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Havering
LONDON BOROUGH

AUDIT COMMITTEE
AGENDA

7.00 pm	Tuesday 23 January 2024	Appointment Centre Room 10 & 11, Town Hall, Main Road, Romford

Members 8: Quorum 3

COUNCILLORS:

Conservative Group (3)	Havering Residents' Group (3)	Labour Group (1)	East Havering Residents Group (1)
Keith Prince Damian White David Taylor	Julie Wilkes (Chairman) David Godwin (Vice-Chair) Sarah Edwards	Jane Keane	Darren Wise

For information about the meeting please contact:
Taiwo Adeoye - 01708 433079
taiwo.adeoye@OneSource.co.uk

Under the Committee Procedure Rules within the Council's Constitution the Chairman of the meeting may exercise the powers conferred upon the Mayor in relation to the conduct of full Council meetings. As such, should any member of the public interrupt proceedings, the Chairman will warn the person concerned. If they continue to interrupt, the Chairman will order their removal from the meeting room and may adjourn the meeting while this takes place.

Excessive noise and talking should also be kept to a minimum whilst the meeting is in progress in order that the scheduled business may proceed as planned.

Protocol for members of the public wishing to report on meetings of the London Borough of Havering

Members of the public are entitled to report on meetings of Council, Committees and Cabinet, except in circumstances where the public have been excluded as permitted by law.

Reporting means:-

- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing, so that the report or commentary is available as the meeting takes place or later if the person is not present.

Anyone present at a meeting as it takes place is not permitted to carry out an oral commentary or report. This is to prevent the business of the meeting being disrupted.

Anyone attending a meeting is asked to advise Democratic Services staff on 01708 433076 that they wish to report on the meeting and how they wish to do so. This is to enable employees to guide anyone choosing to report on proceedings to an appropriate place from which to be able to report effectively.

Members of the public are asked to remain seated throughout the meeting as standing up and walking around could distract from the business in hand.

DECLARING INTERESTS FLOWCHART – QUESTIONS TO ASK YOURSELF

What matters are being discussed?

DPI

Does the business relate to or is it likely to affect a disclosable pecuniary interest. These will include the interests of a spouse or civil partner (and co-habitees):
- any employment, office, trade, profession or vocation that they carry on for profit or gain;
- any sponsorship that they receive including contributions to their expenses as a councillor; or the councillor's election expenses from a Trade Union;
- any land licence or tenancy they have in Havering
- any current contracts leases or tenancies between the Council and them;
- any current contracts leases or tenancies between the Council and any organisation with land in Havering in they are a partner, a paid Director, or have a relevant interest in its shares and securities;
- any organisation which has land or a place of business in Havering and in which they have a relevant interest in its shares or its securities.

YES → Declare Interest and Leave

NO

PERSONAL INTEREST

Might a decision in relation to that business be reasonably be regarded as affecting (to a greater extent than the majority of other Council Tax payers, ratepayers or inhabitants of ward affected by the decision)
- Your well-being or financial position; or
- The well-being or financial position of:

o A member of your family or any person with whom you have a close association; or
- Any person or body who employs or has appointed such persons, any firm in which they are a partner, or any company of which they are directors;
- Any person or body in whom such persons have a beneficial interest in a class of securities exceeding the nominal value of £25,000;

o Any body of which you are a member or in a position of general control or management and to which you are appointed or nominated by your Authority; or

o Any body exercising functions of a public nature, directed to charitable purposes or whose principal includes the influence of public opinion or policy (including any political party or trade union) of which you are a member or in a position of general control or management?

YES

PECUNIARY INTEREST

You must disclose the existence and nature of your personal interests

Would a member of the public, with knowledge of the relevant facts, reasonably regard your personal interest to be so significant that it is likely to prejudice your

NO → You can participate in the meeting and vote (or remain in the room if not a member of the meeting)

YES

- Does the matter affect your financial position or the financial position of any person or body through whom you have a personal interest?
- Does the matter relate to an approval, consent, licence, permission or registration that affects you or any person or body with which you have a personal interest?
- Does the matter not fall within one of the exempt categories of decisions?

NO → You can participate in the meeting and vote (or remain in the room if not a member of the meeting)

YES

Speak to Monitoring Officer in advance of the meeting to avoid allegations of corruption or bias

AGENDA ITEMS

1 CHAIRMAN'S ANNOUNCEMENTS

The Chairman will announce details of the arrangements in case of fire or other events that might require the meeting room or building's evacuation.

2 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) – received.

3 DISCLOSURE OF INTERESTS

Members are invited to declare any interest in any of the items on the agenda at this point of the meeting.

Members may still disclose any interest in any item at any time prior to the consideration of the matter.

4 MINUTES OF THE MEETING (Pages 5 - 10)

To approve as correct the minutes of the meeting held on 18 October 2023 and authorise the Chairman to sign them.

5 TREASURY MANAGEMENT STRATEGY STATEMENT (Pages 11 - 50)

Report attached

6 INTERNAL AUDIT PROGRESS REPORT (Pages 51 - 68)

Report attached.

Zena Smith
Head of Committee and Election Services

MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
Council Chamber - Town Hall
18 October 2023 (7.00 - 9.15 pm)

Present:

COUNCILLORS:

Conservative Group	Keith Prince, Damian White and David Taylor
Residents' Group	Julie WilkesDavid Godwin (Vice-Chair)
Labour Group	Jane Keane
East Havering Residents Group	Darren Wise

Through the Chairman, announcements were made regarding emergency evacuation arrangements and the decision making process followed by the Committee.

113 **MINUTES OF THE MEETING**

The meeting minutes of the Committee held on 27 July 2023 were agreed as a correct record and would be signed by the Chairman.

114 **IMPACT OF IMPENDING ULEZ CHANGES TO THE COUNCIL'S FLEET ASSETS**

At the request of Members, a report that detailed the financial impact of the ULEZ enforcement that comes into force on the 29 August 2023, impacting across a wide range of council vehicles and departments.

The Sub-Committee was informed that the council operates a fleet of c. 200 vehicles across its various functions and the ULEZ compliance status summarised as follows by service:

Highways – operate vehicles 7500kg > 18,000kg and all are compliant for the up and coming ULEZ changes. The Highways vehicles are manufactured from 2014 > 2018 and the Highways contract is due for reprocurement in April 2024 at which point it is likely that the remaining in-house activities will be outsourced. It was stated that there is a freeze on replacing these operational vehicles which all have an operating life of 7 years. As these vehicles are all Euro 6 and are not subject to daily ULEZ charges.

Passenger Transport Services (PTS) – operate 62 vehicles ranging from 3500kg > 12000kg (15 seats to 73 seats). PTS had intended to replace 27 'out of life', non-compliant buses last year and were at the award stage in November 2022 when they were asked to defer most of the replacements pending a review of Home to School Transport policy. It was agreed that PTS would apply to TfL for Community Grace Period Certificates, which allow a temporary exemption period up to October

2025. This has now been completed. The current PTS fleet which is a mixture of Euro 5 and Euro 6 Vehicles are currently ALL exempt from ULEZ daily charges.

Grounds Maintenance and Environment/Neighbourhoods – both of these services have been the subject of deferred fleet replacement due to potential inclusion within procurement of larger contracts.

The Environment/Neighbourhoods function (mechanised sweepers) is now within scope of the new waste contract commencing with Urbaser in Autumn 2023.

It was stated that a decision was recently taken, when scoping the forthcoming Highways contract, to retain the grounds maintenance function in-house. A Non-Key ED is being prepared seeking permission to replace these vehicles and a procurement Gateway meeting is taking place this month to establish the agreed route to tender. However, pending delivery of the new grounds maintenance fleet assets, up to 32 vehicles will be subject to the ULEZ charge of £12.50 per day.

Housing – Most of the housing fleet is hired and ULEZ-compliant (Euro 6). There are also 8 x 3.5 tonne vehicles that are due for replacement and they will be subject to the daily ULEZ charge of £12.50 up to the point where replacement vehicles are available. Specifications are being agreed with the Housing service and a business case is being prepared to replace them.

Bereavement Services – The fleet are currently linked to the procurement of the grounds maintenance vehicles and all 4 vehicles are ULEZ non-complaint and are subject to the daily fine of £12.50. All are due to be replaced this year.

Pool Cars – The fleet usage is monitored over time relative to demand and as a result the number of pool cars has been reduced since its introduction from 20 to 10 remaining vehicles. It is proposed replace the remaining ‘owned’ fleet with electric vehicles once the charging infrastructure is in place. In the meantime, the current diesel vehicles are being sold and temporary (Euro 6) hired vehicles are replacing them.

Car Parks and Parking Enforcement – Both sections have been under review including their facilities operational base at Angel Way car park. On-going discussions are taking place regarding their fleet requirements including the possible provision of e-bikes. It was noted that Parking Services have 6 vehicles subject to the ULEZ daily charge of £12.50.

The report detailed a projected cost of replacing non-compliant vehicles. An appendix to the report identified the fleet and the following costs:

- The daily, monthly and yearly costs of ULEZ fines per vehicle.
- The ULEZ cost for this current year from 1St September 2023
- The estimated cost of replacing non-compliant fleet assets
- The estimated cost of replacing all vehicles including the buses with TFL community grace period application certificates.
- Identifies 201 vehicles with 68 ULEZ non-compliant.

The report detailed a projected schedule that identified a worst-case scenario in the unlikely event of no further fleet replacements being achieved during the current financial year and all non-compliant vehicles being used daily, the Council's potential exposure to ULEZ fines would be approximately £103k in 2023/4.

It was noted that about 40 vehicles will incur ULEZ charges. The council has now put in place a ULEZ account with TFL to cover charges in order to avoid payment fines.

Members were informed that Transport Services would most likely absorb all the charges than go down the line of individual cost centres as the service was a trading service that brings in an income.

