks and Building Societies:					
- Unsecured	11.7	(1.7)	10.0	1.74	0.1
- Secured	21.7	(11.0)	10.7	0.53	0.3
Money Market Funds	20.2	(10.7)	9.5	2.07	0.0
Government:					
- Local Authorities	7.0	(6.0)	1.0	0.15	0.0
- Supranational banks	3.9	0.0	3.9	1.24	0.2
- UK Treasury Bills	3.0	1.7	4.7	1.78	0.3
- UK Gilts	1.0	2.0	3.0	0.13	0.3
- DMO	0.0	6.5	6.5	2.69	0.4
Cash Plus Funds	2.0	0.0	2.0	0.79	0.0
	70.5	(19.2)	51.3	1.47	0.2
Long term investments					
Banks and Building Societies:					
- Secured	1.0	1.0	2.0	0.47	0.3
Government:					
- Local Authorities	0.0	0.0	0.0	0.00	0.0
- Supranational banks	0.0	0.0	0.0	0.00	0.0
	1.0	1.0	2.0	0.50	0.3
High yield investments					
Pooled Property Funds**	7.6	0.0	7.6	3.97	N/A
Pooled Equity Funds**	3.0	0.0	3.0	5.04	N/A
Pooled Multi-Asset Funds**	3.0	0.0	3.0	4.66	N/A
	13.6	0.0	13.6	4.32	N/A
TOTAL INVESTMENTS	85.1	(18.2)	66.9	2.02	0.2

* Weighted average maturity, excluding pooled funds

** The rates provided for pooled fund investments are reflective of annualised income returns over the year to 30 September 2022 based on the market value 12 months earlier.

Note: the figures in Table 4 at 31 March 2022 are from the balance sheet in the Council's statement of accounts but adjusted to exclude operational cash, market value adjustments and accrued interest. The 30 September 2022

position differs from that shown in Table 2 as Table 4 removes the effect of market value and other accounting adjustments to show the principal balance.

- 7.3. Investment balances have decreased since 31 March 2022 in line with expectation.
- 7.4. The CIPFA Code and Government guidance both require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is therefore to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults against the risk of receiving unsuitably low investment income. The Council's Treasury Management Strategy Statement (TMSS) sets out how it will manage and mitigate these risks.
- 7.5. The security of investments has been maintained by following the Council's counterparty policy and investment limits within the TMSS, taking advice from Arlingclose on changes in counterparty credit worthiness, and making use of secured investment products that provide collateral. The Council invests in liquid investments to ensure money is available when required to meet its financial obligations, spreading these investments across a number of counterparties to mitigate operational risk.
- 7.6. In delivering investment returns, the Council has operated against a backdrop in which the UK Bank Rate have risen from 0.75% in April 2022 to 2.25% in September 2022. This has led to improved returns for liquid investment options such as Money Market Funds (MMFs), bank call accounts and the UK Government's Debt Management Account Deposit Facility (DMADF). However, investment income has still largely come from the Council's investments in pooled funds.
- 7.7. The Council benchmarks the performance of its internally managed investments against that of other Arlingclose clients. Internally managed investments include all investments except externally managed pooled funds but do include MMFs. The performance of these investments against relevant measures of security, liquidity and yield are shown in Table 5, providing the latest data as at 30 June 2022 and at 31 March 2022 for comparison.

Table 5: Investment benchmarking (excluding pooled funds)

	Credit rating	Bail-in exposure	Weighted average maturity (days)	Rate of return
31.03.2022	AA+	46%	95	0.43%
30.06.2022	AA	45%	83	0.83%
Similar LAs	AA-	64%	45	0.89%
All LAs	AA-	64%	16	0.92%

- 7.8. Table 5 shows the average credit rating of the portfolio decreased over the first half of the financial year, and bail-in exposure fell slightly reflecting a greater investment balance in secured investments, which are

not subject to bail-in risk as they provide collateral. The weighted average maturity of investments decreased over the period. The average rate of return (0.83%) was higher than at 31 March 2022, which is reflective of improved rates for many investments across the market. The Council compared favourably with the other local authorities included in the benchmarking exercise at 30 June 2022 across most metrics. Although it is difficult to know the exact reason why the rate of return was lower than the average of the other local authorities as at 30 June 2022, it is most likely due to the large liquid investment balance that was held at that point, which continues to be invested in short and long term appropriate options as they become available.

