

GOVERNANCE AND AUDIT COMMITTEE AGENDA

Wednesday, 17th January 2024 at 7.15pm

Council Chamber, Braintree District Council, Causeway House,
Bocking End, Braintree, CM7 9HB

THIS MEETING IS OPEN TO THE PUBLIC

Members of the public will be able to view and listen to this meeting via YouTube.
To access the meeting please use the link below:

<http://www.braintree.gov.uk/youtube>

Members of the Governance and Audit Committee are requested to attend this meeting to transact the business set out in the Agenda.

Councillor J Baugh
Councillor J Edwards (Vice Chairman)
Councillor M Green
Councillor A Hooks
Councillor L Jefferis
Councillor A Munday
Councillor G Prime

Councillor R Ramage
Councillor R van Dulken
Councillor T Walsh
Councillor L Walters
Councillor J Wrench (Chairman)
Councillor B Wright

Members unable to attend the meeting are requested to forward their apologies for absence to the Governance and Members Team on 01376 552525 or email governance@braintree.gov.uk by 3pm on the day of the meeting.

D GASCOYNE
Chief Executive

INFORMATION FOR MEMBERS – DECLARATIONS OF MEMBERS' INTERESTS

Declaration of Disclosable Pecuniary Interests (DPI), Other Pecuniary Interests (OPI) or Non-Pecuniary Interests (NPI).

Any Member with a DPI, OPI or NPI must declare the nature of their interest in accordance with the Code of Conduct. Members must not participate in any discussion of the matter in which they have declared a DPI or OPI or participate in any vote, or further vote, taken on the matter at the meeting. In addition, the Member must withdraw from the Chamber where the meeting considering the business is being held unless the Member has received a dispensation from the Monitoring Officer.

Public Question Time – Registration and Speaking

The Agenda allows for a period of up to 30 minutes for Public Question Time. Members of the public may ask questions or make statement to the Committee on matters listed on the agenda for this meeting.

All questions or statements should be concise and should be able to be heard within the 3 minutes allotted to each speaker.

Anyone wishing to ask a question or make a statement is requested to register their interest by completing the Public Question Time registration [online form](#) by **midday on the second working day** before the day of the meeting.

For example, if the meeting is on a Tuesday, the registration deadline is midday on Friday, (where there is a Bank Holiday Monday you will need to register by midday on the previous Thursday). The Council reserves the right to decline any requests to register to speak if they are received after this time.

When registering for Public Question Time please indicate whether you wish to attend the meeting 'in person', or to participate remotely. People who choose to join the meeting remotely will be provided with the relevant link and joining instructions for the meeting.

Please note that completion of the on-line form does not guarantee you a place to speak during Public Question Time. You will receive email notification from the Governance Service confirming whether your request is successful.

The Chairman of the Committee has discretion to extend the time allocated to registered speakers and to amend the order in which they may speak.

In the event that a registered speaker is unable to connect to the meeting, or if there are any technical issues, their question/statement may be read by a Council Officer.

Further information on Public Question Time is available on the [Council's website](#).

Health and Safety

Anyone attending a meeting of the Council is asked to make themselves aware of the nearest available fire exit. In the event of an alarm sounding, you must evacuate the building immediately and follow all instructions provided by staff. You will be directed to the nearest designated assembly point where you should stay until it is safe to return to the building.

Documents

Agendas, Reports and Minutes may be accessed via www.braintree.gov.uk

Data Processing

For further information on how the Council processes data, please see the Council's Privacy Policy.

https://www.braintree.gov.uk/info/200136/access_to_information/376/privacy_policy

Mobile Phones

Please ensure that your mobile phone is switched to silent during the meeting in order to prevent disturbances.

Webcast and Audio Recording

Please note that this meeting will be webcast and audio recorded. You may view webcasts for up to 6 months after the meeting using this link: <http://braintree.public-tv/core/portal/home>

The meeting will also be broadcast via the Council's YouTube Channel.

Comments and Suggestions

We welcome comments to make our services as efficient and effective as possible. If you have any suggestions regarding the meeting you have attended you may send these to governance@braintree.gov.uk

PUBLIC SESSION

Page

1 Apologies for Absence

2 Declaration of Interests - Scrutiny Committee

1. To declare the existence and nature of any interests relating to items on the agenda having regard to the Code of Conduct for Members and having taken appropriate advice (where necessary) before the meeting.

2. To declare the existence and nature of any instruction given by or on behalf of a political group to any Councillor who is a member of that group as to how that Councillor shall speak or vote on any matter before the Committee or the application or threat to apply any sanction by the group in respect of that Councillor should he/she speak or vote on any particular matter.

3 Minutes of the Previous Meeting

To approve as a correct record the minutes of the meeting of the Governance and Audit Committee held on 4th October 2023 (copy previously circulated).

4 Public Question Time

(See paragraph above)

5 To receive a verbal update on the External Audit Function of the Council

6 To receive a suite of the Council's Key Financial Indicators as at 30th November 2023 **6 - 13**

7 Internal Audit Update, Including Progress Against the 2023/24 Internal Audit Plan **14 - 24**

8 Fraud Update **25 - 42**

9 Draft Treasury Management Strategy 2024/25 **43 - 59**

10 Urgent Business - Public Session

To consider any matter which, in the opinion of the Chairman, should be considered in public by reason of special circumstances (to be specified) as a matter of urgency.

This page has been left intentionally blank.

Report Title: To receive a suite of the Council's Key Financial Indicators as at 30 th November 2023	
Report to: Governance and Audit Committee	
Date: 17 th January 2024	For: Decision
Key Decision: No	Decision Planner Ref No: N/A
Report Presented by: Phil Myers, Head of Finance	
Enquiries to: Phil Myers, Head of Finance (phil.myers@braintree.gov.uk)	

1. Purpose of the Report

- 1.1 To receive a suite of the Key Financial Indicators of the Council on performance in the current financial year up to 30th November 2023 including an update on the Second Quarter Financial Review and projected outturn for the 2023-24 year. To evidence that the Council adopts good practice in actively monitoring its financial performance and actively manages issues as and when they may arise.

2. Recommendations

- 2.1 Members are asked to note the report of the Key Financial Indicators as at 30th November 2023 and the update on the Second Quarter Financial Review and projected outturn for 2023-24.

3. Summary of Issues

- 3.1 The report includes a summary of the Second Quarter Financial Review including an update on the latest projected outturn for the 2023/24 year at Appendix A.
- 3.2 The Key Financial Indicators (KFIs) and Treasury Management Monitor for the financial year to 30th November 2023 are included as Appendices B and C.

Commentary

3.3 Second Quarter Financial Review

- 3.3.1 The Council approved a net budget in February 2023 of £17.5million, to be financed from business rates, government grants, and council taxpayers. A drawdown of £644,000 of general fund balances was required to set a balanced budget.
- 3.3.2 A review of income and expenditure against budget and forecast for the year has been completed and is to be considered by the Cabinet at its meeting to on 22nd January 2024, as part of the Second Quarter Performance Report.

The financial review gives a projected overall adverse variance of £6,000 for the year, as detailed in Appendix A.

- 3.3.3 Staffing expenditure across services is currently projected to be overspent by £18,000 after taking into account the corporate efficiency target of £300,000 included in the base budget. This is based on staffing arrangements that were known as at the end of the second quarter. An additional staffing related variance is projected on the General Fund due to a lower recharge of project management costs to capital projects which is shown under Corporate Financing. At the time of the second quarter review, the Employers' offer for settling the annual pay award from April 2023 was estimated to add a further £606,000 of cost above the provision originally included in the budget. The additional in-year cost from the pay award is expected to be covered by extra income and a virement has subsequently been agreed at full Council on 11th December 2023, which will be reflected in the third quarter review. The ongoing cost of the pay award has been taken into account in the budget planning for 2024-25.
- 3.3.4 Other Expenditure is forecast to be £663,000 over budget, due mainly to increased housing benefit costs arising from the demand for homelessness and temporary accommodation, and higher costs from supported housing schemes. There are additional operating costs projected related to the new facilities developed by the Council, including unrecoverable service charges due to voids and unsold land plots. Also contained in the expenditure variance is the unbudgeted costs incurred in 2023-24 in relation to the Wethersfield asylum centre appeal of £235,000. At the Council meeting held on 11th December 2023, it was agreed to approve a budget of up to £300,000 for the Council's own legal costs, which will be met from General Fund balances and reflected in a revised budget at the third quarter financial review.
- 3.3.5 Largely offsetting the projected additional expenditure, is a forecast net overachievement of income of £1.3million, which is mainly from treasury management interest income, and a higher gainshare from the council tax sharing arrangement with preceptors. A projected shortfall in planning income under Sustainable Development does not reflect the recent announcement by government to increase statutory planning fees from 6th December 2023, the impact of which will be reflected in the third quarter review.
- 3.3.6 A more detailed commentary on the reasons for the projected variances can be found in the Second Quarter Performance report contained in the agenda for the Cabinet meeting to be held on 22nd January 2024.

3.4 Key Financial Indicators

- 3.4.1 The Key Financial Indicators are set out in Appendix B.
- 3.4.2 The current capital programme totals £13.3million of which £6.8million is profiled to be spent in 2023-24. Actual expenditure incurred to the end of November was £2.7million. Project expenditure incurred includes: Halstead Community Grants; ICT server and infrastructure upgrade at Causeway

House; planned maintenance, including unadopted roads; disabled facilities grants; and residual costs at the H120 business park. There is currently a projected underspend of £218,000 across the capital programme in relation to the Victoria Square and the Plaza projects.

