

Agenda

Audit and Governance Committee

Date:	Thursday, 30 November 2023 at 6:30 pm
Venue:	Town Hall, St Annes, FY8 1LW
Committee members:	<p>Councillor Michael Withers (Chairman) Councillor Andrew Redfearn (Vice-Chairman)</p> <p>Councillors Peter Anthony, Liz Bickerstaffe, Ellie Gaunt, Joanne Gardner, Paul Hayhurst, John Kirkham, Ed Nash</p>

	PROCEDURAL ITEMS:	PAGE
1	Declarations of Interest: Declarations of interest, and the responsibility for declaring the same, are matters for elected members. Members are able to obtain advice, in writing, in advance of meetings. This should only be sought via the Council’s Monitoring Officer. However, it should be noted that no advice on interests sought less than one working day prior to any meeting will be provided.	1
2	Confirmation of Minutes: To confirm the minutes, as previously circulated, of the meeting held on 28 September 2023 as a correct record.	1
3	Substitute Members: Details of any substitute members notified in accordance with council procedure rule 23(c).	1
	DECISION ITEMS:	
4	Mid Year Prudential Indicators & Treasury Management Monitoring Report	3-14
5	Internal Audit Progress Report	15-34
	INFORMATION ITEMS:	
6	Regulation of Investigatory Powers Act (RIPA) : Authorisations	35

Contact: Democracy - Telephone: (01253) 658550 – Email: democracy@fylde.gov.uk

The code of conduct for members can be found in the council's constitution at
<http://fylde.cmis.uk.com/fylde/DocumentsandInformation/PublicDocumentsandInformation.aspx>

© Fylde Council copyright 2023

You may re-use this document/publication (not including logos) free of charge in any format or medium. You must re-use it accurately and not in a misleading context.

The material must be acknowledged as Fylde Council copyright and you must give the title of the source document/publication.

Where we have identified any third party copyright material you will need to obtain permission from the copyright holders concerned.

This document/publication is also available on our website at www.fylde.gov.uk

Any enquiries regarding this document/publication should be sent to us at the Town Hall, St Annes Road West, St Annes FY8 1LW, or to listening@fylde.gov.uk.

DECISION ITEM

REPORT OF	MEETING	DATE	ITEM NO
CHIEF FINANCIAL OFFICER	AUDIT AND GOVERNANCE COMMITTEE	30 TH NOVEMBER 2023	4
MID YEAR PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT MONITORING REPORT 2023/24			

PUBLIC ITEM

This item is for consideration in the public part of the meeting.

RELEVANT LEAD MEMBER

This item is within the remit of Lead Member for Finance and Resources (Councillor Ellie Gaunt).

PURPOSE OF THE REPORT

This report is a mid-year Prudential Indicators and Treasury Management monitoring report which has been prepared in line with the recommendations of CIPFA's (Chartered Institute of Public Finance and Accountancy) Code of Practice on Treasury Management 2021. The report will also be presented for consideration at the Council meeting of 18th December 2023.

RECOVERABILITY

This decision is recoverable under section 7 of part 3 of the constitution.

RECOMMENDATIONS

The committee are recommended to:

1. Scrutinise and note the Mid-Year Prudential Indicators and Treasury Management monitoring report; and
2. Recommend to Council that the Prudential Indicators and the Investment Limits as shown at Appendix B of this report be approved.

Report

Background

Fylde Borough Council defines its Treasury Management activities 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.

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

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

Reporting of Treasury Management Activities

The Code of Practice on Treasury Management (updated 2021) requires the Council to receive a Mid-Year Treasury Review Report, in addition to the forward-looking Annual Treasury Strategy, Capital Strategy, Investment Strategy and backward-looking Annual Treasury Report.

The Mid-Year Treasury Review report has been prepared in compliance with the Code of Practice. The Prudential Indicators and Treasury Management Strategy for 2023/24 were originally approved by Council on 2nd March 2023.

To assist with the terminology and explanations that are included within this report Appendix A sets out a Glossary of Treasury. Appendix B sets out the latest Treasury Management position compared to the forecast Prudential Indicators.

1. Economic Update

1.1 Economic Background

In order to try to bring inflation down to its 2% target level, the Bank of England began raising interest rates from the historically low level of 0.1% in December 2021 by incremental increases in the intervening period to the current level of 5.25%. Further increases are possible but are reportedly becoming less likely following the latest inflation report for October 2023, which detailed a fall in the annual rate of increase in CPI of 4.6%, down from 6.7% for both August and September 2023.

1.2 Economic Outlook

Inflation is expected to fall sharply over the next 12 months. The services and core inflation rates are the focus for the Monetary Policy Committee (MPC) as it seeks to avoid high inflation persisting into the medium term.

1.3 Interest Rate Forecast

Following the September MPC meeting, Arlingclose, the Council's external treasury advisers, revised its interest forecast to reflect the view that 5.25% is likely to be the peak in Bank Rate. In the short term the risks are to the upside if inflation increases again, but over the remaining time horizon of the forecast the risks are to the downside from economic activity weakening more than expected. The following table shows the interest rate forecast provided by Arlingclose:

Table 1: Interest Rate Forecast from Arlingclose

Quarter Ending	Bank Rate %	Investment Rates %		Borrowing Rates %		
		3 month	5 year	5 year	20 year	50 year
Dec 2023	5.25	5.40	4.50	5.30	5.45	5.05
Mar 2024	5.25	5.40	4.50	5.30	5.40	5.00
Jun 2024	5.25	5.30	4.40	5.20	5.35	4.95
Sep 2024	5.00	5.15	4.25	5.05	5.25	4.90
Dec 2024	4.75	4.80	4.00	4.80	5.15	4.90
Mar 2025	4.25	4.30	3.75	4.55	5.05	4.90
Jun 2025	4.00	4.10	3.50	4.30	5.00	4.90
Sep 2025	3.75	3.80	3.40	4.20	5.00	4.90
Dec 2025	3.50	3.50	3.30	4.10	5.00	4.90
Mar 2026	3.25	3.25	3.30	4.10	5.00	4.90
Jun 2026	3.00	3.05	3.30	4.10	5.00	4.90
Sep 2026	3.00	3.05	3.35	4.15	5.00	4.90

2. Debt Management and Financing of Capital Expenditure

- 2.1 The Council currently holds no external debt, and the authority remains debt free.
- 2.2 The Capital Financing Requirement (CFR) is a key component of an authority’s capital strategy. It quantifies the amount of capital spending that has not been financed by capital receipts, capital grants or contributions from revenue income or reserves. It measures the “underlying need to borrow” for a capital purpose, although this borrowing may not necessarily take place externally. For 2023/24 the Council has a CFR of £4.1m based on past and current capital expenditure plans that have been approved as part of the Capital Programme (See Appendix B Table 2). A large proportion of the CFR relates to the acquisition of vehicles which are used to deliver operational services including waste management and parks.
- 2.3 The Council’s Capital Financing Requirement is currently being financed by “internal borrowing”, a common practice whereby a local authority utilises its internal resources which are not required in the short to medium-term (comprising working capital and reserves), rather than external borrowing, to finance expenditure. Using internal borrowing continues to be the most cost-effective means of funding capital expenditure as it allows the council to lower the overall treasury risk by reducing both external debt and temporary investments, and to minimise interest costs. It is expected that internal borrowing will continue to be used for the rest of the financial year, and in the medium term, in line with advice from the Council’s treasury advisers. However, this position may not be sustainable over the longer term. Consequently, external borrowing options and the timing of such borrowing will continue to be assessed in consultation with the Council’s treasury advisers.
- 2.4 The Public Works Loan Board (PWLB) is a UK Government facility that provides loans to public bodies, including local authorities. The PWLB lending facility is operated by the UK Debt Management Office (DMO) on behalf of HM Treasury. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, and preventative action. PWLB loans are no longer available to local authorities who plan to buy investments primarily for yield. Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. The Council does not intend to borrow to invest primarily for commercial return.

3. Investments

Treasury Investment Activity

- 3.1 The revised CIPFA Treasury Management Code defines treasury management investments as those which arise from the Authority's cash flows or treasury risk management activity that ultimately represents balances which need to be invested until the cash is required for business use.
- 3.2 The Council holds significant invested funds, representing income received in advance of expenditure, monies held on behalf of the Council Tax and Business Rates Collection Fund (Lancashire County Council, the Police and Crime Commissioner for Lancashire and Lancashire Combined Fire Authority) plus balances and reserves held.
- 3.3 The Council's cash flow has continued to remain high with £25.4m of cash and investments being held as at 30th September 2023. This balance of funds is likely to reduce during the remainder of the financial year.

The balance of the Council's own bank account will ideally be kept below £2m to ensure sufficient liquidity for all the financial transactions undertaken by the Council. Due to cash flow fluctuations this limit may be exceeded on occasion and if the limit is exceeded for more than three working days the Section 151 Officer or Deputy Section 151 Officer will review the position.

- 3.4 Both the CIPFA Code and government guidance require the Authority 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 Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 3.5 Given the risk from short-term unsecured bank investments, the Authority has continued to invest with other Local Authorities, to date with a maximum duration of 365 days.
- 3.6 The security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in the Investment Strategy for 2023/24 approved by Council on 2nd March 2023.
- 3.7 The Council defines "high credit quality" organisations as:
- those having a credit rating of A- or higher and that are domiciled in the UK for deposits of up to one year,
 - those domiciled in a foreign country those with a sovereign rating of AA+ or higher for deposits of up to one year.

These criteria are specified within table 4 (Approved Investment Counterparties and limits) of the Treasury Management Strategy as approved by the Council on 2nd March 2023.

- 3.8 Internally managed cash flow of £25.7m (average for the period to 30th September 2023) have been invested in deposit accounts, call accounts, Local Authorities and the Debt Management Office during the first half of the year.
- 3.9 The return on the council's investments is **4.78%** for the year. This return compares very favourably with other Arlingclose clients, both for District Councils (whose average return is **3.47%**) and for all authorities together (whose average return is **3.65%**), whilst both the average credit score and average credit rating of our investment counterparties is also higher than both other groups. Further details can be found in Table 10 at para 1.10 of Appendix B.

Financial market conditions were volatile during the period. Global bond yields rose and remained elevated as it became apparent that policymakers were looking to keep rates high for some time amid persistently higher core inflation and tight labour markets. This had a positive impact on the Council's investments as maturing investments are replaced by higher yielding ones.

3.10 The Council’s original estimate for investment income for 2023/24 was £375k. Income received up to the 30th September 2023 was £415k. Income from investments is higher than the forecast amount due to upward returns driven by the increase in Bank base rate combined with higher than anticipated levels of funds available for investment. Consequently, this income budget has been reviewed and will be increased to £1.120m to reflect the latest estimated level of income, representing an increase in forecast interest earnings for the current year of £745k. This change will be updated in the financial forecast included within the Council’s Medium term Financial Strategy report, together with updated estimates for future years.