The Sub-Committee **noted** the current position of the council vehicles.

115 MID-YEAR TREASURY MANAGEMENT REPORT 2023/24

The Committee received an update on the mid-year report on the treasury management activities as required by The Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code ("TM Code").

The report stated that the Authority's Treasury Management Strategy Statement (TMSS) for 2023/24 was approved at the Cabinet meeting on 8 February 2023 and at Full Council on the 1 March 2023. The TMSS aims to bring together the Council's capital programme and its Budget to ensure borrowing decisions are affordable and sustainable in line with regulation.

The report covered activity on treasury managed investments and borrowings and the associated monitoring and control of risk.

The key highlights of the mid-year report were as follows:

- At the end of August 2023 the investment portfolio yield was 5.18% **-** this was achieved keeping investments on very short maturities thereby tracking successive increases in bank rate over the period.
- The Authority weighted average rate of return was 4.65% compared to Link's benchmarking club return of 4.38% for the last published quarter to the end of June – this was virtually risk free as all investments were placed with the Government Debt Management Office and a number of Local Authorities and NatWest Bank.
- Net interest outturn, expense is expected to be within budget.
- According to the Office for Local Government this Authority has one of the lowest debt servicing cost at 4.6% of core spending power, compared to other authorities in 2021/22.
- The Authority fully complied with the prudential and treasury indicators set out in the (TMSS) for 2023/24.

Members received responses to questions raised about the council's approach to borrowing and lending and risk in particular.

Officers stated that there has not been a shift in terms of re-profiling debt from the capital programme to the HRA.

It was clarified to Members that the council's fixed term investment deposit were being monitored on a day to day basis. The current position was that there is very little risk in terms of losing the authority's deposits.

Officers indicated that the council's treasury advisers have not raised any issues on the council's risk profile.

A Member asked that auditors look at the viability of each of the housing regeneration schemes.

The Committee **noted** the treasury management activities to August 2023 as detailed in the report.

116 ASSURANCE PROGRESS REPORT

The Committee was presented with a report that informed Members on the work undertaken by the Assurance Service (internal audit and counter fraud) during the period from 1 April to 30 September 2023.

The following summary of work undertaken by Internal Audit was detailed:
The report indicated that some of the work undertaken by internal audit does not result in an opinion being provided such as advisory reviews and grant claims.

Audit Plan Status	Number of Audits / Tasks
Final reports issued / Reviews Completed	11
Draft reports issued	4

In giving an overall Audit opinion on the system control environment within the areas reviewed, there are two levels of assurance as follows:

Key to Assurance Levels	
Reasonable Assurance	The control framework is adequate to manage the risks in the areas reviewed. Controls are applied consistently or with minor lapses that do not result in significant risks to the achievement of system objectives.
Limited Assurance	There are fundamental weaknesses in the internal control environment within the areas reviewed, and further action is required to manage risks to an acceptable level.

The tables below detailed the results of the work undertaken during quarter one and two of 2023/24. These recommendations were provided with the limited assurance summary reports.

Audit Title – LBH Systems Audits	Assurance	Recommendations			
		H	M	Adv	Total
Full System Reviews:					
Service Charges Follow Up	Limited	2	0	0	**2***

Duplicate Payments (Faster Payments)	Limited	3	3	1	**7**
DPIAs - CCTV (Follow up)	Reasonable	0	0	0	**0**
Responsive Repairs	Limited	1	1	2	**4**
Advisory/ Grant Reviews:					
Insurance Process Mapping (Phase One – Third Party Claims)	n/a	n/a	n/a	n/a	n/a
Mayors Appeal Fund	n/a	n/a	n/a	n/a	n/a
Supporting Families (Quarter One)	n/a	n/a	n/a	n/a	n/a
System Audits Total		**6**	**4**	**3**	**13**

Audit Title – LBH Schools Audits	Assurance	Recommendations			
		H	**M**	**Adv**	**Total**
St Patricks Primary	Reasonable	0	3	0	**3**
Parklands Primary	Reasonable	0	2	0	**2**
Engayne Primary	Reasonable	0	1	0	**1**
Gidea Park Primary	Reasonable	0	5	2	**7**
School Audits Total		**0**	**11**	**2**	**13**

It was noted that Internal Audit follows up all high and medium risk audit recommendations with relevant service management. There is a rolling programme of follow up work with each auditor taking responsibility for tracking the implementation of recommendations made in their audit reports. The implementation of audit recommendations in systems where limited assurance was provided is verified through a follow up audit review.

It was stated that the work is of high importance given that the Council's risk exposure remains unchanged if management fail to implement the recommendations raised in respect of areas of control weakness. Part of the Audit Committee's role is to monitor the extent to which recommendations are implemented as agreed and within a reasonable timescale, with particular focus applied to any high risk recommendations.

All high and medium risk recommendations due as at the end of September 2023 have been followed up and confirmed with management as implemented. Any recommendations that remain outstanding and are past agreed implementation dates, or where management have not responded to requests for progress updates, will be reported to Audit Committee.

Recommendations were classified into three potential categories according to the significance of the risk arising from the control weakness identified. The three categories comprise:

High	Fundamental control requirement needing implementation as soon as possible.
Medium	Important control that should be implemented.
Advisories	Pertaining to best practice.

Members sought and received clarification on specific questions matters raised.

The Committee **noted** the contents of the report.

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Chairman

Havering
LONDON BOROUGH

Audit Committee	**23 January 2024**
Subject Heading:	**Treasury Management Strategy Statement 2024/25 and Annual Investment Strategy 2024/25 ("TMSS"), Treasury Indicators**
Cabinet Member:	**Councillor Christopher Wilkins** **Cabinet Member for Finance**
SLT Lead:	**Kathy Freeman** **Strategic Director of Resources and s151 Officer**
Report Author and contact details:	**Stephen Wild** **Tony Piggott** **Tony.Piggott@onesource.co.uk** **01708 434 368**
Policy context:	**The CIPFA Code of Practice ("CIPFA TM Code") on treasury management 2021 recommends that the TMSS is reported to a committee for effective review- this role is undertaken by the Audit Committee and this report will be reviewed at its meeting on the 23 January 2024 and final version of the report will be presented to Cabinet on 7 February and then Full Council on 28 February 2024**
Financial summary:	**The TMSS forms part of the Authority's overall budget strategy and financial management framework.**
Is this a Key Decision?	**No**

When should this matter be reviewed? **Annually**

Reviewing OSC:

The subject matter of this report deals with the following Authority Objectives

Communities making Havering	[]
Places making Havering	[]
Opportunities making Havering	[]
Connections making Havering	[]

SUMMARY

The Treasury Management Strategy Statement (“TMSS”) is part of the Authority’s reporting procedures as recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management (“TM”) Code and its Prudential code (“The CIPFA Prudential Code”) for capital finance in local authorities. The TMSS also sets out recently introduced changes to the legislative framework, which are generally designed to place restrictions on authorities’ commercial activity.

This report fulfils the Authority’s legal obligation under the Local Government Act 2003 to have regard to both the CIPFA TM Code/Prudential Code and Government Guidance, and it covers:

- The Borrowing and Investment Strategies
- Treasury Management and Prudential Indicators.

RECOMMENDATIONS

For the reasons set out in the report and its annexes Cabinet is recommended to agree:

- The Draft 2024/25 TMSS & AIS which will form part of the Budget Report to Cabinet on 7 February and Full Council on 28 February 2024.
- The revised prudential and treasury indicators set out in Appendix 2 and 3.
- The operational and authorised borrowing limits set out in tables 5 & 6 of appendix 2

Under the Havering Scheme of Delegation Part 3 section 3.10.3 the s151 Officer functions are:

(j) To manage the Council's loan debt, investments, and temporary investments, pension scheme and pension fund, insurance fund, act as registrar of loan instruments, manage all banking arrangements including numbers and types of accounts and arrange insurance of property and the selecting and accepting of tenders for insurance cover and related services which are considered to offer best value for the Council promoting good risk management practices at all times.

Audit committee is asked to consider and comment on this report before it is presented to Cabinet and Full Council for approval.

REPORT DETAIL

1. Introduction

1.1 The statutory Codes set out that the Authority is required to approve a Treasury Management Strategy Statement, and the Prudential Indicators.

1.2 CIPFA define treasury management as "The management of the local authority's borrowing, 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."

1.3 The Authority is required to operate a balanced revenue budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that the Authority's cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments in accordance with the Authority's appetite for risk and liquidity requirements, as priorities before considering investment return.

1.4 The other main function of treasury management is to help fund the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer term cash flow planning required to meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet the Authority's risk or cost objectives

1.5 Whilst any regeneration initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure which has its own governance process), and are separate from the day to day treasury management activities. This expenditure is shown throughout this report as the "regeneration programme".

1.6 The current treasury portfolio is set out in **appendix 1**.

2. Key considerations and sustainability

2.1 TMSS 2024/25

2.1.1 Treasury Management considerations:

- The Macroeconomic outlook
- The Borrowing strategy
- Prudential indicators and treasury limits
- The Investment strategy
- TM regulation and policies

2.1.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CIPFA TM Code and the Department for Levelling-Up Housing and Communities or DLUHC Investment Guidance.

3. Service Delivery and Performance Issues

3.1 Macro-economic and Interest rate outlook

3.1.1 Link assist the Authority with determining its view on interest rates. Link provided their latest outlook on Bank rate and PWLB rates. The PWLB rate forecasts below in table 1 are based on Certainty Rate (the standard rate minus 20 bps (0.2%) which has been accessible to this Authority since 1 November 2012. Please note that the lower HRA PWLB rate (standard rate minus 60 bps) started on 15 June 2023 and remain in operation until 14 June 2025.