- 3.4.3 Capital receipts estimated to be generated in-year total £3.9million and which includes receipts from Right-to-Buy (RTB) sales (via Eastlight Community Housing), and receipts from the sale of Council-owned land and grant of access rights. In the current economic climate, there has been a marked slowdown in the number of RTB sales with four sales completed at the end of November with a total receipt value of £376,000. The Council also received £149,000 from a legacy VAT shelter arrangement with Eastlight. Other minor receipts received total £64,000, giving an overall value of receipts received up to the end of November of £589,000.
- 3.4.4 In terms of the Council's commercial property portfolio, the number of lettable units was 273, including offices and units at I-Construct, the Plaza, Victoria Square, and available space within Causeway House. At the end of November 250 lets were in place giving an occupation rate of 92%, an improvement of 2% over the previous report. Several vacant units are close to being let or awaiting legal completion and there continues to be positive third party interest in vacant space within Causeway House.
- 3.4.5 The total Council Tax collectable debit for the year is £116,000. The collection rate as at the end of November was 75.1% (£87.2million collected), which compares to a rate of 75.4% for the same period last year.
- 3.4.6 The total Business Rates collectable debit for the year is £47million. The collection rate as at the end of November was 74.5% (£34.7million collected), which compares to a rate of 74.8% for the same period last year. For 2023-24 businesses have seen their rate liability increase due to the unwinding of relief schemes and the business rate revaluation introduced from April 2023.
- 3.4.7 Council Tax and Business Rates collection performance continues to benchmark favourably against that achieved by other Essex billing authorities over the same period.
- 3.4.8 A total of 808 write-offs of Council Tax, with a total value of £134,000 have been authorised in the year to date: 143 in respect of the current year and 665 in respect of previous financial years. The main reason for write-off continues to be Individual Voluntary Arrangements (IVAs). In these cases, whilst debt is written off, collection continues via pre-agreed payment arrangements. Whilst an IVA is in place the Council is prevented from taking any further recovery action. If the debtor later defaults on an IVA, the outstanding debt is restated, and appropriate recovery action would then commence.
- 3.4.9 A total of 33 write-offs of Business Rates, with a net value of £47,000, have been authorised in the year to date: 8 in respect of the current year and 25 in respect of previous financial years.

- 3.4.10 The value of sundry debts owed to the Council at the end of November is £3.1million, of which £1.4million is in respect of Housing Benefit overpayments. Payment plans are agreed and range from payment within 14 days, payments by instalments throughout the year, and plans determined under Regulations (prescribed maximum amount that can be received from a debtor's benefit award).
- 3.4.11 The proportion of supplier payments made within 30 days is 98.4% The target is 98%.
- 3.4.12 The average amount held as short-term investments up to the end of November was £49.8million on which £1.59million of interest has been secured, equivalent to an annualised return of 4.8%.
- 3.4.13 The amount invested in pooled funds comprising equity, property, and multi-assets is £19million. Dividend income is paid quarterly or monthly depending upon fund, and the amount due to the end of November was £560,000, equivalent to an annualised return of 4.4%. The total value of the Council's fund holdings at the end of November was £20.4million, which represented an unrealised gain of £1.4million.
- 3.4.14 Detail of the Council's investment portfolio totalling £68.2million, as at 30th November, is provided at Appendix C.

4. Options

- 4.1 To receive and ask questions as appropriate on the Key Financial Indicators and the update on the Second Quarter Financial Review contained in this report.

5. Financial Implications

- 5.1 There are no new financial implications arising from the recommendations set out in this report.

6. Legal Implications

- 6.1 There are no specific legal implications arising out of this report.

7. Other Implications

- 7.1 There are no other implications arising out of this report.

8. Equality and Diversity Implications

- 8.1 Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when the Council makes decisions it must have regard to the need to:
- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act;
 - (b) Advance equality of opportunity between people who share a protected characteristic and those who do not; and

(c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.

8.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender, and sexual orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).

8.3 The content of this report will not have a disproportionately adverse impact on any people with a particular characteristic.

9. List of Appendices

Appendix A – Extract of the Second Quarter Financial Review for 2023-24.

Appendix B – Key Financial Indicators for the period 1st April 2023 to 30th November 2023.

Appendix C – Treasury Management – Details of the Council's investments for the period 1st April 2023 to 30th November 2023.

10. Background Papers

Second Quarter Performance Report 2023-24 – Cabinet Agenda for meeting to be held on 22nd January 2024.

Second Quarter Financial Review 2023/24 – Projected Full Year Variance

Business Plan Service	Updated Budget	Forecast Spend for the year	Current Forecast Variance	Previous Quarter Variance	Current Forecast RAG Status
	£'000	£'000	£'000	£'000	
Asset Management	(2,814)	(2,394)	420	407	R
Community & Leisure	772	826	54	26	R
Corporate Management Plan	1,619	1,613	(6)	(8)	G
Economic Development	231	114	(117)	(20)	G
Environment	912	1,022	110	58	R
Finance	1,261	(114)	(1,375)	(1,255)	G
Governance	1,307	1,289	(18)	(27)	G
Housing Services	921	923	2	4	A
ICT & Facilities	2,009	1,931	(78)	(49)	G
Marketing & Communications	642	665	23	18	A
Operations	7,214	7,110	(104)	(127)	G
People and Performance	1,003	986	(17)	(12)	G
Strategic Investment	36	22	(14)	(36)	G
Sustainable Development	1,448	1,701	253	1	R
Service Plan Total	16,561	15,694	(867)	(1,020)	G
Corporate Financing	1,334	941	(393)	(353)	G
Wethersfield Legal Challenge	0	235	235	162	
Est. Impact of Proposed Pay Award	0	606	606	568	
Efficiency & Income Allowance	(425)	0	425	425	
Net Total	17,470	17,476	6	(218)	A

Business Plan Service	Forecast £'000	Variance by Category		
		Staffing £'000	Other Expenditure £'000	Gross Income £'000
		£'000	£'000	£'000
Asset Management	420	(64)	290	194
Business Solutions	(17)	(13)	(4)	0
Community & Leisure	54	6	(13)	61
Corporate Management Plan	(6)	(7)	1	0
Economic Development	(117)	(67)	(50)	0
Environment	110	177	13	(80)
Finance	(1,375)	(45)	138	(1,468)
Governance	(18)	(106)	10	78
Housing Services	2	(1)	6	(3)
ICT & Facilities	(78)	(24)	(54)	0
Marketing & Communications	23	(14)	45	(8)
Operations	(104)	(16)	77	(165)
Strategic Investment	(14)	56	0	(70)
Sustainable Development	253	(164)	94	323
Service Total	(867)	(282)	553	(1,138)
Corporate Financing	(393)	42	(125)	(310)
Wethersfield Legal Challenge	235	0	235	0
Est. Impact of Proposed Pay Award	606	606	0	0
Efficiency Savings Target	425	300	0	125
Net Total	6	665	663	(1,323)

Figures rounded

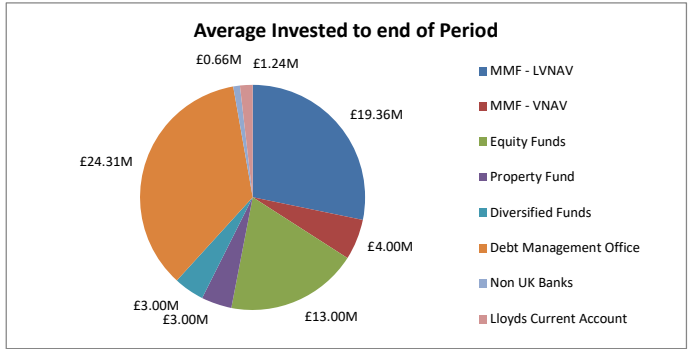
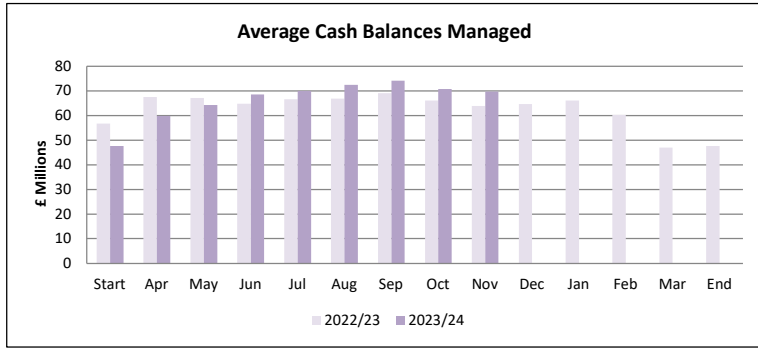
Key Financial Indicators at 30th November 2023

APPENDIX B

	Full Year Budget 2023/24	Actual 30 Nov 2023	Projected Full-yr Variance
Capital Programme			
Capital Expenditure £'000	6,844	2,664	-218
Capital Receipts £'000	-3,900	-589	

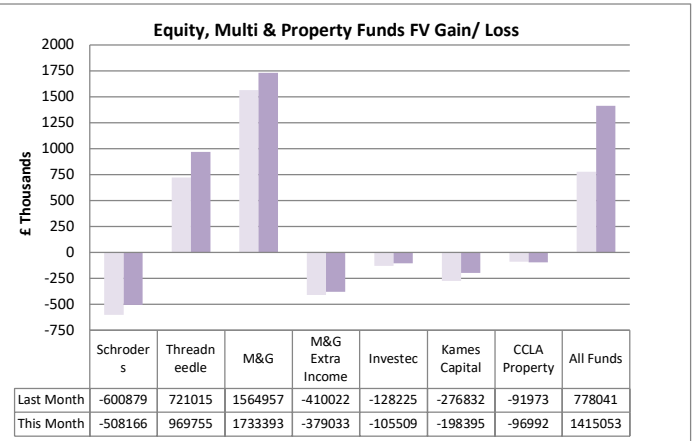
	Full Year Target	Actual 30 Nov 2023	Actual 30 Nov 2022	Variance
Council Tax collection in year - %	97.7%	75.1%	75.4%	-0.3%
Council Tax collection - income collected for year - £m	£116.1	£87.2	£82.3	£4.8
Write-offs in year - £'000		£28	£30	-£2
Write-offs in year - number		143	126	17
Write-offs all years £'000		£134	£247	-£113
Write-offs all years - number		808	650	158
Business Rates collection in year - %	98.9%	74.5%	74.8%	-0.3%
Business Rates collected for year - £m	£46.6	£34.7	£32.3	£2.4
Write-offs in year - £'000		£23	£12	£11
Write-offs in year - number		8	12	-4
Write-offs all years - £'000		£47	£59	-£12
Write-offs all years - number		33	33	0
Creditors - payment of invoices within 30 days of receipt	98.0%	98.4%	97.8%	0.6%