3.11 The Council has adhered to the security, liquidity and yield indicators that were presented as part of the Treasury Management Strategy for 2023/24.

4. Compliance

4.1 The Chief Financial Officer reports that all treasury management activities undertaken during the half year complied fully with the CIPFA Code of Practice and the Authority’s approved Treasury Management Strategy.

4.2 Details of the Prudential Indicators can be found in Appendix B. As changes arise during the year some of the Prudential Indicators and Limits need to be revised.

5. Risk Assessment

5.1 Scrutiny of the revised Prudential Indicators and Limits and the subsequent recommendation of approval to the revisions by Audit and Governance Committee to Council helps to protect the Council from the risk of not having adequate liquidity or funding for the Council’s capital plans.

5.2 Additionally, if this scrutiny process was absent the Council would not be compliant with the Council’s approved Treasury Management Practices (as detailed in the Council Constitution) or CIPFA’s Code of Practice on Treasury Management.

6. Conclusion

6.1 In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during the first half of 2023/24. As indicated in this report, all treasury limits have been adhered to and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield. That said, the council has achieved an investment return in excess of the average of other Arlingclose clients which has generated additional interest income to support the council’s base revenue budget.

CORPORATE PRIORITIES	
Economy – To create a vibrant and healthy economy	√
Environment – To deliver services customers expect	√
Efficiency – By spending money in the most efficient way	√
Tourism – To create a great place to live and visit	√

IMPLICATIONS	
Finance	Financial implications are contained within the body of the report.
Legal	This report secures the continued compliance with the Council's approved Treasury Management Practices (as detailed in the Council Constitution) and CIPFA's Code of Practice on Treasury Management.
Community Safety	None
Human Rights and Equalities	None
Sustainability and Environmental Impact	None
Health & Safety and Risk Management	None

SUMMARY OF PREVIOUS DECISIONS
Council approved the 2023/24 to 2026/27 Capital Strategy, which incorporated the Prudential Indicators, at its meeting on 2 nd March 2023.

BACKGROUND PAPERS REVELANT TO THIS ITEM		
Name of document	Date	Where available for inspection
Medium Term Financial Strategy Update Including General Fund, Capital Programme & Treasury 2023/24 – 2026/27	Council Meeting 2 nd March 2023	www.fylde.gov.uk

LEAD AUTHOR	CONTACT DETAILS	DATE
Paul O'Donoghue Chief Financial Officer	01253 658566	November 2023

Attached documents:

1. Appendix A - Glossary of Treasury Management Terms
2. Appendix B – Prudential Indicators

Glossary of Treasury Terms

Term	Description
Counterparty	The other party to an agreement.
Credit rating	A measure of the credit-worthiness of an institution, corporation, or a country. Credit ratings are calculated from financial history and current assets and liabilities. Typically, a credit rating tells a lender or investor the probability of the counterparty being able to pay back a loan.
Capital Financing Requirement (CFR)	The Capital Financing Requirement (CFR) is a key component of an authority's capital strategy, it quantifies the amount of capital spending that has not been financed by capital receipts, capital grants or contributions from revenue income or reserves. It measures the "underlying need to borrow" for a capital purpose, although this borrowing may not necessarily take place externally.
Liquidity	As assessment of how readily available an investment is. It is safer to invest in liquid assets because it is easier for an investor to get their money out of the investment.
Minimum Revenue Provision (MRP)	Minimum Revenue Provision (MRP) is an annual provision that the Council is statutorily required to make as a charge to its revenue account to cover the Capital Financing Requirement. The aim of the MRP provision is to reflect the cost to the revenue account of the acquisition of assets that have not been funded from capital grants, capital receipts or reserves.
Security	As assessment of the creditworthiness of a counterparty.
Treasury adviser	External consultancy firms that provide information to local authorities, including information regarding counterparty creditworthiness, investment and borrowing strategies.
Prudential Borrowing	Prudential borrowing is the set of rules governing local authority borrowing in the UK. Under prudential borrowing, the amount of debt and other liabilities most local authorities can incur is no longer capped by an upper limit. Instead borrowing must conform to the Prudential Code which (among other things) requires that borrowing be affordable and prudent (i.e. affordable).

Prudential Indicators

1.1 Capital Expenditure

Table 1 shows the revised forecast capital expenditure as reported in the latest Capital Programme Monitoring Report as at 30th September 2023 as compared to the capital expenditure originally approved by Council.

Table 1: Forecast Capital Expenditure

Forecast Capital Expenditure	2023/24 Original Indicator £M	2023/24 Latest Estimate £M
Total	21.8	16.5

The above table shows the forecast capital expenditure for 2023/24 as set out in the council's capital programme. The reduction in the latest estimate of capital spend for the year is a consequence of a number of in-year changes to the capital programme including the removal of the St. Annes Sea Wall Project and the impact of slippage from 2022/23 into 2023/24.

1.2 Capital Financing Requirement (CFR)

Table 2 shows the council's CFR for the current year. The CFR is a key component of an authority's capital strategy, it quantifies the amount of capital spending that has not been financed by capital receipts, capital grants or contributions from revenue income or reserves. It measures the "underlying need to borrow" for a capital purpose. Whilst the CFR is normally funded by external borrowing, it is currently being funded by the Council's internal cash resources, i.e. internal borrowing, and it is expected that internal borrowing will continue to be used for the rest of the financial year in line with advice from the Council's Treasury advisers. Further details are provided in section 2 of the report.

Table 2: Capital Financing Requirement (CFR)

	2023/24 Original Indicator £M	2023/24 Latest Estimate £M
Total CFR	4.4	4.1

The latest estimate of the CFR is in line with the original approved indicator.