Table 1: Link interest rate outlook 8 January 2024

%	Mar-24	Dec-24	Mar-25	Dec-25	Mar-26	Dec-26
Bank Rate	5.25	4.25	3.75	3.00	3.00	3.00
5yr PWLB	4.50	4.20	4.10	3.70	3.60	3.50
10yr PWLB	4.70	4.30	4.20	3.90	3.80	3.70
25yr PWLB	5.20	4.80	4.60	4.20	4.20	4.10
50yr PWLB	5.00	4.60	4.40	4.00	4.00	3.90

3.1.2 Link's central forecast for interest rates is that the Bank of England Monetary Policy Committee (MPC) will further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least Quarter 2 2024. Link expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and that there is a likelihood of the overall economy enduring at least a mild recession over the coming months, although most recent GDP releases have surprised with their on-going robustness.

3.1.3 The balance of risks are firmly on the downside. They do not think that the MPC will increase Bank Rate above 5.25%.

3.1.4 Gilt yields and PWLB rates: The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of Link's forecast, as inflation continues to fall in 2024.

3.1.5 Link's borrowing advice: Their long-term (beyond 10 years) forecast for Bank Rate has increased from 2.75% to 3% and reflects Capital Economics' research that suggests Artificial Intelligence and general improvements in productivity will be supportive of a higher neutral interest rate. As all PWLB certainty rates are currently significantly above this level, borrowing strategies should be reviewed in that context. Overall, better value can generally be obtained at the shorter end of the curve and short-dated fixed Local Authority

(LA) to LA monies whilst the market continues to wait for inflation, and therein gilt yields, to drop back later in 2024.

3.1.6 Better than expected headline inflation rate of 3.9% in November 2023 was reported and this pushed gilt yields and PWLB rates down further. At the time of writing the PWLB rates were:

Table 2: PWLB Rates at 3 January 2024

Year	Standard %	Certainty %	HRA %
1	5.40	5.20	4.80
2	4.98	4.78	4.38
5	4.51	4.31	3.91
10	4.69	4.49	4.09
25	5.25	5.05	4.65
50	5.03	4.83	4.43

3.1.7 Officers reviewed other economic forecasts and found there is a consensus that rates are trending down. Officers are in agreement that long term borrowing should be on shorter durations (2-5 years) and then refinance on longer term durations when rates are expected to be lower. Officers are of a view that following further reductions in shorter duration PWLB rates since December the balance has shifted in favour of locking in some long term debt on short durations.

3.2 Borrowing Strategy

3.2.1 The revenue budget is, by law, balanced such that income is expected to equal expenditure. However, the timing of government grants and other large items can lead to large variations in the actual daily cash position, for example the average monthly payroll alone is in the region of £8.5m.

3.2.2 As at 31 March 2022 the Authority had cash balances of £137m, this had reduced to £46m at 31 December 2023. In addition to the variability of cash flow, Capital expenditure, to the extent that it is not financed by government grants, capital receipts or other external funding, has reduced the cash balance. Over time this will be matched by borrowing but it should be noted that the exact timing of the borrowing and expenditure will not match.

3.2.3 The Capital programme 3 year spend 2024/27 is £1.02bn of which £600m is to be funded through prudential borrowing. This will change if new government grants are announced, new decisions that Havering may take such as if new items were added to the capital programme or disposals of surplus assets were to be agreed.

3.2.4 For the reasons set out above the Authority needs to maintain a prudent cash balance to allow it to cover the variability of expenditure. The extent to which borrowing would be required will depend on the movement in cash reserves, working capital, strength of the capital forecast and how much slippage might occur during each financial year.

3.2.5 It is sensible to plan on the basis of covering the inevitable month on month fluctuations in cash balances to avoid what would in effect be an unplanned, and therefore expensive, short-term overdraft. Based on analysis of the monthly cash variations then £40m has been established has an appropriate cash balance or liquidity allowance.

3.2.6 The underlying need to borrow for the capital programme is measured by the Capital Financing Requirement (CFR). Havering like most authorities have set their external borrowing below their CFR level. This means that the CFR, has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy.

3.2.7 Against this background and the risks within the economic forecast, caution will be exercised on 2024/25 treasury operations. The S151 officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then long term borrowing will be postponed.

- if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

3.2.8 The 2023/24 TMSS correctly anticipated that the Authority's surplus cash would be used up to finance its capital investment plans by financial year end 2022/23. This is further underlined by the fact that over the period 9 months to December 2023 net borrowing has increased by £16m financed by temporary borrowing so as to maintain the liquidity allowance at £40m.

3.2.9 On top of the £600m future external borrowing to finance future capital plans, there is £231m (£153m at 31/3/22) of historic capital spend that has been met by internal borrowing as at 31 March 2023, financed by £175m (£69m at 31/3/22) from the Authority's cash reserves and £56m (£84m at 31/3/22) from its working capital surplus. The 2023/24 TMSS acknowledged that this level of internal borrowing may not be sustainable in the long term, working capital by its very nature is variable and unpredictable while the Authority's cash reserves which are mostly made up of reserves for a specific purpose may come under pressure to be applied, not least from the capital programme itself. The strategy proposed unwinding some of that internal borrowing once market circumstances permit.

3.2.10 Given that rates have come off coupled with the introduction of the HRA concessionary rate there are plans to unwind HRA net internal borrowing with long term PWLB fixed rate debt on short durations. This will enable cash to be returned to those reserves experiencing pressure to use their balances and also help finance growth in General Fund CFR thereby avoiding the use of more expensive external borrowing.

3.2.11 Plans are also in place to undertake in year HRA long term borrowing on short durations to meet the borrowing need whilst interest rates remain below the budgeted rate in the HRA business plan.

3.2.12 Potential borrowing sources are set out below:

Approved sources/type of borrowing

On Balance Sheet	**Fixed**	**Variable**
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies		
UK Infrastructure Bank	●	●
Mayor of London Energy Efficiency Fund (MEEF)	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Local authority bills	●	●
Overdraft		●
Negotiable Bonds	●	●

Internal (capital receipts & revenue balances)	•	•
Finance leases	•	•

3.2.13 The preferred strategy, as agreed with Link at this stage is to borrow for fixed term loan durations less than 5 years from the either the PWLB, Market (Long term and temporary), Local authorities, Banks depending on whom is offering better terms for a relatively short term duration (up to 5 years), to minimise the immediate interest rate costs. These sources represent the cheapest and most accessible source for shorter duration debt and for borrowing of this size. This will then be refinanced as part of the longer-term borrowing strategy once interest rates start to come off their current elevated levels. The option to use quasi government loans from the UK Infrastructure Bank (UKIB) and MEEF for new long term borrowing may also be used on specific capital projects which typically provide Environmental, Social and Governance (ESG) outputs where they provide value for money over PWLB certainty rates.

3.2.14 Interest rates may not follow the central outlook set out in this report and there is a significant risk that they may remain elevated for longer or actually increase due to unknown factors such as geopolitical events. In this scenario, the S151 officer in consultation with the Cabinet member for Finance may decide from a risk management point of view that it would be sensible to secure the capital investment strategy, if longer term borrowing from one of the approved sources set out above was undertaken sooner than later. This may result in a higher cost of borrowing than planned but capital plans will be regularly monitored to ensure they remain affordable and sustainable.

3.2.15 As it stands the PWLB is currently the most cost effective source except possibly on specific ESG related capital plans. This however may change, for example the Government in 2019 arbitrarily increased PWLB rates which it subsequently reversed in 2021. Treasury officers and Link will constantly monitor the capital finance market to identify the most cost effective source of long term borrowing from the above list of approved sources of capital finance.

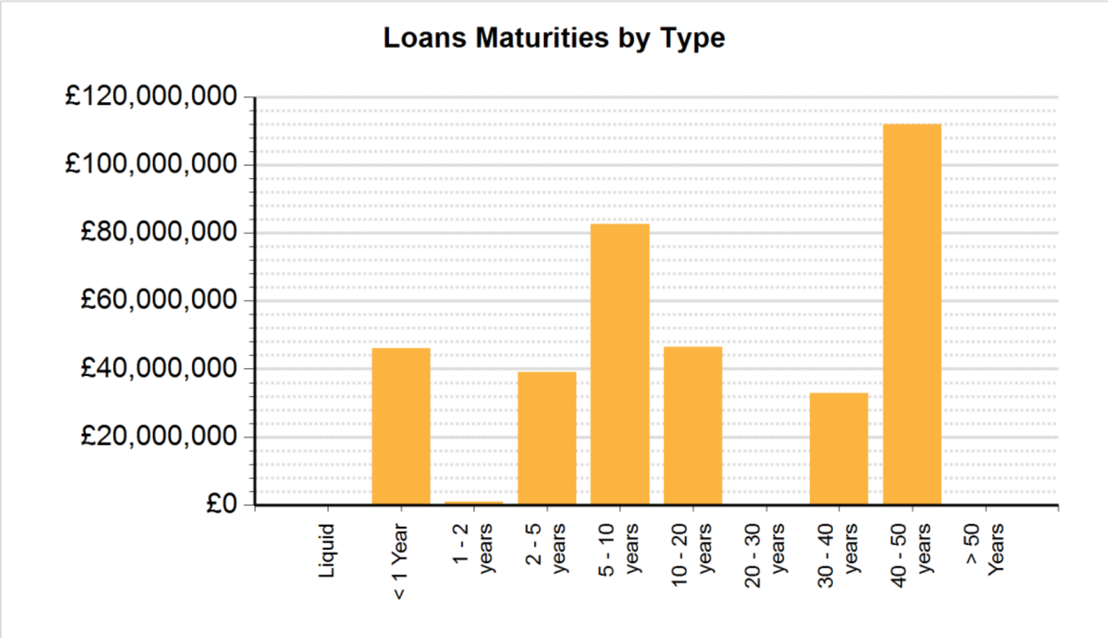
3.2.16 Other borrowing arrangements: such as the use of leasing, specialist ‘green’ funding that may be more cost efficient for some types of capital expenditure such as for vehicles, equipment and decarbonisation schemes.