Debtors - Balance Outstanding	31-Mar-21	31-Mar-22	31-Mar-23	30-Nov-23
	£'000	£'000	£'000	£'000
Charges for services provided by central service e.g. Training, Procurement, Print Room, Marketing, Elections etc.	180	83	83	119
Asset Management	372	270	319	143
Development, Building Control & Environment	140	300	109	214
Finance	102	82	56	58
Community & Leisure	92	103	380	448
Operations	1,312	1,155	1,370	687
Housing	43	73	35	31
Sub-Total	2,241	2,066	2,352	1,700
Housing Benefits Overpayment Recoveries	1,613	1,541	1,441	1,386
Total	3,854	3,607	3,793	3,086
Profile by Recovery Stage:				
Invoice	2,088	2,016	2,085	1,271
Reminder	791	674	788	710
Pre-legal	145	86	136	364
Enforcement Agent	184	202	244	243
Tracing Agent	2	-	23	23
Charging Order	22	22	20	19
Attachment to Benefits/Earnings	622	607	497	456
Total	3,854	3,607	3,793	3,086
Write offs (debits and credits) in year - value - £000	£0.6	£90.3	£8.2	£3.5
Write-offs in year - number	141	226	179	188



Investment Activity

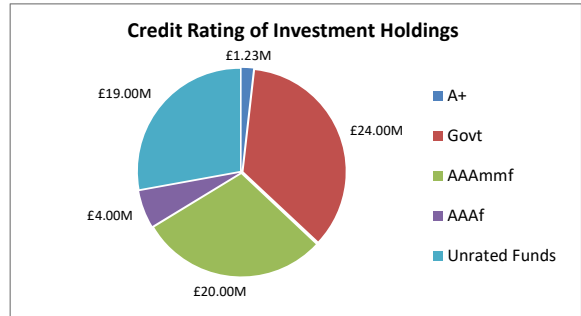
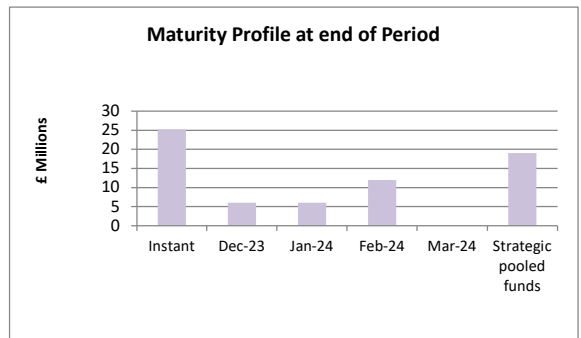
	This Month		Cumulative	
	Made (£m)	Sold (£m)	Made (£m)	Sold (£m)
External Investments				
Property Fund	0.0	0.0	0.0	0.0
Equity Funds	0.0	0.0	0.0	0.0
Multi Funds	0.0	0.0	0.0	0.0
MMF - LVNAV	0.0	0.0	1.0	-1.0
MMF - VNAV	0.0	0.0	0.0	0.0
Sub-Total	0.0	0.0	1.0	-1.0
Deposits - Fixed				
UK Bank & Building Soc.	0.0	0.0	0.0	0.0
Non-UK Banks	0.0	0.0	0.0	-3.0
Debt Mgt Office	11.0	-7.0	93.0	-71.0
Local Authorities	0.0	0.0	0.0	0.0
Sub-Total	11.0	-7.0	93.0	-74.0
Lloyds Bank PLC	0.0	-0.3	0.0	-0.5
Sub-Total	0.0	-0.3	0.0	-0.5
Total	11.0	-7.3	94.0	-75.5



Commentary
 Average sum invested in the month £69.81m (Last year £63.96m)
 Average sum invested for the year to date £68.77m (Last year £66.54m)
 Actual sum invested at the end of the period £68.23m (Last year £61.94m)
 Interest secured on instant access accounts, fixed deposits, and MMFs at the end of the period £1594282 a return of 4.81% [Annual Updated Budget £514k]
 Note: 3mth LIBID 5.23% 1mth LIBID 4.95% Average Base rate 4.91%
 Dividends earned (declared) on equity, property and diversified funds to the end of the period £560k [Annual Budget £786k]
 Unrealised gain/-loss at end of period for equity, property and diversified funds is a net £1415k a change of £637k from last month

INVESTMENT HOLDINGS AT END OF PERIOD

COUNTERPARTY	Type	Principal	Start	Maturity	Yield
DEBT MANAGEMENT OFFICE	FIXED	2500000	15/09/2023	20/12/2023	5.36%
DEBT MANAGEMENT OFFICE	FIXED	3500000	27/09/2023	19/12/2023	5.22%
DEBT MANAGEMENT OFFICE	FIXED	1500000	02/10/2023	17/01/2024	5.24%
DEBT MANAGEMENT OFFICE	FIXED	1500000	02/10/2023	19/01/2024	5.24%
DEBT MANAGEMENT OFFICE	FIXED	1000000	02/10/2023	22/01/2024	5.25%
DEBT MANAGEMENT OFFICE	FIXED	1000000	04/10/2023	22/01/2024	5.25%
DEBT MANAGEMENT OFFICE	FIXED	2000000	16/10/2023	01/02/2024	5.25%
DEBT MANAGEMENT OFFICE	FIXED	1000000	01/11/2023	22/01/2024	5.20%
DEBT MANAGEMENT OFFICE	FIXED	3500000	01/11/2023	01/02/2024	5.20%
DEBT MANAGEMENT OFFICE	FIXED	1000000	01/11/2023	14/02/2024	5.20%
DEBT MANAGEMENT OFFICE	FIXED	500000	07/11/2023	01/02/2024	5.18%
DEBT MANAGEMENT OFFICE	FIXED	2000000	15/11/2023	19/02/2024	5.18%
DEBT MANAGEMENT OFFICE	FIXED	1000000	15/11/2023	20/02/2024	5.18%
DEBT MANAGEMENT OFFICE	FIXED	1000000	23/11/2023	19/02/2024	5.19%
DEBT MANAGEMENT OFFICE	FIXED	1000000	29/11/2023	19/02/2024	5.19%
LLOYDS BANK	CALL A/C	1228000	30/11/2023	01/12/2023	5.15%
DEUTSCHE	MMF	0			5.20%
GOLDMAN SACHS	MMF	5000000	30/11/2023	01/12/2023	5.23%
CCLA PUBLIC DEPOSIT	MMF	5000000	30/11/2023	01/12/2023	5.27%
FEDERATED PRIME	MMF	5000000	30/11/2023	01/12/2023	5.35%
ABERDEEN STANDARD	MMF	5000000	30/11/2023	01/12/2023	5.28%



EXTERNAL FUND INVESTMENTS

Fund Name	Type	Principal	Yield
SHRODERS INCOME MAX.	EQUITY	2500000	Variable
THREADNEEDLE UK EQUITY	EQUITY	5000000	Variable
M&G GLOBAL DIVIDEND	EQUITY	2500000	Variable
M&G EXTRA INCOME	EQUITY	3000000	Variable
AEGON	MULTI	2000000	Variable
NINETY ONE	MULTI	1000000	Variable
CCLA - LAMIT PROPERTY	PROPERTY	3000000	Variable
ROYAL LONDON CASH PLUS	MMF-VNAV	4000000	Variable

Report Title: Internal Audit Update, Including Progress Against the 2023/24 Internal Audit Plan	
Report to: Governance and Audit Committee	
Date: 17 th January 2024	For: Decision
Key Decision: No	Decision Planner Ref No: N/A
Report Presented by: Angela Mitchell, Audit, Insurance and Fraud Manager	
Enquiries to: Angela Mitchell, Audit, Insurance and Fraud Manager angmi@braintree.gov.uk	

1. Purpose of the Report

- 1.1 The Public Sector Internal Audit Standards (PSIAS) requires the Internal Audit activity to report functionally to the Governance and Audit Committee, being the committee charged with independent assurance on the adequacy of the risk management framework and the associated internal control environment.
- 1.2 The 2023/24 Internal Audit Plan was approved by the Governance and Audit Committee on 24th August 2023. This report provides Members with an update on the Internal Audit activity, and progress and performance against planned work and any other matters affecting the provision of the Internal Audit Service. This is in accordance with the Governance and Audit Committee role and the requirements of the PSIAS.
- 1.3 The Internal Audit function was subject to an External Quality Assessment (EQA) in February 2023, the outcome of which was detailed in a separate report to the Governance and Audit Scrutiny Committee in April 2023. This report identifies progress in respect of addressing actions identified in the EQA.
- 1.4 The report also provides an update on Regulation of Investigatory Powers Act (RIPA) and Investigatory Powers Act (IPA) applications made by the Authority.

2. Recommendations

- 2.1 Members note the progress and performance against the 2023/24 Internal Audit Plan.

3. Summary of Issues

3.1 Progress against the 2023/24 Internal Audit Plans

- 3.1.1 Performance against the 2023/24 Internal Audit Plan is detailed in **Appendix 1**.

3.1.2. The following audits have been completed since the last progress report to the Committee (4th October 2023). **Appendix 2** provides a summary of the outcomes of these audits:

- Finance System Access Controls – **Significant Assurance**;
- System Access Controls – **Full Assurance**;
- Fraud Risks – Strategic Projects / Asset Management – **Significant Assurance**;
- Debtors – **Full Assurance**;
- North Essex Parking Partnership – **Limited Assurance**; and
- Use of Council Vehicles – **Limited Assurance**.

3.1.3 The proportion of planned work completed was affected by the following factors:

- A significant proportion of the Audit Manager's time is spent on Insurance work, and some time also spent on Fraud work. The insurance renewal process was completed for 2023 which involved working with services to respond to a significant number of questions from insurers and negotiating final premium rates with the assistance of a broker. The team has also dealt with additions to cover requirements, responded to insurance and risk related enquiries, and continues to manage the insurance claim caseload;
- The Audit Manager is reviewing Fraud related policies and legislative change; and
- Additional ad hoc advice and consultancy services have been provided in the areas summarised in Appendix 1.