1.3 Gross Debt and Capital Finance Requirement

The Council needs to ensure that its total capital borrowing does not, except in the short term, exceed the total of the CFR. Table 3 below shows that the Council will be able to comply with this requirement.

There are no difficulties anticipated in keeping the long term capital borrowing below the CFR.

Table 3: Gross Debt and Capital Finance Requirement

As at 31/03/2024	2023/24 Original Indicator £M	2023/24 Latest Estimate £M
Estimated Long Term Borrowing	0	0
Capital Financing Requirement	4.4	4.1

The Council is forecast to be able to fund the capital borrowing requirement with internal borrowing and does not expect to require new external borrowing during 2023/24, in line with advice from Treasury advisers.

1.4 Authorised Limit and Operational Boundary for External Debt

Affordable Borrowing Limit: The Council is legally obliged to set an affordable borrowing limit (also termed ‘Authorised Limit’ for external debt) each year. In line with statutory guidance, a lower ‘Operational Boundary’ is also required to be set as a warning level should debt approach the limit. This is detailed in table 4. The Operational Boundary is based on the maximum external debt during the course of the year. It is not a limit and therefore may be exceeded on occasion.

The Authorised Limit for external debt represents the limit beyond which borrowing is prohibited and is set and revised by Council. It reflects the level of borrowing which, in extreme circumstances, could be afforded in the short term. This is a statutory limit which should not be breached.

There were no breaches to the Authorised Limit and the Operational Boundary to 30th September 2023.

Table 4: Authorised Limit and Operational Boundary for External Debt

	2023/24 Original Indicator £M	2023/24 Latest Estimate £M
Authorised Limit for external debt	8.0	8.0
Operational boundary	2.0	2.0

Note

1. The Council is able to fund the capital borrowing requirement from internal borrowing and does not expect to require any external borrowing during 2023/24.
2. The Authorised Limit includes £6.0m for ‘contingency’ which is an amount that has been estimated to provide scope to undertake short-term borrowing in the event of a service delivery failure or a significant emergency, such as a failure to be able to collect council tax income.

1.5 Forecast Treasury Position

Table 5 shows the expected balances for investments and debt at 31st March 2023.

Table 5: Forecast Treasury Position

Forecast 31 st March 2024	2023/24 Original Estimate £M	2023/24 Latest Estimate £M
Capital Financing Requirement	4.4	4.1
Less: Long Term Borrowing	0	0
Cumulative Borrowing Requirement	4.4	4.1
Useable Reserves/Working Capital	17.1	14.2
Less: Internal Borrowing	(4.4)	(4.1)
Cash available for Investment	12.7	10.1

The Council has not undertaken any new external long-term borrowing as it is funding capital expenditure with internal borrowing (see Section 2 of the report).

The forecast investments position has been updated to reflect the latest changes to the movements in reserves, provisions and capital expenditure. The decrease in the estimated level of investments at the 31st March 2024 from £12.7m to £10.1m is a consequence of the forecast timing of daily cash flows.

1.6 Forecast Interest

Table 6: Forecast Interest

Revenue Budget	2023/24 Actual to 30.09.23 £M	2023/24 Original Estimate £M	2023/24 Latest Estimate £M
Interest payable on Borrowing	0	0	0
Investment Income	0.415	0.375	1.120

Income from investments is higher than the forecast amount due to upward returns driven by the increase in Bank base rate combined with higher than anticipated levels of funds available for investment.

1.7 Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the financing costs (Minimum Revenue Provision (MRP) plus interest payable) as a percentage of the net revenue stream as shown in Table 6.

Table 7: Ratio of Financing Costs to Net Revenue Stream

	2023/24 Original Estimate £M	2023/24 Latest Estimate £M
Financing costs (£m)	0.352	0.639
Proportion of net revenue stream	2.9%	5.3%

The latest estimate of net financing costs is higher than the original estimate, which is predominantly due to the updated definition in the Prudential Code for 'financing costs' which has changed the calculation methodology for this indicator. The previous definition deducted investment income from the total financing costs, therefore reducing the financing cost estimate.

1.8 Maturity Structure of Borrowing

This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be as shown in Table 8.

Table 8: Maturity Structure of Debt

	Lower Limit	Upper Limit
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years and above	0%	100%

No lower limit is set in order to allow flexibility when managing the debt portfolio in the current economic conditions. 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.

The Council does not hold any debt or plan to borrow, however, if funding is required for cash flow purposes this is all likely to have a maturity date of less than one year.

1.9 Liability/Asset Benchmark

This new indicator compares the Authority's actual existing borrowing against a liability/asset benchmark that has been calculated to show the lowest risk level of borrowing. The liability/asset benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £10m required to manage day-to-day cash flow.

Table 9: Liability/Asset Benchmark

	2023/24 Original Estimate £M	2023/24 Latest Forecast £M
CFR	4.4	4.1
Less: Useable Reserves & Provisions Balance Sheet Resources	(20.6)	(14.2)
Net Loans Requirement	(16.2)	(10.1)
Plus: Liquidity Allowance	10.00	10.00
Asset Benchmark	(6.2)	(0.1)

The benchmark suggests that there are sufficient cash resources to fund the existing capital programme by internal borrowing. There is no requirement for external borrowing in the forecast if the Council's spending proceeds as planned.

1.10 Credit Risk, Liquidity and Investment Benchmarking

The Council manages its exposures to counterparty credit risks by aiming for an average credit rating of A- for the investment portfolio. Credit scores are calculated as AAA = 1, AA+ =2, etc.