3.2.17 The type, period, rate and timing of new borrowing will be determined by the S151 officer under delegated powers, taking into account the following factors

- Expected movements in interest rates as outlined above

- Maturity profile of the debt portfolio set out in graph 1 and table 3 below show the debt maturity profile.
- The impact on the medium term financial strategy (MTFS)
- Proposed Prudential Indicators and limits as set out in **appendix 2**.

Graph 1: Debt Maturity Profile



Treasury Management Limits on borrowing activity

Table 3: debt maturity profile as at 31/12/23

Tenor	**Amount**	**Fixed rate**
Yr	£000	%
< 1	46,000	5.30
1-2	979	4.88
2-5	39,037	3.20
5-10	82,624	3.25
10-20	46,524	3.45
20-30	253	4.50
30-40	32,959	5.03
40-50	112,000	1.66
Total	360,376	

Policy on borrowing in advance of need

3.3.18 This is set out in **appendix 4** of this report.

Debt Rescheduling

3.2.19 Where short term borrowing rates are considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- The generation of cash savings and / or discounted cash flow savings
- To fulfil the treasury strategy
- To enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility)
- Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

3.3 Prudential Indicators and treasury limits

3.3.1 The Authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, shown in **appendix 2**, which are designed to assist Members' overview and confirm capital expenditure plans.

3.3.2 The CIPFA Prudential Code and the CIPFA TM Code requires authorities to set treasury indicators The treasury indicators limit treasury risk and activities of the Authority; This includes a liability benchmark for the General Fund (GF) and the Housing Revenue Account (HRA); **appendix 3.**

3.3.3 The purpose of these are to manage the activity of the treasury function within a flexibly set remit for risk management, yet not impose undue restraints that constrict opportunities for cost reduction or performance improvement.

3.4 Investment Strategy

3.4.1 The DLUHC and CIPFA have extended the meaning of 'investments' to include both treasury and non-treasury investments. This report deals solely with treasury investments, (as managed by the treasury management team).

3.4.2 The Authority's investment policy has regard to the following:

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA TM Code and Guidance Notes from 2021.

3.4.3 The key intention of the Guidance is to **maintain the requirement for authorities to invest prudently and that priority is given to the security and liquidity of investments before yield.** The Authority's objective is therefore to achieve, within this constraint, the optimum return on its investments with the appropriate levels of security and liquidity. Within the prudent management of its financial affairs, the Authority may temporarily invest funds that are borrowed for the purpose of expenditure expected to be incurred in the reasonably near future. Borrowing purely to invest or on-lend for speculative purposes remains unlawful and this Authority does not engage in such activity.

3.4.4 The above guidance from the DLUHC and CIPFA place a high priority on the management of risk. This Authority has adopted a prudent approach and to managing risk, its minimum credit criteria is set out in **Appendix 5.** The Authority's investment strategy has not changed from the 2023/24 TMSS.

3.4.5 Investments will make reference to the core balance, cash flow requirements and the outlook for short and medium term interest rates.

3.4.6 Credit ratings should not be the sole determinant of the quality of an institution. This Authority is not bound by the institution's rating and, importantly, officers will continually assess and monitor the financial sector and the economic/political environment in which institutions operate.

3.4.7 Treasury investment instruments identified for use in the financial year are l*i*sted in **Appendix 6**.The 'specified' and 'non-specified' investment categories are in accordance with the DLUHC Investment Guidance.

3.4.8 The S151 Officer, on advice, make operational changes to these limits in response to prevailing market conditions and regulatory changes. Presently the Authority's lending list only includes the highest quality UK financial institutions, other local authorities (limit of £5m per authority) and the Government Debt Management Office – investment balances are expected to be generally around the liquidity allowance of £40m and by definition these are generally held on very short duration investments.

3.4.9 All investments will be denominated in sterling.

3.4.10 Regular monitoring of investment performance will be carried out during the year.

Loans to Third Parties or Non Treasury investments

3.4.11 The Authority may borrow to make grants or loans to third parties for the purpose of capital expenditure, as allowable under paragraph 25 (1) (b) of the Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 (Statutory Instrument No. 3146). This facility is likely to be used to support local economic regeneration and development activity but not limited to those purposes. The additional capital expenditure may be funded by external borrowing. Loans for working capital or revenue purposes are permitted as long as these are funded from the Authority's internal cash balances as external borrowing is not permitted in such circumstances.

3.4.12 Pension Fund Cash - The Local Government Pension Scheme (Management and Investment) Regulations 2016 requires the Authority to maintain a separate bank account for the Pension Fund. For the management of Pension Fund cash, there is in place an agreement to pool internally held pension fund balances (working cash and those pending external investment) with the investment balances of the Authority. These balances are invested in accordance with the Authority's Treasury Management Strategy.

3.4.13 The Pension Fund receives interest annually on their cash balances at a rate commensurate with that received by the Authority. Pension Fund cash balances may be withdrawn anytime. In the event of loss of any investment, this will be borne on a pro rata basis equivalent to the value of each party's contribution to the investment which incurred the loss.

3.5.1 Treasury Management regulation

Statutory reporting requirements

3.5.2 Full Council is required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals in accordance with the CIPFA TM Code.

a. **Prudential and treasury indicators and Treasury Strategy, TMSS** (this report) - The first, and most important report is forward looking and covers:

- The capital plans, (including prudential indicators)
- The Treasury Management Strategy Statement, (how the investments and borrowings are to be organised), including treasury indicators

- An Investment Strategy, (the parameters on how investments are to be managed).

b. **A mid-year treasury management report** – a progress report and updates Members on the capital position, amending prudential/treasury indicators as necessary, and whether any policies require revision.
c. **An annual treasury report** – a backward looking review document providing outturn details on actual prudential and treasury indicators and treasury activity compared to the estimates within the strategy.

3.5.3 The above reports are required to be adequately reviewed before being adopted by Full Council. This role is undertaken by Audit Committee.

3.5.4 Quarterly reports – In addition to the three major reports detailed above, quarterly reporting (end of June/end of December) is also required. However, these additional reports do not have to be reported to Full Council but do require to be adequately reviewed. This role is undertaken by the Audit Committee. (The reports, specifically, should comprise updated Treasury/Prudential Indicators.)

3.5.5 The minimum revenue provision policy is included in the 5 Year Capital Programme and Strategy Report which is presented to Cabinet alongside the Budget report.

Training

3.5.6 A key requirement of the CIPFA TM Code is Member consideration of treasury management matters and the new Knowledge and Skills framework set out in the revised CIPFA TM Code published in December 2021.

3.5.7 Furthermore, pages 47 and 48 of the Code state that they expect "all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

3.5.8 The Authority addresses this important issue by:

- Providing training sessions, briefings and reports on treasury management and investment issues to those Members responsible for the monitoring and scrutiny of treasury management. A treasury training session for members took place on 22 January 2024.
- Prepare tailored learning plans for treasury management officers and board/council members.

- Require treasury management officers and Committee/Council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
- Requires all relevant Officers to keep their skills up to date through training, workshops and seminars, and participating in the CIPFA Treasury Management Forum and the London Treasury Officers' Forum.

3.5.9 In further support of the revised training requirements, CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management', that officers will circulate annually to members for completion.

The policy on use of external service providers

3.5.10 The Authority uses **Link Group ("Link")** as its external treasury management adviser, the contract was procured through a framework and commenced on 1 July 2018 and due to expire on 30 June 2024. Procurement for a treasury adviser will be undertaken before this contract ends.

3.5.11 The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

3.5.12 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are agreed and subjected to regular review.

3.5.13 The Authority may use specialist advisers on non-treasury investments, e.g. investment in regeneration schemes.

Treasury management

Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery

Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

Commercial return
Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to an Authority's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An Authority must not borrow to invest primarily for financial return. This Authority does not have these type of investments in its capital programme.

REASONS AND OPTIONS

Reasons for the decision

The statutory Codes set out that the Authority ought to approve a Treasury Management Strategy Statement, and the Prudential Indicators.

Other options considered

The DLUHC Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The S151 officer, having consulted the Cabinet Member for Finance and Transformation, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but

		any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; Non HRA debt cost is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain

IMPLICATIONS AND RISKS

Financial implications and risks:

The TMSS is a key part of the overall budget strategy and financial management framework and governs the strategic and operational treasury management activities throughout each financial year in order to manage the Authority's financial risks associated with cash management via borrowing and investments.

Members are approving the programme on the basis that the capital programme spend is achieved, which feeds through into the Prudential Indicators set out in the report. The reality is that there is likely to be slippage and this will impact on the MTFS.

The assumption for new borrowing is that interest rates will follow the outlook set out in table 1 above. The expectation is that borrowing will be on fixed rate terms on maturities less than 5 years and that these will be refinanced into longer term loans during 2025/26 onwards once interest rates become lower:

Table 4: Assumed average annual fixed interest rate on new borrowing 2023/27

	Bank rate	Long term
	%	%
2024/25	5.00	4.70
2025/26	3.25	3.80
2026/27	3.00	3.50

The budgeted cost of the GF capital programme is set out in table 5 below.

Table 5 General Fund (GF) Capital Finance Budget 2024/25

2024/25	Budget
	£
Interest receivable total	-1.250,000
Interest payable total	5,859,433
Total Treasury	4,609,433

The non HRA (or General fund) capital finance budget is forecast to underspend £7m in 23/24. The estimated GF capital borrowing is £30m in 23/24, so the full year interest cost in 24/25 is expected to be £1.5m assuming a 5% rate of interest. In-year borrowing for the GF in the capital programme budget is £76m and assuming a borrowing rate of 5% this would result in a weighted interest cost of £1.9m. The estimated total interest in 24/25 is £3.4m and can therefore be absorbed in the current budget. The interest receivable budget in 24/25 assumes a budgeted return of 3.1% in 2024/25.