Externally managed pooled funds

- 7.9. 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 as part of its higher yielding strategy.
- 7.10. 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.
- 7.11. The Council's investments in pooled funds fell considerably in value when the coronavirus pandemic hit world markets but have since recovered well. This recovery means these investments are now worth marginally more in aggregate than the initial sums invested, as shown in Table 6, demonstrating the importance of taking a longer-term approach and being able to ride out periods of market volatility, ensuring the Council is not a forced seller at the bottom of the market.

Table 6: Higher yielding investments – market value performance

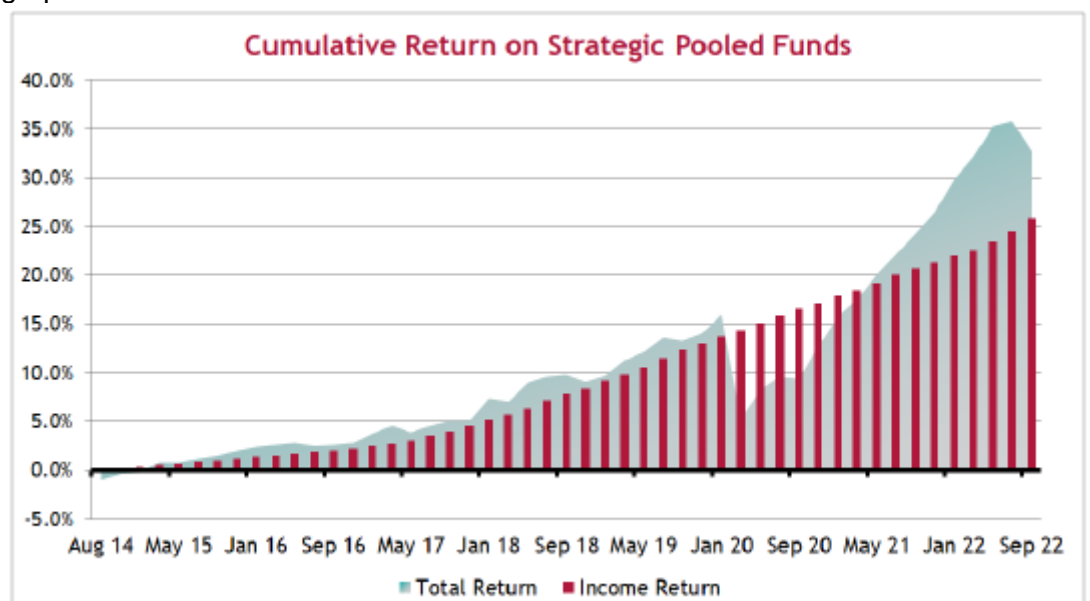
	Amount invested	Market value at 30/09/22	Gain / (fall) in capital value	
			Since purchase	One year
	£m	£m	£m	£m
Pooled property funds	7.60	8.88	1.28	0.91
Pooled equity funds	3.00	3.05	0.05	(0.19)
Pooled multi-asset funds	3.00	2.55	(0.45)	(0.36)
Total	13.60	14.48	0.88	0.36

- 7.12. The Council's investments in pooled funds target long-term price stability and regular revenue income and bring significant benefits to the revenue budget. As shown in Table 7 the annualised income returns have been 25.80% since purchase, contributing to a total return of 32.68% over their life.