3.1.4 The Internal Audit Plan is prioritised, and Audits are assigned based on their relative priority with consideration to Auditor experience and auditee preferred timescales but is also flexible to respond to changing corporate needs. Progress of and any changes to planned work is reported to the Committee.

3.2 **Regulation of Investigatory Powers Act (RIPA) and Investigatory Powers Act (IPA) Applications**

3.2.1 There have been no RIPA / IPA applications in 2023/24 to the date of producing this report.

3.3 **Quality Assurance & Improvement Programme (QAIP)**

3.3.2 No further improvements have been implemented since the last update to the Governance and Audit Committee (October 2023) on the QAIP and the status of implementation of recommendations and suggestions identified in the 2022/23 External Quality Assessment.

3.4 **Corporate Objectives**

3.4.1 The recommendations set out in this report will help the Council to deliver the following Corporate Objectives:

- The 2023/24 Internal Audit Plan includes work across all Corporate Objectives:
 - A sustainable environment and a great place to live, work and play;
 - A well connected and growing district with high quality homes and infrastructure;
 - A prosperous district that attracts business growth and provides high quality employment opportunities;
 - Residents live well in healthy and resilient communities where residents feel supported;
 - A high performing organisation that delivers excellent and value for money services;
 - Delivering better outcomes for residents and businesses and reducing costs to taxpayers.

4. Options

This report invites the Governance and Audit Committee to receive and note the progress against the 2023/24 Internal Audit Plans, additional work performed, and any other matters affecting the Internal Audit service.

5. Financial Implications

There are no financial implications arising from the recommendations set out in this report.

6. Legal Implications

There are no specific legal implications arising from this report.

7. Other Implications

There are no other implications arising from this report.

8. Equality and Diversity Implications

8.1 Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when the Council makes decisions it must have regard to the need to:

- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act;
- (b) Advance equality of opportunity between people who share a protected characteristic and those who do not; and
- (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.

- 8.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).
- 8.3 The proposals in this report will not have a disproportionately adverse impact on any people with a particular characteristic.

9. List of Appendices

Appendix 1 – Progress Against the 2023/24 Internal Audit Plan.

Appendix 2 – Outcome of Audits Completed Since the Previous Report to Governance Committee (4th October 2023).

10. Background Papers

None.

APPENDIX 1 - PROGRESS AGAINST 2023/24 INTERNAL AUDIT PLAN
(as of 29th December 2023)

This Appendix summarises the work completed in respect of the 2023/24 Internal Audit Plan (presented to the Governance and Audit Committee on 24th August 2023).

	Audit Priority		Current Status	Date Report to Governance & Audit Committee
2023/24 Internal Audit Plan – All Audits				
1	Core Financial Systems <ul style="list-style-type: none"> • Creditors • Cash & Bank • General Ledger 	1	<ul style="list-style-type: none"> • Completed • Completed • Completed 	<ul style="list-style-type: none"> • 4th October 2023 • 4th October 2023 • 4th October 2023
2	Payroll Shared Service	1		
3	Elections	2	In progress	
4	Business Continuity	1	In progress - <i>Corporate exercise completed, report pending</i>	
5	Business Continuity – Key Suppliers	1		
6	Commercial Group	2		
7	Shared Services	1		
8	Cyber Security	1	Completed	4 th October 2023
9	Cyber Security Sub-Group	1		
10	Finance System Access Controls	2	Completed	17th January 2024
11	System Access Controls	2	Completed	17th January 2024
12	Culture & Ethics / Employee Engagement	1	Completed	4 th October 2023
13	Health & Safety	1	Ongoing attendance at corporate meetings	
14	Cost of Living Crisis	1	In progress	
15	Equality Diversity & Inclusion (EDI)	1		
16	Energy Performance	2	In progress	
17	Grant Scheme Due Diligence	2	In progress	
18	Business Support Grants / Other External Funding Assurance	1		
19	Fraud Risks - Payments	1		
20	Fraud Risks – Strategic Projects / Asset Management	1	Completed	17th January 2024
21	Data Matching	2	In progress	
22	Accuracy of Housing Application Processing	2	In progress	
23	Land and Property Inspections	2	In progress	
24	Debtors	2	Completed	17th January 2024

25	Housing Strategy	2	In progress	
26	Operator Licence Compliance	2		
27	North Essex Parking Partnership	2	Completed	17 th January 2024
28	Braintree District Museum Trust	2	In progress	
29	<p>Follow Up Reviews – Limited Assurance Reports</p> <ul style="list-style-type: none"> • Housing Application Document Verification (2019/20) • Contract Management – Major Contracts (2020/21) • Managers Self Service (2021/22) • Project Realisation of Benefits (2021/22) • Asset Management and Service Charges (2022/23) • Manor Street (2022/23) – follow up recommendation • Horizon 120 (2022/23) • Suppliers / Contractor Resilience (2022/23) • CCTV / GDPR Compliance (2022/23) 	1	<ul style="list-style-type: none"> • In progress • Completed • Completed • follow up in progress • • • • 	<ul style="list-style-type: none"> • Update 24th August 2023 • 24th August 2023 • 24th August 2023 • Update on recommendation 17th January 2024 • Corporate Director update to GAC - 4th October 2023
30	Follow Up Reviews - Other	2	In progress	Update 24 th August 2023 via Annual Report
31	Office for Local Government	1		
32	Annual Governance Statement	1		
Reporting of Additional Unplanned Work Performed 2023/24				
	Use of Council Vehicles	N/A	Completed	17 th January 2024

2023/24 ADDITIONAL WORK COMPLETED

During 2023/24 the internal audit function has provided ad hoc advice and guidance in various areas, including the following. No assurance levels are assigned to this work:

- **Financial Appraisals** conducted on potential suppliers to support the procurement process.
- **Verification of DWP account information** (as required by Cabinet Office Baseline Personnel Security Standard), and other DWP account administration
- Follow up advice re **digital verification of ID.**
- Lloyds account user administration
- Advice on **Authorised Signatory** permissions and maintaining records of Authorised signatories
- Preparation for the annual review of Member **Council Tax accounts**
- The service continues to undertake administrative support for the Councils **Barclaycard** arrangements
- Ongoing participation in Corporate **Protect Duty** group.
- **Investigation** work in respect of a staff matter
- Advice was provided to Environmental Health on procedures relating to **setting up a new customer** for Council services
- Review of **Gifts, Hospitality and Interests** Officer declarations
- Coordination of the upload of data and general administrative arrangements, and review of data matches arising from the **National Fraud Initiative (NFI) data matching exercise**
- A review of **spend against the Changing Places funding provided to the Council**, to support provision of a statement of assurance to the fund provider, was conducted by the Senior Auditor
- A review was conducted of the **Use of Council Vehicles** including tax implications
- Advice provided to a service in relation to a **fraudulent transaction** (the payer was identified through the National Anti Fraud Network), and also to a customer on responding to a **scam contract**
- The Audit Insurance & Fraud Manager continues to offer advice in relation to **insurance and the management of risks**

APPENDIX 2 – OUTCOME OF AUDITS COMPLETED SINCE THE PREVIOUS REPORT TO GOVERNANCE COMMITTEE (4th October 2023)

Recommendations reflect only High and Medium priority matters raised:

Audit	Overview of Scope	Summary of Findings	High / Medium Priority Recommendation(s)	Priority	Agreed / Responsible Officer / Action Date
Finance System Access Controls Significant Assurance	<ul style="list-style-type: none"> Assess arrangements for oversight of user access Review protocols for allocation of user permissions to ensure appropriate restrictions, relevant to staff role, and to ensure segregation of duties. Ensure permissions are updated for staff leaving or changing roles 	<p>Areas of good practice:</p> <ul style="list-style-type: none"> Oversight is conducted by an Accountant and appropriate access restrictions were applied including password controls System is updated for staff leaving or changing roles 	<p>Systems Administrator to be directly notified of leavers to enable prompt update of their system access.</p>	<p>High</p>	<p>Agreed: Finance Manager Action date: December 2023</p>
System Access Controls Full Assurance	<ul style="list-style-type: none"> Notification to ICT team of leavers, and timely update of access changes in response to leavers Changes to access made only on receipt of authorised request and reviewed by ICT team 	<p>Areas of good practice:</p> <ul style="list-style-type: none"> Human Resources provide notification of leavers, the ICT team record the leaving date on the officer's account to ensure prompt revocation of access on leaving. Changes of access is subject to authorisation and checked to ensure access is appropriate for the role 	<p>There were no recommendations arising from this review</p>	<p>N/A</p>	<p>N/A</p>

	<p>to ensure changes are commensurate with role</p> <ul style="list-style-type: none"> • Audit trail of requests and leaver notifications 	<ul style="list-style-type: none"> • Records of notifications, authorisations and ICT response are maintained 			
<p>Fraud Risks – Strategic Projects / Asset Management</p> <p>Significant Assurance</p>	<ul style="list-style-type: none"> • Due diligence is completed for transactions, and appropriate company checks completed before agreements signed • Oversight of negotiations between officers and third parties • Company financial information is verified at tender • Tenders accord with budgeted values • Actual owner is verified through Land Registry before property transactions are completed 	<p>Areas of good practice:</p> <ul style="list-style-type: none"> • Ten lease agreements, lease renewals and rent reviews were reviewed, 9 were completed with no issues • Contract and financial procedure rules are followed, and companies appointed only after financial evaluation has been conducted • A Programme Management Office is being established to provide oversight and challenge to Council projects. • Strategic Investment and Procurement staff work closely to ensure projects and contracts are identified and managed • Monitoring of contracts and projects including financial information is conducted to enable identification of any issues 	<p>Lease instruction process to include declaration of any personal or business connection to the individual or business taking on the lease (in addition to the requirement to complete a declaration of interest)</p> <p><i>(The Council's Code of Conduct includes protocols for declaration and management of interests, the above prompts and supports the corporate protocol.)</i></p>	High	<p>Agreed: Interim Asset Manager Action Date: March 2024</p>
<p>Debtors</p> <p>Full Assurance</p>	<ul style="list-style-type: none"> • Aged debt reports are run and reviewed • Active recovery action is taken for historic debts • Records of recovery action taken are recorded 	<p>Areas of good practice:</p> <ul style="list-style-type: none"> • Aged debt reports are produced monthly and issued to the relevant service • Recovery processes are defined and followed • One debt was noted to be subject to current review by management 	There were no recommendations arising from this review	N/A	N/A