The draft HRA Business Plan assumes a budgeted rate of 4.3% on its in-year programme borrowing of £112m. Slippage on the 23/24 programme has a budgeted rate of 5%. HRA Internal borrowing from the GF has a budgeted rate of 2.5% - as mentioned previously the intention is to replace the net amount with PWLB debt.

Legal implications and risks

Local Authorities are required by Regulations 2 and 24 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003/3146 as amended to have regard to the “Prudential Code for Capital Finance in Local Authorities” and

Treasury Management in the Public Services Code of Practice published by CIPFA when considering their duties under Part 1 of the Local Government Act 2003.

The Authority must comply with section 3 of the Local Government Act 2003 to keep under review the amount of money the Authority can afford to borrow.
The Authority has fiduciary duties toward its tax payers to act in good faith in the interests of those tax payers with the considerable sums of money at its disposal. The Strategies being proposed for approval seek to discharge those duties in a reasonable and prudent manner.

There are no other apparent legal implications arising as a result of this Report.

Human Resources implications and risks

There are no direct Human Resources implications arising as a result of this report

Equalities Implications and Risks

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Authority, when exercising its functions, to have due regard to:

(i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010
(ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and
(iii) Foster good relations between those who have protected characteristics and those who do not.

The Authority is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce.
There are no equalities implications within this report

Health and Wellbeing Implications and Risks

The Authority is committed to improving the quality of life and wellbeing for all Havering employees and residents in respect of socio-economics and health determinants. There are no direct implications to the Authority’s workforce and resident’s health and wellbeing as a result of this report.

BACKGROUND PAPERS

NONE

APPENDICES

Appendix 1: Current treasury position

Appendix 2: Prudential indicators & capital expenditure

Appendix 3: Treasury limits

Appendix 4: Policy on borrowing in advance of need

Appendix 5: The Authority's counterparty credit policy, minimum credit ratings criteria

Appendix 6: Specified and non-specified investments

Appendix 1

CURRENT TREASURY POSITION

As at 31 March 2023 and 31st December 2023, Investments and borrowings are set out in table 1 below.

Table 1: Treasury Portfolio Position

	TREASURY PORTFOLIO			
Treasury Investments	**Actual 31/03/23 £m**	**Actual 31/03/23 %**	**Actual 31/12/23 £m**	**Actual 31/12/23** %
Government (including Local authorities)	30.2	100	46.7	100
Total Treasury Investments	**30.2**	**100**	**46.7**	**100**
Treasury Borrowing				
PWLB	307.1	93.7	307.1	85.2
LOBO loan from bank	7.0	2.1	7.0	1.9
Temporary loan (LA)	13.0	4.0	46.0	12.8
Other loans	0.7	0.2	0.3	0.1
Total External Borrowing	**327.8**	**100**	**360.4**	**100**
Net Treasury Investments/(Borrowing)	**(297.6)**		**(313.7)**	

Appendix 2

PRUDENTIAL INDICATORS & CAPITAL EXPENDITURE

Capital expenditure

This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Table 1: Capital expenditure forecast 2023/24 - 2026/27

Capital expenditure £m	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Non HRA	35.9	78.8	80.2	33.7	30.9
Regeneration Program *	9.6	20.5	98.3	143.2	82.5
HRA	106.8	143.5	164.0	166.3	229.7
Total**	152.3	242.8	342.5	343.3	343.2

* these activities relate to areas such as capital expenditure on investment properties, non- treasury loans to third parties etc.

Financing of Capital Expenditure

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Table 2: Financing of Capital expenditure forecast 2023/24 - 2026/27

Financing of capital expenditure £m	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Capital receipts	18.5	57.8	54.0	48.3	52.0
Capital grants	17.8	30.6	71.7	64.7	42.6
Revenue and Reserves	19.7	17.8	11.5	10.5	10.7
Net financing need for the year **	**96.3**	**136.6**	**205.4**	**219.8**	**237.9**

** Net financing need, example (**152.3 - 18.5 – 17.8 – 19.7) = 96.3)

The net financing need for regeneration programme activities included in the above table against expenditure is shown below:

Table 3: Regeneration Programme forecast 2023/24 - 2026/27

Regeneration Programme £m	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Capital Expenditure	9.6	20.5	98.3	143.2	82.5
Other Sources of Financing	0	(0.9)	(32.8)	(40.3)	(52.0)
Net financing need for the year	**9.6**	**19.6**	**65.5**	**103.0**	**30.5**
Percentage of total net financing need	**10%**	**14.4%**	**31.9%**	**46.9%**	**12.8%**

The Authority's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Authority's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Authority's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for (e.g. by capital grants), through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (OLTL) which relates to PFI schemes and finance leases. The Authority currently has no such liabilities within its CFR.

The Authority is asked to approve the CFR projections below:

Table 4: Capital financing requirement forecast 2023/24 - 2026/27

Capital Financing Requirement £m	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Non HRA Services	141.8	155.3	176.7	186.4	187.7
Regeneration	70.1	88.1	143.2	241.9	278.0
HRA	347.5	445.2	532.0	625.3	821.5
Total CFR	**559.4**	**688.6**	**851.8**	**1,053.6**	**1,287.2**
Movement in CFR		**129.2**	**163.2**	**201.8**	**233.6**
Movement in CFR represented by					
Net financing need for the year	-	136.6	205.4	219.8	237.9
Less MRP	-	(6.2)	(7.9)	(10.6)	(13.7)
Less receipts set aside	-	(1.2)	(34.4)	(7.4)	(2.6)
Movement in CFR	**-**	**129.2**	**163.2**	**201.8**	**221.6**

The Operational boundary

This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Table 5: Operational boundary 2022/23 - 2026/27

Operational boundary £m	2022/23 Limit	2023/24 Limit	2024/25 Limit	2025/26 Limit	2026/27 Limit
Debt	552	602	716	808	1000
Other long term liabilities	10	10	10	10	10
Regeneration Programme	88	88	144	242	280
Total	650	700	870	1,060	1,290

The authorised limit for external debt TM code

This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Authority. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all Authorities' plans, or those of a specific Authority, although this power has not yet been exercised.
2. The Authority is asked to approve the following authorised limit:

Table 6: Authorised limit 2022/23 - 2026/27

Authorised limit £m	2022/23 Limit	2023/24 Limit	2024/25 Limit	2025/26 Limit	2026/27 Limit
Debt	602	640	780	930	1,040
Other long term liabilities	10	10	10	10	10
Regeneration Programme	88	100	160	260	300
Total	700	750	950	1,200	1,350

The Authority's forward projections for borrowing are summarised below in Table 7 below, the Authority must ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes. The expected change in debt will be influenced by changes in the CFR and long term interest rates.

However it should be noted that this change in debt is due to external factors set out in the covering report and capital slippage. Table 7 shows internal borrowing of £232m but this is dependent on the changes to the Authority's cash backed reserves and net working capital.   External cash balances of £40m are maintained over the medium term to mitigate liquidity risk.

Table 7: Capital Financing Requirement (CFR) and Borrowing

£m	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
External Debt					
Debt at 1 April	315.0	328	410	555	665
Expected change in Debt	12.8	129	210	267	390
Actual gross debt at 31 March	327.8	457	620	822	1,055

The Capital Financing Requirement	**559.4**	**689**	**852**	**1,054**	**1,287**
Under / (over) borrowing	**231.6**	**232**	**232**	**232**	**232**

Within the above figures the level of debt relating to regeneration activities is detailed in table 8 below.

Table 8: Regeneration Programme debt

	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
CFR at 31 March £m	61.6	88.1	190.3	273.7	285.0
Percentage of total CFR %	13.13	14.58	23.34	29.60	28.84

The S151 Officer reports that the Authority complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Authority's overall finances. The Authority is asked to approve the following indicators:

Ratio of financing costs to net revenue stream

Table 9 identifies the trend in the cost of capital, (borrowing and other long term obligation costs), against service spending, HRA rents and the regeneration programme. The estimates of financing costs include current commitments and the proposals in this budget report.

Table 9: Ratio of financing costs to HRA rents 2022/23 - 2026/27

%	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Council housing (HRA)	30.28	34.51	37.64	43.73	53.17

Table 10 shows the trend in the Non-HRA cost of capital (borrowing and other long term obligation costs), regeneration finance costs are shown both gross and net of Mercury Land Holding (MLH) investment income, against net revenue stream.

Table 10: Ratio of Non HRA net financing costs to net revenue stream 2022/23 – 2026/27

%	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Main services	7.17	7.29	8.00	8.75	9.20
Regeneration programme	2.56	3.30	4.71	7.58	10.24

A key aspect of the regulatory and professional guidance is that elected Members are aware of the size and scope of any regeneration activity in relation to the Authority's overall financial position. This is set out in the indicator in table 11 below:

Table 11: Estimates of net income from regeneration investments to net revenue stream.

%	2024/25 Estimate	2025/26 Estimate
Total Income	1.05	0.86

Appendix 3

TREASURY LIMITS

Treasury Management Limits on Activity

There are two debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair opportunities to reduce costs/improve performance.

The Code requires that for LOBO maturity date should be considered the most probable maturity date and not the next call date.

The indicators are

Liability benchmark

The Authority is required to estimate and measure the Liability Benchmark for the forthcoming financial year and the following three financial years, as a minimum. Graph 1 below shows the LB for the Council, this is broken down into its two component funds in Graph 2: General Fund and Graph 3: HRA.

There are four components to the LB:

1 **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding in future years. This is denoted by the Green line that tops the bar chart showing existing debt (all fixed rate interest) gradually maturing over the next 50 years.

