REPORT OF THE AUDIT COMMITTEE No. 1, 2024/25

FULL COUNCIL 22 July 2024

Chair: Councillor Erdal Dogan Deputy Chair: Councillor Cathy Brennan

1. INTRODUCTION

The Audit Committee's purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. Its role in ensuring there is sufficient assurance over governance, risk and control gives greater confidence to all those charged with governance that those arrangements are effective. Specifically in respect of governance, to review the council's corporate governance arrangements against the good governance framework, including the ethical framework, and consider the local code of governance.

LOCAL CODE OF CORPORATE GOVERNANCE

We considered the Local Code of Corporate Governance in accordance with our terms of reference at our March meeting and welcomed the report and noted the section in the code regarding co-production. The page outlined "engaging with individual citizens and service users effectively".

5. RECOMMENDATIONS

Full Council is recommended:

To adopt the attached Local Code of Corporate Governance, attached at Appendix 2 of the report.

TREASURY MANAGEMENT UPDATE

We considered the Treasury Management Outturn and discussed the following:

- A query was raised regarding the decrease in LOBOs (Lender Option Borrower Option). In response, the meeting heard that over the last year, the Council had refinanced one of the Lobos, which was worth about £25 million. The LOBO lender had exercised their option in this case. This had been expected and prior discussions were held with the Council's treasury advisors. As a result, the Council were able to refinance that specific loan at a lower rate. There was about £50million of LOBOs which had option exercise dates at some point this year. The Council was still communicating with its treasury advisor and it is unlikely that any of those lenders would want to exercise their options over the next 12 months. These were considered by Officers to be relatively low risk, unless markets started operating differently. However, next option exercise date for the larger portion of it - the £50 million - was in four years' time so there was no immediate refinancing risk.

- In relation to the credit rating the table in the report suggested that the counterparty risk of the Council's treasury investments was lower than other local authorities. This was mainly because the Council only had invested through the debt management office.
- A query was raised regarding the Private Finance Initiative (PFI). The meeting heard that the number disclosed for PFI included finance leases as well and that the PFI had actually decreased by approximately 5 million during the year. However, the leases had increased because of renewals throughout the course of the year.
- A query was raised regarding section 4.7 of the appendix which stated that a new HRA PWLB (Housing Revenue Account Public Works Loan Board) rate was made available to qualifying authorities at a further 0.40% discount and if the Council qualified for it and if there had been any plans to replace the HRA loans. The meeting heard that the Council did qualify and that the rate had been in place since last year. A lot of the borrowing the Council took was more for the HRA than it was for the Council. It had been a great opportunity for the Council to be able to replace some of the previous borrowing at an affordable cost. This included the LOBOs as much of the refinancing for the LOBOs was done using the HRA rate resulting in a better rate.
- A query was raised regarding the implication of section 6.2 of the appendix which stated that because of an average rate of return of 4.93%, with the Council having an investment portfolio balance of £81 million. The meeting heard that the paragraph was articulating that at the beginning of the year, the Council had made some assumptions of what it felt its average balances would be, but also what the Council could earn in interest rates. The Council had underestimated both of these and as a result, the Council received more treasury income than had been expected at the beginning of the year. The average rate was higher at 4.93% than the expected 2.5%. Also, due to grants, the Council had higher cash balances than expected. The Council expected to hold average balances of £20 million throughout 2023/24, but on average held about £80 million. This was likely a 'one-off' based on the specific factors to that year. Furthermore, it was confirmed that the income received formed part of the revenue budget for the Council and it did help with offsetting some of the overspend.
- A query was raised regarding the impact of treasury reports regarding a recent change in Government and expectations from local authorities that there would be an improvement in circumstances. In response, the meeting heard that from a treasury specific area, the key things to look out for included

the impact the Government's decisions would have on the cost of borrowing. This would be the main aspect from a risk management perspective. It would be largely driven by what the fiscal outlook. The Government would announce some of the policies they would put in place in order to try and boost growth. The Committee would be informed of any updates and changes of circumstances.

- It was noted that the Treasury Management report was part of the Council's financial position, but there were also more wider implications that could be considered. Members would have heard previously that, along with other local authorities, the Council was in a challenging position financially. It was too early to comment regarding the impact in relation to a newly elected government. The Council would keep an eye on any announcements around new funding or requirements, but this was too early to say. The Council was proactively looking at its medium-term financial strategy (MTFS) over the next five years. The Council would look at the financial position, look at an overall approach about how it was going to address it and, in particular, looking at the Council's financial sustainability, which would get picked up as part of value for money reports. The Council was working on the assumption that there were some challenging years ahead. Irrespective of any changes from Government, it would not necessarily change the approach. The five-year planning exercise was being initiated and officers would report later in the year to members.

- There had been no confirmation that the Government would offer a multi -year settlement. However, officers had lobbied regarding the importance of this. It was noted that it was difficult to plan year to year with a multi-year settlement in place. Being able to have three to five year funding arrangements from the Government would be important to the Council. The Council was working for next year's budget on the basis that it would be receiving similar levels of funding in relation to what it received currently.

- A query was raised regarding paragraph 6.13 of the report regarding the benchmark of how much could be borrowed. In response, the meeting heard that there were two key things that the Council used for benchmarking its debt position from a treasury management perspective. There was a liability benchmark, which looked at working capital arrangements and stated the maximum amount that could be borrowed maximum if the borrowing was being done only for the purposes of working capital. There was also an operational boundary which would limit the Council as to how much borrowing could be done. This was set on the basis of the capital programme, how much the Council could afford to borrow. Above that, there was an authorised limit. If this was breached, it would have to be reported to the authorities because the Council was not supposed to breach this in any case. There was impact that went into the cost of borrowing, which was part of the MTFS process to make sure that it was affordable. However, the key benchmarks from a treasury perspective were the operational boundary and the authorised limit. It was confirmed that as at 31 March 2024, the Council was nowhere near to breaching these limits.

- In relation to rates, the Council would want to keep borrowing to a minimum, irrespective of the Council financial position. It was important that the Council kept in mind the borrowing cost. This was particularly notable at a time when rates would remain high, at least across the short term.

6. RECOMMENDATIONS

Full Council is recommended:

1. To note the treasury management activity undertaken during the financial year to 31 March 2024 and the performance achieved which is attached as Appendix 4 to this report.
2. To note that all treasury activities were undertaken in line with the approved Treasury Management Strategy.