The Council's treasury advisers Arlingclose have analysed the Council's credit, liquidity, market risk and investment return (yield) score compared to all other Arlingclose local authority clients of a similar type and Arlingclose authority clients as a whole and the results are shown in Table 10 below. **The table shows that Fylde's total investment return of 4.78% compares very favourably with other Arlingclose clients, both for District Councils (whose average return is 3.47%) and for all authorities together (whose average return is 3.65%), whilst both the average credit score and average credit rating of Fylde investment counterparties is also higher than both other groups.**

Table 10: Investment Benchmarking by Arlingclose



	Fy16t	44 English Non-Met Districts Average	125 LAs Average
Investment Benchmarking 30 September 2023			
Internal Investments	£25.4m	£31.1m	£66.5m
Cash Plus & Short Bond Funds	£0.0m	£1.4m	£0.9m
Strategic Pooled Funds	£0.0m	£13.1m	£11.3m
TOTAL INVESTMENTS	£25.4m	£45.5m	£78.5m
Security			
Average Credit Score	4.63	4.43	4.47
Average Credit Rating	A+	AA-	AA-
Average Credit Score (time-weighted)	4.76	4.29	4.33
Average Credit Rating (time-weighted)	A+	AA-	AA-
Number of Counterparties / Funds	10	12	13
Proportion Exposed to Bail-in	5%	56%	59%
Liquidity			
Proportion Available within 7 days	25%	41%	50%
Proportion Available within 100 days	53%	59%	70%
Average Days to Maturity	134	63	13
Market Risks			
Average Days to Next Rate Reset	134	79	50
Strategic Fund Volatility	-	4.8%	6.5%
Yield			
Internal Investment Return	4.78%	4.95%	4.92%
Cash Plus Funds - Income Return	-	2.55%	2.66%
Strategic Funds - Income Return	-	4.45%	4.35%
Total Investments - Income Return	4.78%	4.71%	4.79%
Cash Plus Funds - Capital Gain/Loss	-	2.19%	2.22%
Strategic Funds - Capital Gain/Loss	-	-7.24%	-8.89%
Total Investments - Total Return	4.78%	3.47%	3.65%

DECISION ITEM

REPORT OF	MEETING	DATE	ITEM NO
MIAA	AUDIT AND GOVERNANCE COMMITTEE	30 NOVEMBER 2023	5
INTERNAL AUDIT PROGRESS REPORT			

PUBLIC ITEM

This item is for consideration in the public part of the meeting.

RELEVANT LEAD MEMBER

This item is within the remit of Lead Member for Finance and Resources (Councillor Ellie Gaunt).

PURPOSE OF THE REPORT

This report provides an update to the Audit & Governance Committee in respect of the progress made in against the Internal Audit Plan for 2022/23 and 2023/24 and draws attention to matters relevant to members responsibilities.

RECOVERABILITY

This decision is not recoverable because it relates to:

A recommendation to the council or to any other committee or sub-committee of the council

RECOMMENDATION

1. To receive, consider and comment on the Internal Audit Progress Report which is attached to this covering report.

REPORT

1. The attached report has been prepared by the Council's internal auditors, MIAA. It provides an update to the Audit and Governance Committee in respect of the assurances, key issues and progress against the Internal Audit Plans 2022/23 and 2023/24. Comprehensive reports detailing findings, recommendations and agreed actions are provided to the organisation, and are available to Committee Members on request.
2. MIAA will present the report to the meeting.

CORPORATE PRIORITIES	
Economy – To create a vibrant and healthy economy	✓
Environment – To deliver services customers expect	✓
Efficiency – By spending money in the most efficient way	✓
Tourism – To create a great place to live and visit	

IMPLICATIONS	
Finance	No implications
Legal	No implications
Community Safety	No implications
Human Rights and Equalities	No implications
Sustainability and Environmental Impact	No implications
Health & Safety and Risk Management	No implications

SUMMARY OF PREVIOUS DECISIONS
Internal Audit Plan 2022/23 approved by the Audit and Standards Committee on 17 March 2022. Internal Audit Plan 2023/24 approved by the Audit and Standards Committee on 16 March 2023

BACKGROUND PAPERS REVELANT TO THIS ITEM		
Name of document	Date	Where available for inspection
Internal Audit Plan 2022/23	17 March 2022	Internal Audit Team
Internal Audit Plan 2023/24	16 March 2023	Internal Audit Team

LEAD AUTHOR	CONTACT DETAILS	DATE
Louise Cobain	louise.cobain@miaa.nhs.uk	November 2023

Attached documents
Appendix 1 – Internal Audit Progress Report

Internal Audit Progress Report

Audit and Governance Committee (30th November 2023)

Fylde Borough Council

Contents

1 Introduction

2 Key Messages for Audit and Governance Committee Attention

Appendix A: Contract Performance

Appendix B: Performance Indicators

Appendix C: Key Areas and Actions to be Delivered

Appendix D: Follow-up of Previous Audit Actions

Appendix E: Assurance Definitions and Risk Classifications

Public Sector Internal Audit Standards

Our work was completed in accordance with Public Sector Internal Audit Standards and conforms with the International Standards for the Professional Practice of Internal Auditing.

Executive Summary

This report provides an update to the Audit and Governance Committee in respect of the progress made in against the Internal Audit Plans for 2022/23 and 2023/24 and brings to your attention matters relevant to your responsibilities as members of the Audit and Governance Committee.

This progress report provides a summary of Internal Audit activity and complies with the requirements of the Public Sector Internal Audit Standards.