2 **Loans Capital Financing Requirement (CFR)**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned Minimum Revenue Provision (MRP) funded from General Fund revenue budget for debt repayment. This is a measure of the Authority's borrowing requirement to finance the Authority's capital programme and is the very top line graph shown in in blue.

3 **Net loans requirement**: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast. This is represented by the solid tan

coloured line graph. The difference between solid tan line and the CFR blue line represents the amount of internal cash from reserves/balances that has already been invested in the Authority's capital programme. As at 31 March 2023 the Authority's cash reserves available for investment totalled £210m.

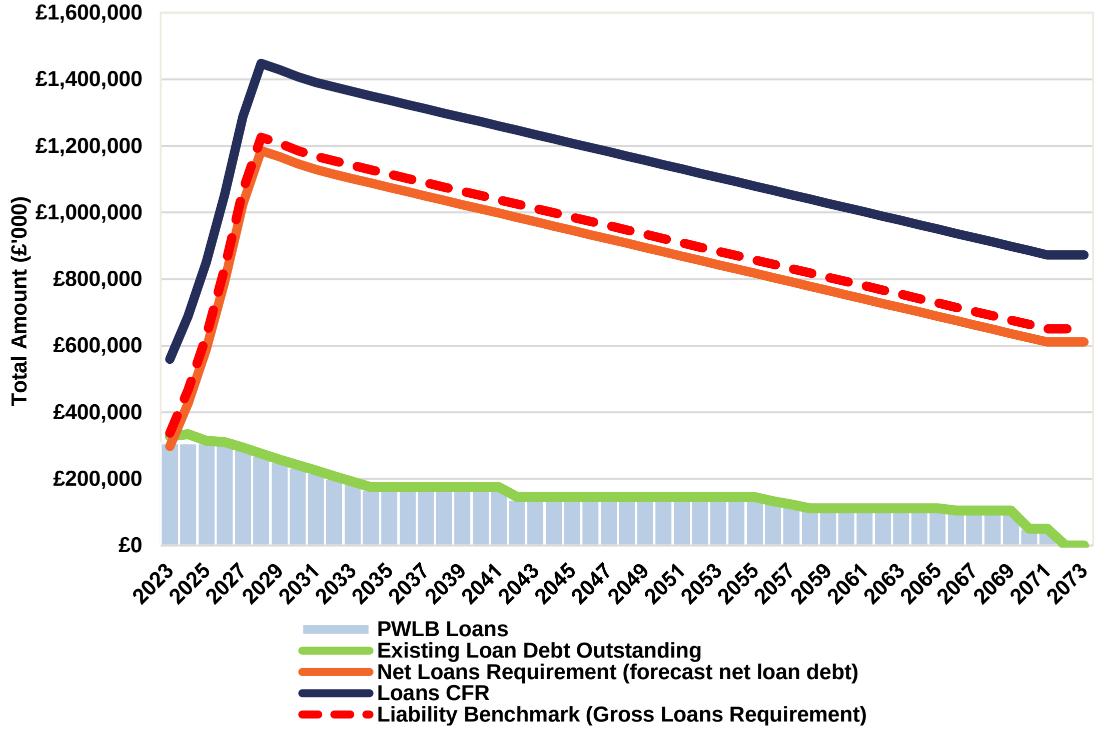
4 **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus the £40m short-term liquidity allowance that the Authority is holding in external liquid treasury investments to manage the daily variability in its cash flow. This represents the dotted red line in the graphs below and means the Authority having to externally borrow to maintain the liquidity allowance at £40m.

The years where actual loans (Green line) are less than the benchmark (red dotted line) indicate a future borrowing requirement that the Authority will need to fund from external borrowing. Were actual loans outstanding to exceed the benchmark this would represent an over-borrowed position, resulting in excess cash requiring investment but as you can see from the graphs below this is not the position faced by this Authority.

However any currently unknown future borrowing plans will increase the benchmark loan debt requirement.

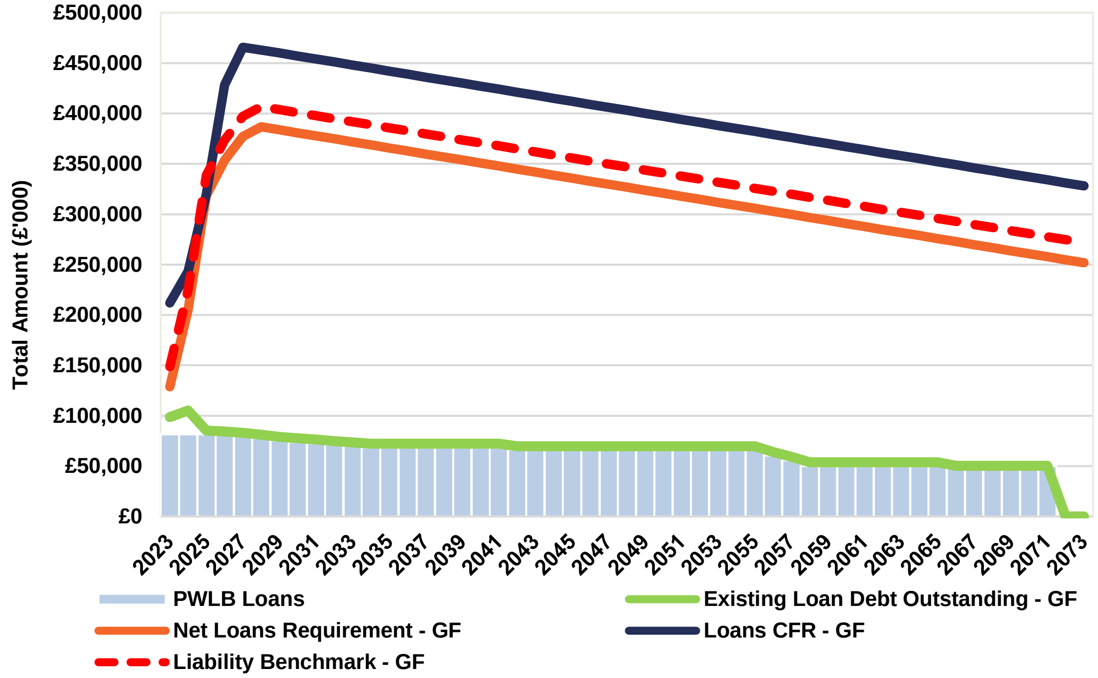
The purpose of the LB is to encourage authorities to use their internal cash reserves to fund growth in their CFR rather than use external debt which is generally more expensive. Moreover it reduces risk as it reduces the need to externally invest the Authorities excess cash reserves over long periods with counterparties where there could be default risk. The benchmark also avoids the risk of over-borrowing and borrowing ahead of need beyond what is permitted in the short to medium term. Generally this technique enables the Authority's treasury activity to be more efficient and represents good practice.

Graph 1 Liability Benchmark - LB Havering

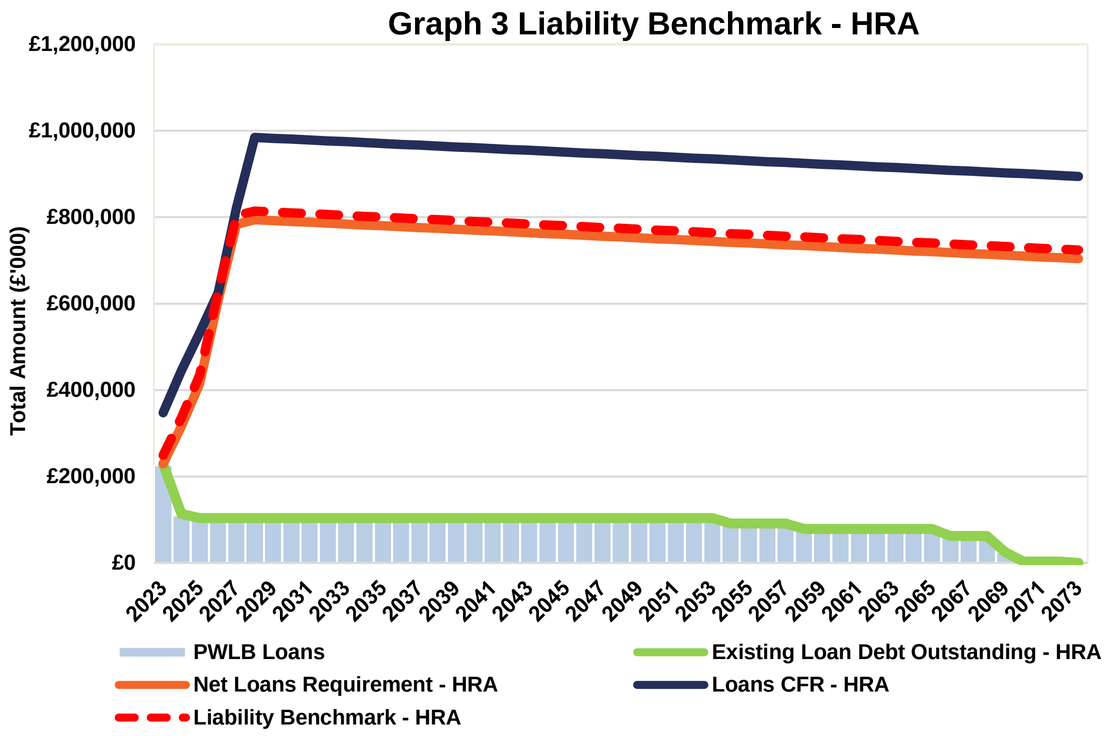


Thus shows currently known future borrowing plans as per Authority's capital strategy which covers the three financial years 2024/27 on the General Fund and 30 years in the draft HRA Business plan..