	<ul style="list-style-type: none"> • Aged debt analysis is reviewed by senior management 	<ul style="list-style-type: none"> • Records are maintained of action taken to recover each debt • Debt information is provided to the Head of Finance as part of monthly performance reporting, this is used to inform reporting to senior management / portfolio holder 			
North Essex Parking Partnership Limited Assurance	<ul style="list-style-type: none"> • NEPP operates within the terms of the agreement regarding financial costs • Accounts are subject to audit approval and then reviewed by the management committee • Adequate financial controls are in place and financial agreements are in place • Member authorities have opportunity to challenge financial costs 	<ul style="list-style-type: none"> • The lead Authority advised the financial situation has improved and deficit recovery plans produced to minimise losses and improve financial sustainability • Summary (high level) balance sheet information has been produced distributed • The lead Authority has reviewed governance arrangements including risk management and business continuity 	The need for clearer financial reporting, improved performance measurement, business planning including relating to future financial stability to be raised with NEPP	High	Agreed: Operations Strategy and Policy Manager Action Date: March 2024
Use of Council Vehicles Limited Assurance	<ul style="list-style-type: none"> • Where vehicles are taken home, agreements are in place to draw attention to associated rules • Records are maintained of milage associated with any private use 	<ul style="list-style-type: none"> • The Council has a Drivers Handbook which clarifies authorised use • 	Formal agreements to be signed by officers taking vehicles home to confirm their understanding of permitted use. Mileage readings and purpose of journey to be	High High	Agreed: Operations Manager Action Date: January 2024

			recorded and reviewed by Operations Management to ensure compliance with HMRC policy		
--	--	--	--	--	--

Key:	
<i>For the scope of objectives subject to review during the audit:</i>	
<i>Full Assurance</i>	<i>Internal controls meet acceptable standards and are consistently applied.</i>
<i>Significant Assurance</i>	<i>Reasonable, but not absolute, assurance that adequate risk management and controls are in place. Significant assurance that the internal control framework meets minimum acceptable standards.</i>
<i>Limited Assurance</i>	<i>Some weaknesses or inconsistent application in control means some risks are not adequately mitigated. Internal control framework does not meet minimum acceptable standard.</i>
<i>No Assurance</i>	<i>Weaknesses or inconsistent application of controls means some risks are not mitigated and require significant improvement. The internal control framework does not meet the minimum acceptable standards and no assurance can be given</i>

Management Responses for Matters Previously Reported to the Governance and Audit Committee:

- Follow Up – Manor Street Project.** The follow up report confirmed all original recommendations had been implemented, but made one further recommendation relating to conducting analysis of the project benefits to support delivery of outputs and outcomes and inform the project closure report, and completing Project Closure reports in a timely manner to enable lessons to be learned (reported to Governance and Audit Scrutiny Committee in April 2023). *Update December 2023: The Service aims to complete the Project Closure Report by 31st March 2024.*

Report Title: Fraud Update	
Report to: Governance and Audit Committee	
Date: 17 th January 2024	For: Decision
Key Decision: No	Decision Planner Ref No: N/A
Report Presented by: Angela Mitchell, Audit, Insurance and Fraud Manager	
Enquiries to: Angela Mitchell, Audit, Insurance and Fraud Manager (angmi@braintree.gov.uk)	

1. Purpose of the Report

- 1.1 The Governance and Audit Committee functions include monitoring the Council's counter fraud and corruption arrangements.
- 1.2 The Public Sector Internal Audit Standards (PSIAS) require the '*Chief Audit Executive*' (the Audit, Insurance and Fraud Manager) to periodically report significant risks and controls, including fraud risks. The report provides Members with an overview of Fraud affecting Local Authorities, and the work undertaken by staff including the Audit Insurance and Fraud, and Revenues and Benefits teams, in this respect.

2. Recommendations

- 2.1 Members are asked to note the report.

3. Summary of Issues

3.1 Introduction

- 3.1.1 The Public Sector Fraud Authority '*Cross-Government Fraud Landscape Annual Report 2022*', published in March 2023, identified an overall trend of increasing levels of detected, prevented and recovered fraud and error, although this was in part attributed to fraud and error found as part of pandemic related spend where the inherent risk of fraud was greater. Whilst the PSFA results related to Central Government departments, they do provide an indication of wider fraud trends.

- Detected fraud rose from £227million in 2019/20 to £243million in 2020/21;
 - *Fraud relates to the making of a false representation or failing to disclose relevant information, or the abuse of position, in order to make a financial gain or misappropriate assets.* This includes cases assessed on a balance of probabilities basis of whether or not the action or inaction was taken with the intention of defrauding the taxpayer;

- Detected fraud and error rose from £310million in 2019/20 to £525million in 2020/21;
 - *The difference between fraud and error is whether intent has been established and includes processing errors and official government errors, where such losses are judged as without fraudulent intent.*
- Prevented fraud and error rose from £388million in 2019/20 to £653million in 2020/21;
- Recovered fraud and error rose from £92million in 2019/20 to £193million in 2020/21; and
- Procurement fraud accounted for the greatest value of both external fraud and internal fraud. Other significant external fraud related to loans, grants and charge evasion, and other significant internal fraud related to theft of assets, travel and expenses and pay and other allowances, and personnel management

3.1.2 The National Fraud Initiative (NFI) report (December 2022) noted a total of almost £417million of fraud, overpayments and error identified and prevented by NFI participants in the period 5th April 2020 to 31st March 2022. This includes:

- Council tax £44.7million
- Council Tax Reduction Scheme £5.2m
- Trade Creditors £6.1million
- Pilots and Grants tools £39.7million
- Procurement £0.8million
- Payroll £0.3million

3.1.3 CIFAS (Credit Industry Fraud Avoidance System) is a UK fraud prevention service. The CIFAS Fraudscape 2023 report identified:

- 68% of cases in 2022 concerned Identity fraud and there was a rise in the use of synthetic identities;
- High inflation and economic pressures may lead to consumers becoming more susceptible to phishing (posing as legitimate institutions usually via email) and smishing (using text messages);
- Social engineering was a common tactic, but there was also an increase in technology driven threats. There is also a potential for increased push payment fraud as consumers are targeted with false investment opportunities;
- First party fraud (person misrepresents themselves for gain) was predicted to be an increasing threat as consumers attempt to appear more creditworthy or seek to cope with rising living costs. There was an increase in false chargeback claims;

- The Insider threat was seen as a priority, most cases relate to false employment applications and dishonest actions (generally theft of cash or equipment) and may reflect on the cost of living difficulties faced by employees.

3.1.4 There is no up to date, reliable estimate available of the total scale of economic crime, however assessments within the public and private sectors indicate that the scale of the economic crime threat continues to grow. Fraudsters are constantly evolving their techniques, and further challenges arise from changes in the public sector landscape, including budget reductions, service remodelling and integration, and Government policy changes.

3.1.5 CIPFA's 'Fighting Fraud and Corruption Locally - Strategy for the 2020's' recognises the fraud challenges faced by Local Authorities and the associated potential scale of losses, and seeks to create a self-sustaining counter fraud response for the sector built on the following four pillars, and accompanied by six themes to assist in ensuring the counter fraud response is effective:

Pillars:

- **Govern:** Robust arrangements and executive support to ensure anti-fraud, bribery and corruption measures are embedded throughout the organisation;
- **Acknowledge:** and understand fraud risks, and commit support and resource to tackling fraud;
- **Prevent:** and detect more fraud through use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture; and
- **Pursue:** Punish fraudsters and recover losses through use of civil sanctions, developing investigation capability and capacity and a collaborative and supportive local enforcement response.

Themes:

- **Culture:** create a culture where fraud and corruption are unacceptable;
- **Capability:** assessing the full range of fraud risks and ensuring the range of counter fraud measures deployed is appropriate;
- **Capacity:** deploying the right level of resources to deal with the level of fraud risk, monitored by those charged with governance;
- **Competence:** having the right skills and standards commensurate with the range of counter fraud and corruption activity;
- **Communication:** raising awareness internally and externally, deterring fraudsters, sharing information, celebrating success; and
- **Collaboration:** work together across internal and external boundaries: with colleagues, other local authorities, other agencies; sharing resources, skills and learning, good practice and innovation, and information.

3.1.6 The *Fighting Fraud and Corruption Locally - Strategy for the 2020's* (FFCL) makes a series of recommendations for Local Authorities to develop and enhance their counter fraud response. These recommendations and the Council's position is identified in **Appendix 1**.

3.2 Public Sector Fraud Risks

3.2.1 In August 2022, the Government established the Public Sector Fraud Authority (PSFA) as a Centre of Enterprise for the management of fraud against the public sector. The PSFA purpose is to work with departments and public bodies to understand and reduce the impact of fraud against the public sector, including through: modernising the fraud and error response by widening access and use of leading practices, tools and technology; building expert led services; and developing public sector capability. The PSFA will focus on data analytics, including through the National Fraud Initiative.