Table 7: Higher yielding investments – income and total returns since purchase

	Annualised income return	Total return
	%	%
Pooled property funds	32.53	52.83
Pooled equity funds	27.67	29.32
Pooled multi-asset funds	20.47	5.85
Total	25.80	32.68

7.13. The Council's pooled fund investments continue to deliver income returns far in excess of what could be generated from cash investments. The cumulative total return from the Council's investments in pooled equity, property and multi-asset funds since purchase is shown in the following graph.



7.14. 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.

7.15. Pooled fund investments have no defined maturity date but are available for withdrawal after a notice period and their performance and continued suitability in meeting the Council's investment objectives is monitored regularly and discussed with Arlingclose.

8. NON-TREASURY INVESTMENTS

8.1. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in the Ministry for Housing, Communities and Local Government's Investment Guidance, in which the definition of

investments is further broadened to also include all such assets held partially for financial return.

8.2. This could include service investments for operational and/or regeneration reasons as well as commercial investments which are made mainly for financial reasons.

8.3. The Council's existing non-treasury investments are listed in Table 8.

Table 8 – Non-treasury investments		
	30/09/22 Asset value £m	30/09/22 Annual rate of return
Hythe Marina	2.53	5.67%
Lymington Town Hall	3.41	0.72%
New Forest Enterprise Centre	1.08	10.88%
Hardley Industrial Estate	5.60	4.57%
New Milton Health Centre	2.54	5.36%
Ampress Car Park	2.14	4.44%
Queensway, New Milton	1.07	8.88%
The Parade, Salisbury Road Totton	1.60	5.83%
Unit 1 Nova Business Park, New Milton	0.54	6.37%
Roman House, Salisbury Road, Totton	1.26	5.15%
27 Salisbury Road, Totton	1.90	7.88%
83-85 Station Road, New Milton	5.10	4.90%
Grand total	28.78	4.86%

9. COMPLIANCE REPORT

9.1. The Council confirms compliance of all treasury management activities undertaken during the period covered by this report with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

9.2. Compliance with the authorised limit and operational boundary for external debt, is demonstrated in Table 9.

Table 9: Debt limits

	2022/23 Maximum £m	30/09/22 Actual £m	2022/23 Operational Boundary £m	2022/23 Authorised Limit £m	Complied
Total debt	122.5	122.5	201.4	219.1	✓

9.3. Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

10. TREASURY MANAGEMENT INDICATORS

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

Interest rate exposures

10.2. The following indicator shows the sensitivity of the Council's current investments and borrowing to a change in interest rates.

Table 10 – Interest Rate Risk Indicator

	30/09/22 Actual	Impact of +/- 1% interest rate change
Sums subject to variable interest rates		
Investment	£57.3m	+/- £0.6m
Borrowing	£0.0m	+/- £0.0m

10.3. Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Maturity structure of borrowing

10.4. This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits show the maximum and minimum maturity exposure to fixed rate borrowing as agreed in the Treasury Management Strategy Statement.

Table 11: Refinancing rate risk indicator

	30/09/22 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	3%	25%	0%	✓
12 months and within 24 months	4%	25%	0%	✓
24 months and within 5 years	10%	25%	0%	✓
5 years and within 10 years	17%	25%	0%	✓
10 years and above	66%	100%	0%	✓

Principal sums invested for periods longer than a year

10.5. 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 total principal sum invested to final maturities beyond the period end were:

Table 12: Price risk indicator

	2022/23	2023/24	2024/25
Actual principal invested beyond a year	£14.5m	£13.6m	£13.6m
Limit on principal invested beyond a year	£35m	£30m	£25m
Complied	✓	✓	✓

10.6. The table includes investments in strategic pooled funds of £13.6m as although these can usually be redeemed at short notice, the Council intends to hold these investments for at least the medium-term.

11. OTHER

CIPFA Consultation – IFRS 16

11.1. The implementation of the new IFRS 16 Leases accounting standard was due to come into force for local authorities from 1st April 2022, however following a consultation CIPFA/LASAAC announced an optional two-year delay to the implementation of this standard - a decision which was confirmed by the Financial Reporting Advisory Board in early April 2022. Authorities can now choose to adopt the new standard on 1st April 2022, 1st April 2023 or 1st April 2024. The Council intends to adopt the new standard on 1st April 2024.