Graph 2 Liability Benchmark - General Fund



As there are no known General Fund borrowing plans beyond the MTFS period this shows the CFR curve being dragged down by successive annual MRP charges to revenue. Ideally LB requires 10 years of known capital plans but this is difficult given how Local Authority finances operate



Given the long term nature of HRA capital assets there is no statutory requirement to make a MRP charge on HRA revenue and hence why the CFR curve is relatively flat after 5 years. The Over the next three 5 years the net loan requirement is expected to converge with the CFR curve as the HRA externally borrows to reduce its internal borrowing from the General Fund to finance prior years' capital expenditure.

Maturity structure of borrowing

These gross limits are set to reduce the Authority's exposure of large sums falling due for refinancing; these have been kept deliberately wide to provide flexibility for any restructuring that might be carried out to de-risk the debt portfolio.

Maturity structure of borrowing		
	Lower	**Upper**
Under 12 months	0%	60%
12 months to 2 years	0%	70%
2 years to 5 years	0%	80%
5 years to 10 years	0%	80%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%

Investment treasury indicator and limit

Total principal funds invested for greater than 365 days. These limits are set with regard to the Authority's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Authority is asked to approve the following treasury indicator and limit

Upper limit for principal sums invested for longer than 365 days			
£m	**2024/25**	**2025/26**	**2026/27**
Principal sums invested for longer than 365 days	£25m	nil	nil

Appendix 4

POLICY ON BORROWING IN ADVANCE OF NEED

The Authority must ensure that its total debt does not, except in the short-term, exceed the total of the CFR in the preceding year i.e. 2023/24, plus the estimates of any additional CFR for the year 2024/25 and the following two financial years. This allows some flexibility for early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

Any decision to borrow in advance will be considered carefully to ensure that value for money can be demonstrated, and that the Authority can ensure the security of such funds.

In determining whether borrowing will be undertaken in advance of need the Authority will

- Ensure that the ongoing revenue liabilities created, and the implications for future capital plans and budgets have been considered

- Evaluate economic and market factors that might influence the manner and timing of the decision to borrow

- Consider the pros and cons of alternative forms of funding, interest rate structures and repayment profiles

- Consider the positive and negative impacts of borrowing in advance of need on the Authority's cash balances, in particular the increased exposure to credit risk that will arise as a result of investing this additional cash in advance of need.

Appendix 5

The Authority's Counterparty Credit policy, minimum credit ratings criteria

Credit Rating: Investment decisions are made by reference to the lowest appropriate published credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Within the parameters set out below the Authority uses the Link Group (the treasury management advisor) creditworthiness report to establish a lending list. The S151 officer will agree an operational lending list within the parameters set out below.

1. **Banks (Unsecured) and Building Societies**: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

   For non UK Banks, the Authority's credit criteria will require that banks from AA+ rated countries and above can be used.

   Current bank accounts: the Authority's own banker, Should the credit rating fall below A-, for liquidity purposes the Authority may continue to deposit surplus cash with the group providing that investments can be withdrawn on the next working day. Balances will be reviewed on a daily basis to assess their appropriateness.
   Banks (secured): Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits.

The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

2. **Rated Building Societies -** The Authority's credit rating criteria for UK Building Societies in 2021/22 will continue to limit deposits to those UK Building Societies that meet the credit criteria in table 1 below.

3. **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

4. **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made following an external credit assessment as part of a diversified pool in order to spread the risk widely.

5. **Registered providers:** Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing and, as providers of public services, they retain the likelihood of receiving government support if needed.

6. **Pooled funds:** Shares in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee.

7. **Money Market Funds (MMF):** The Authority will continue to use MMF's, which provide lower interest returns but do provide a highly liquid, diversified investment via a highly credit-rated pooled investment vehicle.

   Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

10. **Ring Fenced Banks, (RFB**) The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), were required, by UK law, in response to the global financial crisis to separate core retail banking services from their investment and international banking

activities by 1st January 2019. This is known as “ring-fencing”. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. In general, simpler, activities offered from within a ring-fenced bank (RFB) will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank **(NRFB).** The Authority will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

Table 1: Approved investment counterparties and limits

These limits are lower than last years approved TMSS report as investment balance available have reduced.

Credit rating	**Banks unsecured***	**Banks secured**	**Government**	**Corporates**	**Registered Providers**
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£15m 5 years	£15m 20 years	£15m 50 years	£5m 20 years	£5m 20 years
AA+	£15m 5 years	£15m 10 years	£15m 25 years	£5m 10 years	£5m 10 years
AA	£15m 4 years	£15m 5 years	n/a	£5m 5 years	£5m 10 years
AA-	£15m 3 years	£15m 4 years	n/a	£5m 4 years	£10m 10 years
A+	£15m 2 years	£15m 3 years	n/a	£5m 3 years	£10m 5 years
A	£15m 13 months	£15m 2 years	n/a	£5m 2 years	£5m 5 years
A-	£15m 6 months	£15m 13 months	n/a	£5m 1 year	£5m 5 years
	UK Local Authorities £15m per Authority; 50 years				
Pooled funds	£25m per fund These include Bond Funds, Gilt Funds, Enhanced Cash Funds, Mixed Asset Funds and Money Market Funds,)				

* Includes Building Societies

Investment Limits

The Authority further proposes the investment limits as set out in the table below to protect the security of its investments. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers’ nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 2: Investment limits

	Cash limit
UK Central Government	unlimited
Any single organisation, except the UK Central Government	£15m each
Any group of organisations under the same ownership	£15m per group
Any group of pooled funds under the same management	£5m per manager
Financial instruments held in a broker's nominee account	£50m per broker
Foreign countries	£15m per country
Registered providers	£15m in total
Unsecured investments with building societies	£25m in total
Money Market Funds	£50m in total

Appendix 6

Specified and Non Specified Investments

Specified investments:
The DLUHC Guidance defines specified investments as those:

- Denominated in pound sterling, due to be repaid within 12 months of arrangement,
- Not defined as capital expenditure by legislation, and invested with one of
- The UK Government
- A UK local Authority, parish Authority or community Authority, or A body or investment scheme of "high credit quality".

The Authority defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher.

Table 1: Specified Investments

Instrument	Institution Type	Instrument Minimum 'High' Credit Criteria	Limit	Max. Maturity Period
Accounts, deposits, certificates of deposit and senior unsecured bonds with banks other than multilateral development banks, UK Government Gilts.	UK Banks and UK Banking Groups[1]	per Appendix 5, Table 1	£15m	per Appendix 5, Table 1
	UK Building Societies	per Appendix 5, Table 1	£15m	per Appendix 5, Table 1
	Non UK Banks	Sovereign Rating of AA+ and above and meet Credit Criteria in Appendix 5, Table 1	£15m	per Appendix 5, Table 1
Covered bonds, floating rate notes, reverse repurchase agreements and other collateralised arrangements with banks and building societies	UK Banks and Building Societies and Non UK Banks	Per Appendix 5, Table 1 (and Sovereign Rating of AA+ minimum for Non UK Banks)	See Note 2	per Appendix 5, Table 1
Term Deposits	Local Authorities and other Public Institutions	UK Sovereign Rating	£15m	per Appendix 5, Table 1
Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing.	Registered Social Housing Providers	per Appendix 5, Table 1		per Appendix 5, Table 1
Money Market Fund		AAA [3]	£15m	
Enhanced Cash Funds		AA/Aa[4]	£15m	

1. £15m Limit per bank / banking group.
2. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.
3. Investments will be made with those MMF's which have a rating of AAA
4. Minimum of Fitch / Standard & Poor's AA or Moody's Aa rating

Table 2 : Non specified investments

Instruments	Non Specified Investments	Institution Type	Minimum Credit Criteria	Maximum Duration	Cash limit
Accounts, deposits, certificates of deposit, structured deposits and senior unsecured bonds with banks other than multilateral development banks. Covered bonds, reverse repurchase agreements, and other collateralised arrangements with banks and building societies. Short Dated Bond Funds, Diversified Growth Funds, Absolute Return Funds and Property Funds. Unrated Bonds.	Total long-term investments (investments over 1 year)	UK and Non UK Banks and Building Societies, Rated Registered Social Housing Providers (RSP)	Per Appendix 5, Table 1	10 yrs.	£50m
	Total investments without credit ratings or rated below A- (except UK Government and local authorities)	Unrated Registered Social Housing Providers (RSP), Unrated Banks and Building Societies	N/A	5 yrs.	£5m
	Total Investments made in pooled investment vehicles.			7 yrs.	
	Total Investments made in un-rated bonds.				
	Total non-specified investments				**£55m**

Non-specified investments:

Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 3 below.

Table 3: Non-specified investment limits

	Cash Limit £m
Total long-term investments	100
Total Investments without credit ratings or rated below A- (subject to due diligence)	0
Total non-specified investments	**100**

Agenda Item 6

AUDIT COMMITTEE
23 January 2024

Subject Heading:	Assurance Progress Report
SLT Lead:	Kathy Freeman, Strategic Director of Resources
Report Author and contact details:	Jeremy Welburn, Head of Assurance Tel: 01708 432610 / 07976539248 Email: jeremy.welburn@onesource.co.uk
Policy context:	To inform the Committee of progress on assurance work during 2023/24.
Financial summary:	There are no financial implications or risks arising directly from this report which is for information only.

The subject matter of this report deals with the following Council Objectives

People making Havering [X]
Places making Havering [X]
Resources making Havering [X]

SUMMARY

This report advises the Committee on the work undertaken by the Assurance Service (internal audit and counter fraud) during the period from 1st October to 31st December 2023.

RECOMMENDATIONS

1. To note the contents of the report.
2. To raise any issues of concern and ask specific questions of officers where required.

REPORT DETAIL

1. Introduction

1.1 The Accounts and Audit Regulations require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards (PSIAS) and other guidance.