3.2.2 The following identifies some fraud risks affecting the public sector. This list is not exhaustive:

- **Internal and recruitment** – abuse of position, conflict of interest, failure to declare convictions, false declarations, failure to follow process, undeclared working, false timesheets and expense claims, abuse of flexitime or annual leave, working elsewhere whilst sick or on Council time, misuse of equipment, bribery and corruption;
- **Social care fraud (personal budgets and direct payments)** – overstatement of needs through false declaration, multiple claims across authorities, third party abuse by carer, family or organisation, and posthumous continuation of claims;
- **Benefits / Council Tax Support** – false applications, documents or ID, failure to notify changes;
- **Right to Buy** – fraudulent applications under the right to buy / acquire.
- **Money Laundering** – exposure to suspect transactions (using the Council to hide improper transactions) link to organised crime;
- **Commissioning of services** – (including joint commissioning, joint ventures, commercial services, third sector partnerships) – conflicts of interest, collusion;
- **Tenancy** – fraudulent applications for housing or successions of tenancy and right to buy, or sub-letting of the property;
- **Procurement** – tendering issues, split contracts, ghost contractors, double invoicing, bid rigging and cartels, bribery, collusion between officers and contractors, violation of procedures, failure to supply, inflation of performance information;
- **Payments / creditors** – misuse of credit/procurement cards, false invoices and claims, duplicate payments, mandate fraud (attempts to divert payments by impersonating suppliers) and whaling (impersonating senior Council staff);
- **Payroll** – false (ghost) employees, overtime claims, expenses.
- **Identity Fraud** – false identity / fictitious persons applying for services / payments;

- **Council Tax** – fraudulent applications for Council Tax Support, discounts & exemptions, new properties not on list (e.g. built without planning permission);
- **Business Rates** – fraudulent applications for exemptions, reliefs and grants, failure to declare occupation or register business where rates are applicable, payment using false bank details;
- **Credit income and refunds** – (Council Tax / NDR/Rents) suppression of notification of debt, improper write off, failure to instigate recovery protocols, transferring arrears, manipulating credit balances, payment using false instrument then claiming refund;
- **Blue Badge** – use of counterfeit / altered badges, use when disabled person is not in the vehicle, use of a deceased person's Blue Badge, badges issued to institutions being misused by employees;
- **Grants** – fake application, collusion, misuse of funds, work not carried out, funds diverted, ineligibility not declared;
- **Insurance fraud** – false or exaggerated claims including slips and trips;
- **Disabled Facilities Grants** – fraudulent applications for adaptations to homes aimed at the disabled;
- **Concessionary Travel schemes** – use of concession by ineligible person;
- **No recourse to public funds** – (S115 of the Immigration & Asylum Act 1999 states a person has no recourse to public funds if they are subject to immigration control) - fraudulent claims of eligibility;
- **Local Enterprise Partnerships (LEP)** – (partnerships between Local Authorities and businesses – all LEP's should now be incorporated with a Local Authority as an accountable body) – Procurement fraud, grant fraud. Consider LEP governance and procedures for allocating / prioritising grants;
- **Immigration** – sham marriages, false entitlement to services and payments;
- **Cyber dependent crime and cyber enabled fraud** – range of fraud such as ransomware, phishing, whaling, hacking, and denial of service attacks, diversion of funds, or creation of false applications for services and payments;
- **Assets** – land and property (sell for less than market value, collusion e.g. planning, leases and covenants), theft such as IT equipment, vehicles and tools, disposal of assets no longer required;
- **Investment** – misappropriation, loss through procedure breach, false instruments;
- **Electoral fraud** – fraudulent voting, acts by presiding officers / clerks / postal vote staff / verification and count staff. Fraudulent application for individual registration, absent voter, and staff employed as canvassers;
- **Development management** – inducements, conflict of interest, areas where checking compliance, planning process to increase land value; and
- **Housing** – fraudulent or false application, fraudulent succession or assignment, unlawful sub-letting, not using property as main home, Right to Buy (fraudulent application, valuation etc.).

3.3 Corporate Counter Fraud Arrangements

- 3.3.1 The Council has a Counter Fraud Strategy which states the Council is determined that the culture and tone of the organisation is one of openness, honesty and opposition for theft, fraud, corruption and bribery, and that there is an expectation and requirement that Council Members, Chief Officers and staff at all levels will lead by example in these matters and that all individuals and organisations associated with the Council will recognise this strategy and associated policies. This strategy is due for review, although these principles remain appropriate.
- 3.3.2 The Council has adopted a corporate anti-fraud framework including Codes and Policies which underpin this strategy and exist to protect the Council against loss and reputational damage arising from theft, fraud, corruption or bribery. The approach includes:
- An established Governance and Audit Committee whose remit includes monitoring the effectiveness of counter fraud and corruption arrangements;
 - Adopted Codes of Conduct for Members and Officers;
 - The Constitution, including Financial Procedure Rules and procedures relating to Contracts and Procurement;
 - Dedicated and qualified Audit and Fraud staff whose roles include detection, prevention and sanctioning of fraud;
 - Participation in data matching exercises to increase opportunity for detection of fraud. These include the National Fraud Initiative (NFI), the Pan Essex Compliance and Counter Fraud Scheme, and LoCTA (Locating Council Tax Absconders), all of which provide access to data and matches across a range of data sets; and
 - Reviews of fraud risks and approaches.

3.4 Council Fraud Investigation

- 3.4.1 The Council's Fraud Investigator, employed within the Audit Insurance and Fraud Team, conducts investigations into alleged or suspected fraud, liaising with other services or organisations as appropriate. He is experienced and professionally qualified to conduct investigations, and ensures appropriate cases are sanctioned in accordance with the Council's Prosecution Policy. In addition to the investigation activity, he has developed Fraud related policies, and arranged training for relevant staff within the organisation.
- 3.4.2 The main emphasis of Fraud work has been on Council Tax Support and Single Person Discount.
- 3.4.3 Housing Benefit fraud is the responsibility of the Department for Work and Pensions (DWP) Single Fraud Investigation Service. The Council has a formal protocol with the DWP for the exchange of information relating to Benefit Fraud investigations and will invite joint working on relevant investigations where the opportunity arises. The DWP reduced fraud investigation capacity in some areas and the Fraud Officer is awaiting DWP active engagement for some significant cases. The Fraud Investigator

continues to work with other Council Services and external organisations as required to address other fraud risk areas.

3.4.4 The Council's Fraud Investigator identified the following for 2021/22, 2022/23, and 2023/24 to date:

<i>Cases closed includes cases raised in prior years</i>	Cases closed in 2021/22	Cases closed in 2022/23	Cases closed in 2023/24 (to 31 December 2023)
New Cases - Files opened (HB, LCTS, SPD)	287 (includes 140 NFI cases)	292 (includes 171 NFI cases)	201 (includes 92 NFI)
Housing Benefit Overpayments	£84,387	£171,206	£79,413
Council tax Support Overpayments	£27,050	£35,029	£39,492
Single Person Discount Overpayments	£10,568	£6,880	£1,163
Single Person Discount Overpayments identified through NFI* Data Matching	£10,398	£23,223	£12,650 <i>(New data matches to be released January 2024)</i>
Social Housing Fraud		1 case - fraud proven	- 1 fraud proven (caution) - 2 no further action (further 2 cases are in progress)

**NFI - National Fraud Initiative. The main NFI National data matching exercises are conducted every two years but with periodic releases of additional matches (last main exercises were in 2020/21 and 2022/23). Additional SPD matching is conducted in the intervening years.*

3.5 Data Matching and Analysis

3.5.1 The National Fraud Initiative (NFI) is a data matching exercise conducted by the Cabinet Office under Data Matching Powers set out in the Local Accountability and Audit Act 2014. Certain bodies, including Local Authorities, are required to participate through the provision of data for matching purposes. , NFI matches electronic data within and between public and private sector bodies to help prevent and detect fraud. The Council participates in all mandatory elements of the NFI data matching and results of the latest data matching exercise have been released and are currently being reviewed by Audit and Fraud staff. The Cabinet Office extended the scope of NFI data matching to include post-payment assurance matching for Covid-19 Business Grants.

3.5.2. Along with other Essex Authorities, the Council participates in the Pan Essex Compliance and Counter Fraud Scheme which performs monthly data matching of a number of data sets from Local Authorities.

3.5.3 The Council also subscribes to LoCTA, a Local Authority based data sharing system for tracing debtors and minimising fraud with integrated access to other data sets (such as Companies House and Land Registry).

3.5.4 The Council has engaged two separate companies to undertake reviews of Single Person Discount and of Small Business Rate Relief.

3.6 Checks on Grant Applications and Energy Rebate Scheme

3.6.1 The Council previously administered a range of Business Grants in connection with the Coronavirus pandemic. For each grant scheme, the Council's Revenues and Recovery team, and Economic Development staff, worked to conduct a range of checks on applications prior to payments being made.

3.6.2 The Council's Revenues and Recovery Team has also administered the Government's Council Tax Energy Rebate scheme to ensure payments were made to ensure eligibility criteria were met and bank details were verified.

3.7 Corporate Policies and Procedures

3.7.1 The Council currently has the following Fraud related strategies, policies and procedures. Some of these require updating, the Audit Insurance & Fraud Manager will coordinate the review of these documents:

- Counter Fraud Strategy – summarises the Council's approach to delivering counter fraud measures throughout the Council;
- Fraud, Corruption and Dishonesty Policy – defines fraud, corruption, and dishonesty, and includes the Code of Conduct for Employees, the Code of Practice for Councillors and Officers Engaged in the Determination of Planning Applications and summarises expectations;
- Anti-Money Laundering Policy & Guidance (updated April 2022) – identifies Council and staff responsibilities under Money Laundering Regulations, and protocols for record keeping and reporting;
- Prosecution Policy – defines considerations for the prosecution of Local Council Tax Support and other fraud;
- The Regulation of Investigatory Powers Act 2000 (RIPA) & the Investigatory Powers Act 2016 (IPA) Policy (updated October 2023) – defines key staff contacts and outlines requirements for compliance with RIPA and IPA. *This policy will be revised to reflect updates to definitions of 'communications data' and the Investigatory Powers (Amendment) Bill which is currently progressing through parliament;* and
- Use of Social Networking Sites for Investigations (approved by the Corporate Governance Group in January 2021) – clarifies the legitimate uses of social media to prevent misuse and the circumstances in which such activity becomes targeted or covert surveillance.