Arlingclose's outlook for the remainder of 2022/23

	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	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	2.25	4.25	5.00	5.00	5.00	5.00	5.00	5.00	5.00	4.75	4.25	3.75	3.25
Downside risk	0.00	-1.00	-1.00	-0.75	-0.50	-0.50	-0.50	-0.75	-1.25	-1.50	-1.75	-1.75	-1.75

11.2. Arlingclose expects Bank Rate to rise further during 2022/23 to reach 5% by the end of the year.

11.3. The MPC is particularly concerned about the demand implications of fiscal loosening, the tight labour market, sterling weakness and the willingness of firms to raise prices and wages. The MPC may therefore raise Bank Rate more quickly and to a higher level to dampen aggregate demand and reduce the risk of sustained higher inflation. Arlingclose now expects Bank Rate to peak at 5.0%, with 200bps of increases this calendar year. This action by the MPC will slow the economy, necessitating cuts in Bank Rate later in 2024.

11.4. Gilt yields will face further upward pressure in the short term due to lower confidence in UK fiscal policy, higher inflation expectations and asset sales by the BoE. Given the recent sharp rises in gilt yields, the risks are now broadly balanced to either side. Over the longer term, gilt yields are forecast to fall slightly over the forecast period.

- 11.5. Monetary policymakers are behind the curve having only raising rates by 50bps in September. This was before the “Mini-Budget”, poorly received by the markets, triggered a rout in gilts with a huge spike in yields and a further fall in sterling. In a shift from recent trends, the focus now is perceived to be on supporting sterling whilst also focusing on subduing high inflation.
- 11.6. The government's blank cheque approach to energy price caps, combined with international energy markets priced in dollars, presents a fiscal mismatch that has contributed to significant decline in sterling and sharp rises in gilt yields which will feed through to consumers' loans and mortgages and business funding costs.
- 11.7. UK government policy has mitigated some of the expected rise in energy inflation for households and businesses flattening the peak for CPI, whilst extending the duration of elevated CPI. Continued currency weakness could add inflationary pressure.
- 11.8. The UK economy already appears to be in recession, with business activity and household spending falling. The short- to medium-term outlook for the UK economy is relatively bleak.

12. CRIME AND DISORDER AND ENVIRONMENTAL IMPLICATIONS

- 12.1. None arising directly from this report.

13. RECOMMENDATIONS

Members are recommended to:

- 13.1. consider the performance of the treasury function detailed in this report.

Further information	Background papers
Please contact:	The Prudential Code, CIPFA Guidance Notes and ODPM Investment Guidance
Alan Kitcher Corporate Accountant Investments & Borrowing Hampshire County Council alan.kitcher@hants.gov.uk	Local Government Act 2003 SI 2003/3146 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003
Alan Bethune Executive Head of Financial (S151) and Corporate Services New Forest District Council alan.bethune@nfdc.gov.uk	Treasury Management Mid-Year Monitoring Report 2021/22 Treasury Management Strategy Report 2022/23 Treasury Management Annual Outturn Report 2021/22

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Audit Committee Work Plan 2023 - 2024

DATE	WORK / REPORTS
27 January 2023	External Audit Results Report for the year ended 31 March 2022 Final Annual Governance Statement 21/22 Final Annual Financial Report 21/22 RIPA Report Internal Audit Progress Report 22/23 Treasury Management Strategy Statement 23/24 Investment Strategy 23/24 Strategic Risk Register 6 Monthly Update
24 March 2023	External Auditor's Annual Report for the year ended 31 March 2022 (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	Annual Internal Audit Report and Opinion 2022-23
27 October 2023	Internal Audit Progress Report 2023-24
26 January 2024	Internal Audit Progress Report 2023-24
22 March 2024	Internal Audit Progress Report 2023-24 Internal Audit Charter 2024-25 Internal Audit Plan 2024-25

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