Comprehensive reports detailing findings, recommendations and agreed actions are provided to the organisation, and are available to Committee Members on request. In addition a consolidated follow up position is reported on a periodic basis to the Audit and Governance Committee.

This progress report covers the period 15 September 2023 – 20 November 2023.

3 Executive Summary

Since the last meeting of the Audit and Governance Committee, there has been the focus on the following areas:

Audit Reviews

The following reviews have been finalised:

- Freedom of Information and Subject Access Requests (Limited assurance level)
- Temporary Accommodation Review (Moderate Assurance)

Refer to Appendix C for details of Key Areas and Actions to be Delivered

The reviews below are currently at draft report stage or are in progress:

- Kirkham Regeneration (draft report)
- Financial Controls - Cash (draft report)
- Beach Safety (draft report)
- Payroll – Blackpool Controls (fieldwork concluding)
- Externally Managed Events (fieldwork)
- Stock – Fleet Consumables (fieldwork)
- Housing Inspections (fieldwork)

Follow Ups

A summary of the current status of all follow-up activity is included at Appendix D, as at September 2023 and we would draw the committee's attention to the following:

A summary of the status of moderate and limited assurance rated reports was provided at the previous Audit and Governance Committee in September. We will continue to follow-up outstanding actions and will provide a further update at the February 2024 meeting.

A follow-up of the Mastergov Planning System has been completed, as discussed at the Audit and Governance Committee in September. From an IT perspective all actions have been demonstrated as completed. The Council still have work to do to refresh the Business Continuity Plans, this is planned to start in January 2024. MIAA will consider the progress of Business Continuity Plans as part of the reviews on IT Service Continuity and Resilience and the Business Continuity Review.

Audit Plan Changes

Audit and Standards Committee approval will be requested for any amendments to the original plan and highlighted separately below to facilitate the monitoring process.

It is proposed to replace the Heritage Assets Review, with an extension of the scope on the Fleet Consumable Stock Review. This review will now incorporate expenditure controls over repairs and maintenance. The Heritage Assets Review will be included in the Internal Audit Plan for 2024/25, once the assets have been moved to the Lytham Hall.

Added Value

Briefings







Our latest briefing is:


- [23/24 MIAA Checklist Series - Risk Management \(Local Authorities\)](#)






Appendix A: Contract Performance

The Public Sector Internal Audit Standards (PSIAS) state that ‘The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.’

Below sets out the overview of delivery for your Head of Internal Audit Opinion for 23/24:

HOIA Opinion Area	TOR Agreed	Status	Assurance Level	Audit Committee Reporting
Core Assurances				
Risk Management		Scheduled to commence Qtr 4		
Risk Based Assurances				
Beach Safety		Draft Report		
Stock Consumables		Fieldwork		
Homelessness Budget Efficiency		Complete	Moderate	November 2023
Financial Controls (Deep Dive)		Draft Report		
Housing Inspections		Fieldwork		
IT Service Continuity and Resilience		Fieldwork		

HOIA Opinion Area	TOR Agreed	Status	Assurance Level	Audit Committee Reporting
Food Safety		Planning		
Business Continuity		Scheduled to commence December		
Performance Management		Planning		
Asset Management		Scheduled to commence Qtr 4		
Qtr 1	N/A	Complete	N/A	July 2023
Qtr 2	N/A	Complete	N/A	September 2023
Qtr 3	N/A	In progress		
Qtr 4	N/A	Scheduled to commence Qtr 4		
Added Value / Support & Guidance				
Changing Places Grant Award Assurance	N/A	Complete		
2022/23 Audit Plan				
MasterGov Planning System		Complete	Limited	September 2023

HOIA Opinion Area	TOR Agreed	Status	Assurance Level	Audit Committee Reporting
Recruitment*		Complete	Substantial	September 2023
Payroll Controls – Blackpool*		Fieldwork concluding		
Kirkham Regeneration*		Draft Report		
Freedom of Information and Subject Access Requests*		Complete	Limited	November 2023
Externally Managed Events*		Fieldwork		

If due to circumstances beyond our control we are unable to achieve sufficient depth or coverage, we may need to caveat opinions and explain the impact of this and what will be done to retrieve the position in future.

*These reviews were delivered during 2023/24 as requested by the Council, and as such will be included in the 2023/24 Head of Internal Audit Opinion.

Appendix B: Performance Indicators

The primary measure of your internal auditor's performance is the outputs deriving from work undertaken. The following provides performance indicator information to support the Committee in assessing the performance of Internal Audit.

Element	Reporting Regularity	Status	Summary
Delivery of the Head of Internal Audit Opinion (Progress against Plan)	Each Audit and Standards Committee	Green	There is ongoing engagement and communications regarding delivery of key reviews to support the Head of Internal Audit Opinion.
Percentage of recommendations raised which are agreed	Each Audit and Standards Committee	Green	All recommendations have been agreed.
Percentage of recommendations which are implemented	Quarterly	Green	All recommendations due are either in progress or have been completed.
Qualified Staff	Annual	Green	MIAA have a highly qualified and diverse workforce which includes 75% qualified staff. The Senior Team delivering the Internal Audit Service to the Council are CCAB/IIA qualified.
Quality	Annual	Green	MIAA operate systems to ISO Quality Standards. The External Quality Assessment, undertaken by CIPFA, provides assurance of MIAA's compliance with the Public Sector Internal Audit Standards. MIAA conforms with the Public Sector Internal Audit Code of Ethics.