1.2 Audit Committees are a key source of assurance about an organisation's arrangements for managing risk, maintaining an effective control environment and reporting on financial and other performance. Whilst the Council's Section 151 Officer has overarching responsibility for discharging the requirement for sound financial management, an effective Audit Committee providing support and challenge on the governance arrangements the Council has in place is required.

1.3 Internal audit is a key component of corporate governance within the Council. An independent internal audit function will, through its risk-based approach to work, provide assurance to the Council's Audit Committee and senior management on the higher risk and more complex areas of the Council's business.

1.4 The work of internal audit is critical to the evaluation of the Council's overall assessment of its governance, risk management and internal control systems, and forms the basis of the annual opinion provided by the Head of Assurance which contributes to the Annual Governance Statement. It can also perform a consultancy role to assist in identifying improvements to the organisation's practices.

1.5 The Annual Audit Plan was presented to Audit Committee in April 2023. The plan was developed in line with the three themes (People, Place and Resources) outlined in the Havering Vision and Corporate Plan. Members are reminded that the 2023/24 audit plan was presented as a flexible plan, subject to review through the year to ensure that emerging risks are covered. Adjustments to the plan are made to allow for changes in the risk and operational environment in which the Council operates. The status of the 2023/24 Internal Audit Plan is reported in Section 4 of this report.

1.6 This report brings together all aspects of internal audit and counter fraud work undertaken during quarter three (the period from 1st October to 31st December), in support of the Audit Committee's role.

1.7 The report supports the Head of Assurance's ongoing assurance opinion on the internal control environment and highlights key outcomes from internal audit and counter fraud work and provides information on wider issues of interest to the Council's Audit Committee.

2. Executive Summary of work undertaken by Internal Audit during quarter three of 2023/24.

2.1 Current, cumulative progress toward delivery of the 2023/24 audit plan, as at the end of December 2023, is summarised in the table below, with further detail provided in Section 2.3. It should be noted that some of the work undertaken by internal audit does not result in an opinion being provided, such as advisory reviews and grant claims.

Audit Plan Status	**Number of Audits / Tasks**
Final reports issued / Reviews Completed	14
Draft reports issued	2

2.2 In giving an overall Audit opinion on the system control environment within the areas reviewed, there are two levels of assurance as follows:

Key to Assurance Levels	
Reasonable Assurance	The control framework is adequate to manage the risks in the areas reviewed. Controls are applied consistently or with minor lapses that do not result in significant risks to the achievement of system objectives.
Limited Assurance	There are fundamental weaknesses in the internal control environment within the areas reviewed, and further action is required to manage risks to an acceptable level.

2.3 The tables below detail the reports issued during quarter three of 2023/24, with the assurance rating (if finalised).

Audit Title – LBH Systems Audits	**Assurance (if report finalised)**	**Recommendations**			
		H	**M**	**Adv**	**Total**
<u>Full System Reviews:</u>					
Schools Catering Allergy Management	Reasonable	0	3	5	**8**
IT Transition Procurement*	Limited*	3	0	0	**3**
Consultancy Contracts	Draft Report issued				
Waivers	Draft Report issued				
<u>Advisory/ Grant Reviews:</u>					
Supplier Creation	N/a				
Procurement Thematic Report	N/a				
System Audits Total		**3**	**3**	**5**	**11**

*The appendix is provided, but is exempt from being available to press and public due to reasons of business confidentiality.

Audit Title – LBH Schools Audits	**Assurance**	**Recommendations**			
		H	**M**	**Adv**	**Total**
Langtons Infant School	Reasonable	0	1	1	**0**
School Audits Total		**0**	**1**	**1**	**0**

2.4 Internal Audit follows up all high and medium risk audit recommendations with relevant service management. There is a rolling programme of follow up work, with each auditor taking responsibility for tracking the implementation of recommendations made in their audit reports. The implementation of audit recommendations, in systems where limited assurance was provided, is verified through a follow up audit review.

2.5 This work is of high importance given that the Council's risk exposure remains unchanged if management fail to implement the recommendations raised in respect of areas of control weakness. Part of the Audit Committee's role is to monitor the extent to which recommendations are implemented as agreed and within a reasonable timescale, with particular focus applied to any high risk recommendations.

2.6 Any recommendations that remain outstanding and are past agreed implementation dates, or where management have not responded to requests for progress updates, will be reported to Audit Committee.

2.7 Recommendations are classified into three potential categories according to the significance of the risk arising from the control weakness identified. The three categories comprise:

High	Fundamental control requirement needing implementation as soon as possible.
Medium	Important control that should be implemented.
Advisories	Pertaining to best practice.

3 Counter Fraud Audit Work

3.1 Housing Cases

The following table illustrates the work undertaken in relation to housing fraud and right to buy (RTB) applications:

Description	2022/2023	2023/24 to date
Number of referrals for investigation	123	89
Properties recovered	10	12
Notional Saving *	£180,000	£504,000
RTB referred and reviewed	101	80
RTB stopped	5	3
Notional Saving	£581,000	£383,820
Total Notional Saving	**£761,000**	**£887,820**

* Notional saving revised from 2022/23 figures as recommended method uses a standard formula to arrive at an average national cost to the taxpayer per detected tenancy fraud of £42,000

The following table illustrates the breakdown of cases:

Description	2023/24 (to date)
Number of referrals brought forward	68
Number of new referrals retained for investigation *	37
Number of referrals currently under investigation	**81**
• Notice To Quit (NTQ) issued	3
• Pending bailiff action	4
• Passed to Legal Services for Criminal / Civil Proceedings	8
• Awaiting Court Hearing	2
• Open Investigations	64
Number of completed investigations	**30**
• Closed Properties Recovered	12
• Closed RTB stopped **	3
• Closed NFA	13
• Closed - Housing Action	4

Key: * Total number of referrals received and triaged was 136. However, only 37 are being investigated as the remaining referrals do not get investigated by the Counter Fraud Team, e.g. Housing Benefit, other LA's.

** Total number of RTB's referred and reviewed was 80.

Housing Services refer Mutual Exchanges to the Counter Fraud Team to review. A total of 34 Mutual exchanges have been referred and reviewed.

4 Status of Internal Audit Plan 2023/24

Audit Title – LBH Systems Audits	Opinion / Status as at end Q2	Recommendations			
		H	M	Adv	Total
Mayors Appeal Fund	n/a	n/a	n/a	n/a	n/a
Supporting Families (Quarter One)	n/a	n/a	n/a	n/a	n/a
Insurance Process Mapping (Phase One – Third Party Claims)	n/a	n/a	n/a	n/a	n/a
DPIAs - CCTV (Follow Up)	Reasonable	0	0	0	**0**
Service Charges Follow Up	Limited	2	0	0	**2**
Responsive Repairs	Limited	1	1	2	**4**
Duplicate Payments (Faster Payments)	Limited	3	2	2	**7**
Schools Catering Services – Allergy Management	Reasonable	0	4	4	**8**
IT Transition Procurement Support	Limited	3	0	0	**3**
Waivers	Draft Report				
Engagement of Consultants (Governance and Compliance Culture Phase One)	Draft Report				
Supplier Creation (Governance & Compliance Culture – Key Financial)	n/a				
Procurement Thematic Report	n/a				
Total to the end of Quarter 3					
Purchase Order process	Underway				
Reablement Contract	Underway				
Highways Services	Q4				
Voids (Tenant Rechargeable Repairs)	Q4				
Planning	Q4				
Contracts Register	Q4				
Public Realm	TBC				
Projects (risk based deep dive reviews)	TBC				
ICT (General)	TBC				
ICT – Service Desk	Moved to 2024/25				
Empty Properties (Council Tax Charges)	Moved to 2024/25				
Complaints	Moved to 2024/25				
Household Support Fund	Removed following risk assessment				
Continuing Healthcare	Removed following discussions with Director				

Audit Title – LBH Schools Audit Programme					
Langtons Infants	Reasonable	0	1	1	**2**
Total to the end of Quarter 3		0	11	2	**13**
Learning Federation	Underway				
Whybridge Infants	Underway				
Suttons Primary	Q4				
Brady Primary	Q4				
St Albans Primary	Q4				
James Oglethorpe Primary	Q4				
Academies					
Emerson Park	Reasonable	0	3	0	**3**
Shaw	Reasonable	0	1	0	**1**
Health Checks					
Health Checks (12)	5 Completed	4 underway			

IMPLICATIONS AND RISKS

Financial implications and risks:

There are none arising directly from this report which is for noting and/or providing an opportunity for questions to be raised.

By maintaining an adequate internal audit service, management are supported in the effective identification and efficient management of risks and ultimately good governance. Failure to maximise the performance of the service may lead to losses caused by insufficient or ineffective controls or even failure to achieve objectives where risks are not mitigated. In addition recommendations may arise from any audit work undertaken and managers have the opportunity of commenting on these before they are finalised. In accepting audit recommendations, the managers are obliged to consider financial risks and costs associated with the implications of the recommendations. Managers are also required to identify implementation dates and then put in place appropriate actions to ensure these are achieved. Failure to either implement at all or meet the target date may have control implications, although these would be highlighted by any subsequent audit work. Such failures may result in financial losses for the Council.

Climate Change implications and risks:

None arising directly from this report. Risks around this are reflected in the Corporate Risk Register and incorporated into the scope of audits where relevant.

Legal implications and risks:

None arising directly from this report.

Human Resources implications and risks:

None arising directly from this report.

Equalities implications and risks:

None arising directly from this report.

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have 'due regard' to:
(i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
(ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
(iii) Foster good relations between those who have protected characteristics and those who do not.
Note: 'Protected characteristics' are age, disability, gender reassignment, marriage and civil partnerships, pregnancy and maternity, race, religion or belief, sex/gender, and sexual orientation.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

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