3.7.2 In addition, the Council has a range of Policies and Procedures which support development of controls and approaches contributing to the prevention and detection of fraud, including the following:

- Whistleblowing Policy – defines whistleblowing, encourages reporting of wrongdoing, defines protocols for reporting and lists key officer contacts;
- Risk Management Policy and Strategy (updated August 2023) – defines responsibility and protocols for corporate risk management;
- The Constitution (updated April 2022) – defines how the Council operates, how decisions are made, and the procedures followed to ensure these are efficient, transparent and accountable to local people;
- Local Code of Corporate Governance (updated periodically as part of the Annual Governance Statement) – defines the systems and processes, culture and values by which the Council is controlled;
- Code of Conduct for Members, including Gifts and Hospitality (within the Constitution) – defines obligations and protocols which if followed ensure that Member actions are consistent with the “Nolan Principles” and interests are disclosed;
- Standards of Conduct for Staff, including Gifts and Hospitality (within the Fraud Corruption & Dishonesty Policy) – promotes high standards of behaviour and conduct including avoidance of conflicts of interest and separation of roles during tendering;
- Disciplinary Procedures (January 2022) – provides guidance on how managers will treat cases of unsatisfactory conduct;
- Staff Declarations of Conflicts of Interest – form for enabling staff to report conflicts;
- IT Security Policy and ICT Codes of Practice – specify how the Council will apply information security; and
- Recruitment Policies – includes requirements for ensuring a fair recruitment and selection process, and the pre-employment checks conducted by HR and recruiting managers.

3.8 Gifts, Hospitality and Interests

The Council has protocols for both Members and staff concerning the declaration of gifts, hospitality, and interests. Member information is published on the Council website, the Officer information is required to be recorded in registers by Directors but is also available to Internal Audit.

3.9 Corporate Fraud Training

3.9.1 The Council provided the following training for staff to support them to prevent and detect fraud:

- **Regulation of Investigatory Powers Act (RIPA) Applications and Authorisation** – March 2022. 11 staff attended training which included legislative requirements for surveillance, including tests for necessity and proportionality, and the application process.
- **Document Awareness** – October 2019. The training covered the features to examine to verify the legitimacy of identity documents (such as driving licences and passports). Two sessions were arranged by HR to extend this training to a wide selection of staff. In addition, Housing

staff are engaging with other Local Authorities and Housing Associations in respect of Digital verification of ID.

- **Authorised Officer** – Under Regulation 3 of the Council Tax Reduction Schemes (Detection of Fraud and Enforcement (England) Regulations (S1 501) 2013, the Secretary of State may authorise an officer of a Local Authority to exercise powers obtain information from certain people. The Fraud Officer is an Authorised Officer and attended a training session in November 2022 to receive an update on the scope and application of Authorised Officer powers, ensuring actions in investigations are justified and the Council continues to act lawfully.
- **General – Fraud Alerts** – Audit staff receive and distribute as appropriate, fraud alerts from organisations such as the National Anti-Fraud Network (NAFN), which share relevant information on fraud experienced by member organisations, and identify key factors to look out for, for example relating to payment or salary mandate fraud, and grants fraud. These alerts are shared with relevant colleagues and services.
- **General – Audit and Fraud staff** – the service receives updates on fraud related matters through membership of professional groups and publications. Alerts and guidance is also received from the National Anti-Fraud Network (NAFN) and shared with relevant services.
- **General - Learning Hive** – The Council’s new E-Learning system includes a range of modules including Information Security. Further modules are expected to be introduced.

4. Corporate Objectives

4.1 The recommendations set out in this report will help the Council to deliver the following Corporate Objectives:

- The approach to preventing, detecting and dealing with fraud directly supports the following Corporate Objectives, but also indirectly supports the Council’s ability to deliver all Corporate Objectives:
 - A high performing organisation that delivers excellent and value for money services; and
 - Delivering better outcomes for residents and businesses and reducing costs to taxpayers.

5. Options

To receive and ask questions as appropriate on the Council’s arrangements for dealing with fraud risks.

6. Financial Implications

There are no financial implications arising from the recommendations set out in this report.

7. Legal Implications

There are no additional legal implications arising from this report.

8. Other Implications

There are no other implications arising from this report.

9. Equality and Diversity Implications

9.1 Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when the Council makes decisions it must have regard to the need to:

- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act;
- (b) Advance equality of opportunity between people who share a protected characteristic and those who do not; and
- (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.

9.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).

9.3 The Equality Impact Assessment indicates that the proposals in this report will not have a disproportionately adverse impact on any people with a particular characteristic.

10. List of Appendices

Appendix 1 - Fighting Fraud and Corruption Locally Strategy for the 2020's - Recommendations.

11. Background Papers

None.

The *Fighting Fraud and Corruption Locally - Strategy for the 2020's* (FFCL) makes the following recommendations for local response:

FFCL Strategy Recommendation	Braintree District Council Position
<i>What should senior stakeholders do:</i>	
<p>Chief Executive:</p> <ol style="list-style-type: none"> 1. Ensure your authority is measuring itself against the FFCL checklist. 2. Is there a trained counter fraud resource in your organisation, or do you have access to one? 3. Is the audit committee receiving regular reports on the work of those leading on fraud and is the external auditor aware of this? 	<p>Checklist response reported to Governance and Audit committee (GAC) Fraud Officer and Fraud Manager are qualified and experienced.</p> <p>Annual Fraud Update report to Governance and Audit Committee.</p>
<p>S151 Officer</p> <ol style="list-style-type: none"> 1. Is there a portfolio holder who has fraud within their remit. 2. Is the head of audit or counter fraud assessing resources and capability. 3. Do they have sufficient internal unfettered access. 4. Do they produce a report on activity, success and future plans and are they measured on this 	<p>Cllr Bowers is the Cabinet Member for Resources and Performance. Fraud is not specifically listed but would fall within his remit.</p> <p>Fraud update considers risks and Council corporate actions to mitigate them. The Constitution places general responsibility on Members and Officers to prevent and detect fraud and corruption and report any instances. The Fraud Manager and Officer respond to suspected fraud.</p> <p>The Audit & Fraud Manager's unfettered access is recognised in the Constitution and Internal Audit Charter. Fraud activity and developments are provided in the annual Fraud update report to GAC.</p>
<p>Monitoring Officer</p> <ol style="list-style-type: none"> 1. Are Members, audit committees and portfolio leads aware of counter fraud activity and is training available to them 2. Is the fraud team independent of process and does it produce reports to relevant committees that are scrutinised by Members 	<p>Fraud update report to GAC advises of fraud activity. Formal audit committee training has not included fraud; however, the Audit Committee Chair has been provided with CIPFA guidance detailing the Member role in fraud and corruption. Formal training options to be considered.</p> <p>The Fraud Officer's focus is on investigation and sanction, neither he nor</p>

	the Fraud Manager are involved in day-to-day processing.
<p>Audit Committee</p> <ol style="list-style-type: none"> 1. Should receive a report at least once a year on the counter fraud activity, including proactive and reactive work. 2. Receive a report from the fraud lead on how resource is being allocated, whether it covers all areas of fraud and where those fraud risks are measured. 3. Should be aware that the portfolio holder is up to date and understands the activity being undertaken to counter fraud. 4. Should support proactive counter fraud activity. 5. Should challenge activity, be aware of what counter fraud activity can comprise and link with the various national reviews of public audit and accountability. 	<p>Once a year (normally January) report to GAC, includes update on preventative (controls), detective (such as data matching) and sanction activity.</p> <p>Annual GAC report identifies the Council has one Fraud Officer however other teams contribute to the detection of fraud.</p> <p>GAC informed via Fraud update report that portfolio holder is briefed.</p> <p>GAC receives reports on and reviews the Council's counter fraud activity.</p> <p>Through review and challenge of fraud update reports to GAC which identify activity and national perspectives on fraud.</p>
<p>Portfolio Lead</p> <ol style="list-style-type: none"> 1. Receives a regular report that includes information, progress and barriers on – the assessment against the FFCL checklist Fraud risk assessment and horizon scanning. 	<p>The Head of Finance receives a monthly update from the Fraud Manager which is referenced in his monthly Service Report and briefing to the portfolio holder.</p>
FFCL 2020 Checklist:	
<ol style="list-style-type: none"> 1. The LA has made a proper assessment of its fraud and corruption risks, has an action plan to deal with them and regularly reports to its senior Board and its Members. 	<p>A fraud risk assessment is in the process of being developed. The Fraud Manager considers fraud risks when preparing the Internal Audit Plan, the plan, and outcomes of audits performed are reported to senior management.</p>
<ol style="list-style-type: none"> 2. The LA has undertaken a fraud risk assessment against the risks and horizon scanning of future potential fraud and corruption risks, the assessment includes an understanding of the harm that fraud may do in the community. 	<p>As above, a fraud risk assessment is being developed. Potential fraud risks and trends are reviewed in the course of preparing the annual Fraud Update report for GAC, and in developing the Internal Audit Plan.</p>

	These do not directly refer to the harm to the community arising from fraud.
3. An annual report to the audit committee provides an assessment against FFCL 2020 and this checklist.	Fraud Update report to GAC January 2024.
4. Portfolio holder briefed on fraud risks and mitigation.	Monthly briefing by Head of Finance to portfolio holder includes fraud related matters.
5. Audit committee supports counter fraud work and challenges the level of activity to ensure it is appropriate in terms of fraud risks and resources.	GAC considers annual report on risks and arrangements relating to fraud.
6. There is a counter fraud and corruption strategy applying to all aspects of Council business, which has been communicated across the authority and acknowledged by those charged with governance.	Counter Fraud Strategy exists but requires an update.
7. The LA has arrangements to promote and ensure probity in the conduct of its business.	The Council has a range of internal controls, governance and oversight arrangements (including Statutory Officers), and policies and procedures including: financial and procurement procedure rules, codes of conduct, whistleblowing arrangements, Anti-Money Laundering policy, counter fraud strategy, fraud corruption and dishonesty policy, and Information Security policies.
8. The risks of fraud and corruption are specifically considered in the authority's overall risk management process.	Fraud risks are referenced in the Risk Management policy (in connection with the identification of risks) but are not otherwise specifically considered.
9. Counter fraud staff are consulted to fraud proof new policies, strategies and initiatives across departments, and this is reported to the committee.	The Fraud Manager and Fraud Officer are consulted on an ad hoc basis about policy content but do not have capacity to review all new Council policies strategies and initiatives. Management involved in the same should consider fraud risks.
10. Successful cases of proven fraud / corruption are routinely publicised to raise awareness.	Successful benefit fraud prosecutions are publicised on the Council's website.