Appendix C: Key Areas from our Work and Actions to be Delivered

Report Title	Freedom of Information and Subject Access Requests			
Executive Sponsor	Head of Governance			
Objective	To review and provide an assessment of the effectiveness of the controls being exercised by management regards subject access (SAR), freedom of information (FOI) and environmental information requests (EIR). Taking into consideration the legal framework governing the use of personal confidential data and the fundamental principles of the Data Protection Act 2018 / UK General Data Protection Regulations (the UK GDPR)), Freedom of Information Act 2000 and the Environmental Information Regulations 2004.			
Assurance Level	Limited			
Recommendations	0 x Critical	3 x High	3 x Medium	0 x Low
Summary	<p>Whilst the review identified some areas of good practice, there were also opportunities to strengthen controls in a number of key areas including ensuring sufficient resources for management of requests, documented processes, request management and assurance reporting.</p> <p>The Council had adopted the Information Commissioner’s (ICO) model publication scheme via its website and was proactively publishing information. The website included information advising individuals how to make FOI and EIR requests. The links were tested and found to be operating as expected. The website also included multiple privacy notices advising staff, councillors and citizens how their personal information was being processed and how to request information via a SAR.</p> <p>However, the Council’s ability to respond to and manage FOI / SAR and EIR requests had been impacted due to key staff absences and staff leaving. It is acknowledged that there were plans for a departmental restructure, though at the time of the review a single member of staff was responsible for overseeing and managing requests. The Council also advised that at the time of the review there was no resilient system for managing requests, and changes to the management of network drives and key staff absence meant</p>			

	<p>historical information had not been transitioned. Although there had been no complaints received, there was a risk that any requests received during the initial period of staff absence may have been missed.</p> <p>There was limited assurance reporting and the use of a spreadsheet for tracking requests received and performance monitoring had also ceased, with limited evidence available to confirm requests were being tracked, managed and responded to in line with statutory requirements. Although, an interim solution using One Drive and folders was demonstrated, this was not a robust system and was reliant on the same individual member of staff and undocumented processes.</p>
--	--

Report Title	Temporary Accommodation			
Executive Sponsor	Head of Environmental and Housing Sevices			
Objective	To evaluate the controls in place to manage the Temporary Accommodation income and expenditure budget, whilst also ensuring that accommodation suitability requirements are met for residents.			
Assurance Level	Moderate			
Recommendations	0 x Critical	1 x High	3 x Medium	3 x Low
Summary	<p>Whilst some controls were in place and operating effectively to manage the Temporary Accommodation income and expenditure budget, weaknesses were noted, particularly with regard to a lack of formality around the appointment of, and subsequent agreements with, accommodation providers.</p> <p>The Housing Team have worked hard to keep costs down and concentrate resources on moving clients on with the introduction of a Moving on Team dedicated to accommodating those in priority need. Support Workers and Personal Plans were in place to find long term accommodation. The Team also provided intermediary services with landlords to prevent eviction and have sourced external funding to loan advance rent payments and pay rent arrears.</p>			

Testing showed that the Council received favourable rates for accommodation; however, the Constitution Contract Procedure Rules were not being adhered to on the appointment of providers and there were no formal agreements in place.

The budget assigned to the Bed and Breakfast Temporary Accommodation for 2023/24 was based on the expectation of a decrease in demand following Covid. However, this has not materialised and as a result the existing budget is inadequate to meet current expenditure levels.

Although the Council received Housing Benefit income in respect of those in Temporary Accommodation, or where residents were in employment invoices were raised for payment contributions, process weaknesses were identified in the arrangements to reconcile payments received, raising invoices and the follow up of outstanding amounts.

Appendix D: Follow up of previous internal audit recommendations

The status of the actions is as at September 2023.

Previous Fylde Borough Council Audit Team Recommendations from Limited or Moderate Rated Reports. No risk ratings were assigned to recommendations.

AUDIT TITLE (YEAR)	NO OF RECS MADE	ASSURANCE LEVEL	PROGRESS ON IMPLEMENTATION				COMMENTS
			✓/S	P	X	Not due	
2019/20							
Commercial Property	9	Limited	6	-	-	3	Remaining actions relate to the creation of an Asset Management Group and Plan. These are not expected to be completed until 2024, due to changes in Committee and departmental structures and emerging priorities. Agreed at Audit and Standards Committee to extend the deadlines for completion.
VAT	3	Moderate	2	1	-	-	Remaining action in progress. Still outstanding due to Civica input required.
TOTALS	12		8	1	-	3	

MIAA Internal Audit Recommendations

AUDIT TITLE (YEAR)	NO OF RECS	ASSURANCE LEVEL	PROGRESS ON IMPLEMENTATION				OUTSTANDING RECOMMENDATIONS				COMMENTS
			✓/S	P	X	Not due	C	H	M	L	
2021/22											
Project Management	1	Moderate	-	1	-	-	-	1	-	-	There is a lack of resource, as recruitment was unsuccessful and projects workload has increased.
Health & Safety	6	Moderate	6	-	-	-	-	-	-	-	All actions are complete.
Treasury Management	2	High	1	-	1	-	-	-	-	1	Remaining action expected to be completed by 31 st December 2023.
S106	8	Moderate	5	-	-	3	-	1	2	-	Remaining actions not yet due.
Property Repairs and Maintenance	8	Limited	5	-	-	3	-	2	1	-	Remaining actions not yet due.
2022/23											
Homelessness	7	Moderate	5	-	-	2	-	-	2	-	Remaining actions not yet due.
Data Sharing Agreements	4	Limited	1	-	-	3	-	2	1	-	Remaining actions not yet due.

AUDIT TITLE (YEAR)	NO OF RECS	ASSURANCE LEVEL	PROGRESS ON IMPLEMENTATION				OUTSTANDING RECOMMENDATIONS				COMMENTS
			✓/S	P	X	Not due	C	H	M	L	
Cyber Security & Mobile Devices			Confidential								
Conflicts of Interest	10	Substantial	8	-	-	2	-	-	-	2	Remaining actions not yet due.
Budgetary Control	2	High	-	-	2	-	-	-	-	2	Actions expected to be completed by 31 st December 2023.
Apprenticeship	9	Moderate	5	2	-	2	-	-	2	2	Remaining actions in progress or not yet due.
Risk Management	4	Moderate	1	1	-	2	-	1	2	-	Remaining actions in progress or not yet due.
Key Financial Controls	2	Substantial	1	-	-	1	-	-	1	-	Remaining action not yet due.
Recruitment	2	Substantial	-	-	-	2	-	-	2	-	Actions not yet due.
Mastergov Planning	3	Limited	1	1		1	-	2	-	-	Remaining actions in progress or not yet due.
TOTALS	68		39	5	3	21	-	9	12	7	

Key to recommendations:

✓/S Implemented or Superseded

C Critical priority recommendation

L Low priority recommendation

P Partially implemented/recommendation in progress

H High priority recommendation

X Recommendation not implemented/awaiting update

M Medium priority recommendation

Appendix E: Assurance Definitions and Risk Classifications

Level of Assurance	Description
High	There is a strong system of internal control which has been effectively designed to meet the system objectives, and that controls are consistently applied in all areas reviewed.
Substantial	There is a good system of internal control designed to meet the system objectives, and that controls are generally being applied consistently.
Moderate	There is an adequate system of internal control, however, in some areas weaknesses in design and/or inconsistent application of controls puts the achievement of some aspects of the system objectives at risk.
Limited	There is a compromised system of internal control as weaknesses in the design and/or inconsistent application of controls puts the achievement of the system objectives at risk.
No	There is an inadequate system of internal control as weaknesses in control, and/or consistent non-compliance with controls could/has resulted in failure to achieve the system objectives.

Risk Rating	Assessment Rationale
Critical	Control weakness that could have a significant impact upon, not only the system, function or process objectives but also the achievement of the organisation's objectives in relation to: <ul style="list-style-type: none"> the efficient and effective use of resources the safeguarding of assets the preparation of reliable financial and operational information compliance with laws and regulations.
High	Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall organisation objectives.
Medium	Control weakness that: <ul style="list-style-type: none"> has a low impact on the achievement of the key system, function or process objectives; has exposed the system, function or process to a key risk, however the likelihood of this risk occurring is low.
Low	Control weakness that does not impact upon the achievement of key system, function or process objectives; however implementation of the recommendation would improve overall control.

Limitations

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regards to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

Responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Reports prepared by MIAA are prepared for your sole use and no responsibility is taken by MIAA or the auditors to any director or officer in their individual capacity. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose and a person who is not a party to the agreement for the provision of Internal Audit and shall not have any rights under the Contracts (Rights of Third Parties) Act 1999.

Louise Cobain

Title: Engagement Lead

Tel: 07795 564916

Email: Louise.Cobain@miaa.nhs.uk

Fiona Hill

Title: Engagement Manager

Tel: 07825 592842

Email: Fiona.Hill@miaa.nhs.uk

INFORMATION ITEM

REPORT OF	MEETING	DATE	ITEM NO
HEAD OF GOVERNANCE	AUDIT AND GOVERNANCE COMMITTEE	30 NOVEMBER 2023	6

REGULATION OF INVESTIGATORY POWERS ACT 2000: AUTHORISATIONS

PUBLIC ITEM

This item is for consideration in the public part of the meeting.

SUMMARY OF INFORMATION

Councillors are obliged to review the use of covert surveillance and covert human intelligence sources by the council at least quarterly. In the period to November 2023, there were no authorised operations.

SOURCE OF INFORMATION

Head of Governance

INFORMATION

1. The Regulation of Investigatory Powers Act 2000 (“RIPA”) regulates covert investigations by a number of bodies, including local authorities. It was introduced to ensure that individuals' rights are protected while also ensuring that law enforcement and security agencies have the powers they need to do their job effectively.
2. Fylde Council is therefore included within RIPA framework with regard to the authorisation of both directed surveillance and of the use of covert human intelligence sources.
3. Directed surveillance includes the covert surveillance of an individual in circumstances where private information about that individual may be obtained. A covert human intelligence source (“CHIS”) is a person who, pretending to be someone that they are not, builds up a relationship of trust with another person for the purpose of obtaining information as part of an investigation.
4. Directed surveillance or use of a CHIS must be authorised by the chief executive or deputy chief executive and confirmed by a Justice of the Peace. All authorisations are recorded centrally by the Head of Governance.
5. This is the required report on the use of RIPA. The information in the table below is about authorisations granted by the council during the quarter concerned.

Period	Directed surveillance	CHIS	Total	Purpose
21 July 2023 – 30 November 2023	0	0	0	

Figures correct when report published. Officers will verbally update members if the figures have changed by the date of the meeting.

WHY IS THIS INFORMATION BEING GIVEN TO THE COMMITTEE?

Regulations under the Regulation of Investigatory Powers Act 2000 (“RIPA”) require councillors to consider a report on the use of RIPA at least quarterly.

FURTHER INFORMATION - Contact Ian Curtis on 01253 658506 or at ian.curtis@fylde.gov.uk.