<p>11. The LA has arrangements to prevent and detect fraud and corruption, and a mechanism for ensuring this is effective and reported to committee.</p>	<p>Prevention includes a range of internal controls, governance and policies and procedures (as in Q7 above), data sharing, circulation of fraud alerts to relevant services and publication of prosecutions to discourage fraud. Detection includes encouraging public reporting of concerns, and data matching.</p>
<p>12. The LA has in place arrangements for monitoring compliance with standards of conduct across the authority covering:</p> <ul style="list-style-type: none"> - Codes of conduct including behaviour for counter fraud, anti-bribery and corruption - Register of interests - Register of gifts and hospitality. 	<p>Monitoring compliance includes through oversight by management and other functions (such as Finance, HR, IT), disciplinary procedures, and whistleblowing arrangements.</p>
<p>13. The LA undertakes recruitment vetting of staff prior to employment by risk assessing posts and undertaking checks recommended in FFCL 2020 to prevent potentially dishonest employees from being appointed. <i>(FFCL 2020 refers to use of technology to establish identity, check documents and cross check records).</i></p>	<p>Council pre-employment checks are conducted, including for references, eligibility to work in the UK (using the Government online checker and physical check of original documents), qualifications and professional membership.</p>
<p>14. Members and staff are aware of the need to make appropriate disclosures of gifts, hospitality and business, this is checked by auditors and reported to committee.</p>	<p>Procedures and declaration processes for gifts and hospitality and interests, for both Members and officers.</p> <p>The Monitoring Officer reviews and advises on Member declarations. The officer Code of Conduct requires Directors to maintain registers of gifts and hospitality, and declarations made via online reporting are available to the audit team to view.</p>
<p>15. There is a programme of work to ensure a strong counter fraud culture across all departments and delivery agents led by counter fraud experts.</p>	<p>Fraud advice including National Anti-Fraud Network alerts are ad hoc. Services are expected to maintain awareness of fraud risks relevant to their areas and to promote a counter fraud culture within their teams.</p>
<p>16. There is an independent and up to date whistleblowing policy which is</p>	<p>Whistleblowing policy exists but requires an update.</p>

monitored for take-up and can show suspicions have been acted upon.	
17. Contractors and third parties sign up to the whistleblowing policy and there is evidence of this. There should be no discrimination against whistleblowers	<p>Standard contract terms and conditions require contractors to be familiar with and comply with contract standing orders, procurement procedure rules, counter fraud strategy, fraud corruption and dishonesty policy, and whistleblowing policy.</p> <p>The Whistleblowing policy states the Council will not tolerate any attempt to apply any sanction or detriment to any person reporting concerns in good faith.</p>
18. Fraud resources are assessed proportionately to the risk the LA faces and are adequately resourced.	The Council has one dedicated Fraud Officer, supported by the Audit Insurance and Fraud Manager and team. This level of dedicated resource relies on services own awareness of fraud risks and mitigation. Information on fraud alerts is circulated to relevant teams.
19. There is an annual fraud plan which is agreed by committee and reflects resources mapped to risks and arrangements for reporting outcomes. This plan covers all areas of the Council's business including activities undertaken by third parties or voluntary sector activities.	The Fraud Officer work is overall reactive to concerns reported to him by colleagues, other Council services or members of the public, or identified through data matching.
20. Statistics are kept and reported by the fraud team which cover all areas of activity and outcomes.	Fraud statistics are included in monthly performance reports, of which a summary is provided to the portfolio holder.
21. Fraud officers have unfettered access to premises and documents for the purpose of counter fraud investigation.	The Fraud Officer responds mainly to external fraud and is able to access information needed. Internal Audit respond to internal matters, the right of access is identified in the Constitution and the Internal Audit Charter.
22. There is a programme to publicise fraud and corruption cases internally and externally which is positive and endorsed by the Council's communications team.	Details of fraud prosecutions are published on the Council's website, and outcomes of fraud investigations are shared with the staff / team which referred them.

<p>23. All allegations of fraud and corruption are risk assessed.</p>	<p>Allegations are subject to initial high-level review to establish if investigation is warranted, before proceeding to more detailed work.</p>
<p>24. The fraud and corruption response plan covers all areas of counter fraud work: prevention, detection, investigation, sanctions, redress.</p>	<p>The Council's Counter Fraud Strategy covers these areas (this strategy is to be reviewed).</p>
<p>25. The fraud response plan is linked to the audit plan and is communicated to senior management and members.</p>	<p>The Counter Fraud Strategy references the role of Internal Audit. The Audit Manager considers fraud risks in developing the Internal Audit Plan, senior management are consulted during the development of the Internal Audit Plan, and the Plan is presented to GAC.</p>
<p>26. Asset recovery and civil recovery are considered in all cases.</p>	<p>Where relevant, debts are raised and pursued through normal recovery routes. Significant cases generally relate to Housing Benefit, for which the DWP is invited to participate in joint working (the DWP employs Financial Investigators).</p>
<p>27. There is a zero tolerance approach to fraud and corruption that is defined and monitored and which is always reported to committee.</p>	<p>The Council's Counter Fraud Strategy states "We will investigate and seek the strongest possible sanctions against those who seek to defraud or steal from the Council. This includes our own Members, officers, contracting partners and external individuals and organisations the Council does business with."</p>
<p>28. There is a programme of proactive counter fraud work which covers risks identified in assessment.</p>	<p>The Council participates in the National Fraud Initiative data matching exercise which has expanded to cover a wide range of fraud risks. Fraud risks areas are included in the Internal Audit Plan (the 2023/24 Internal Audit Plan included a review of fraud risks associated with strategic projects / asset management, and payments). Otherwise fraud work is reactive.</p>
<p>29. The counter fraud team works jointly with other enforcement agencies and encourages a corporate approach and co-location of enforcement activity.</p>	<p>The Fraud Officer has worked with other Local Authorities and other agencies such as the DWP where appropriate.</p>

<p>30. The LA shares data across its own departments and between other enforcement agencies.</p>	<p>Council departments work together to share relevant information, matters relevant to DWP benefits are notified to the DWP, and the Council participates in the National Fraud Initiative (NFI) data matching exercise.</p>
<p>31. Prevention measures and projects are undertaken using data analytics where possible.</p>	<p>The Council participates in the NFI and other data matching exercises and checks.</p>
<p>32. The counter fraud team has registered with the Knowledge Hub so it has access to directories and other tools.</p>	<p>The Fraud Manager has registered with the Knowledge Hub.</p>
<p>33. The counter fraud team has access to the FFCL regional network.</p>	<p>The Essex Fraud Group is expected to be reinstated.</p>
<p>34. There are professionally trained and accredited staff for counter fraud work. If auditors undertake counter fraud work, they too must be trained in this area.</p>	<p>The Fraud Officer and Fraud Manager are qualified and experienced. Auditors are not required to have the same level of fraud knowledge as a Fraud Investigator but are appropriately trained and encouraged in continuous development of their understanding of fraud risks.</p>
<p>35. The counter fraud team has adequate knowledge in all areas of the LA or is trained in these areas.</p>	<p>The Fraud Officer and Fraud Manager have long service in Local Government, they are sufficiently familiar with Council functions and have good working relationships with service experts.</p>
<p>36. The counter fraud team has access (through partnership/other LA's/or funds to buy in) to specialist staff for surveillance, computer forensics, asset recovery, financial investigations.</p>	<p>The Fraud Officer and Fraud Manager have contact with other Local Authorities and organisations through which specialist services may be arranged.</p>
<p>37. Weaknesses revealed by instances of proven fraud and corruption are scrutinised carefully and fed back to departments to fraud proof systems.</p>	<p>External fraud is often identified through existing controls and checks. Internal matters are subject to investigation, and where appropriate the Internal Audit team will collaborate with services to identify improvements to controls and governance arrangements.</p>

Report Title: Treasury Management Strategy for 2024/25	
Report to: Governance and Audit Committee	
Date: 17 th January 2024	For: Decision
Key Decision: No	Decision Planner Ref No: N/A
Report Presented by: Mark Jarvis, Financial Services Manager	
Enquiries to: Mark Jarvis, Financial Services Manager mark.jarvis@braintree.gov.uk	

1. Purpose of the Report

- 1.1 The Council has adopted the Code of Practice for Treasury Management in Public Services published by the Chartered Institute of Public Finance and Accountancy (CIPFA), which requires the Council to approve a Treasury Management Strategy before the start of each financial year. A draft strategy is attached to this report for the 2024/25 financial year. The Strategy will be included as part of the Budget report to be considered by Full Council on 19th February 2024.
- 1.2 The Council's Constitution requires that prior to consideration by Full Council, the draft Treasury Management Strategy is reviewed and scrutinised by the Governance and Audit Committee.

2. Recommendations

- 2.1 To consider the draft Treasury Management Strategy for 2024/25 and recommend its submission to Full Council.
- 2.2 To consider if the Committee wishes to propose any amendments to the strategy or provide any comments or observations which the Cabinet Member for Resources and Performance can take into account when presenting the final Treasury Management Strategy to Full Council.

3. Summary of Issues

- 3.1 The draft Treasury Management Strategy for 2024/25 is attached to this report as an **Appendix**.
- 3.2 Figures provided in the Strategy at this stage are provisional and will be updated to reflect the Cabinet's final budget recommendations to Full Council. It not expected that any changes will significantly alter the Strategy as currently drafted.

4. Options

- 4.1 To consider the draft Treasury Management Strategy for 2024/25, and if considered appropriate, suggest any changes; or provide comments and observations for the Cabinet Member for Resources and Performance to consider when presenting the report to Full Council.

5. Financial Implications

- 5.1 The estimated financial implications of the treasury management activities are set out in the tables and indicators contained in the draft Strategy.
- 5.2 The Council's proposed budget for investment income in 2024/25 is £2.1million.
- 5.3 Interest payable on current borrowing is £134,000 per annum and £70,000 in relation to the premium repayment in respect of refinanced debt. Although it is currently not anticipated to increase borrowing in 2024/25, any new schemes devised in-year would be fully appraised which, if approved, may increase the borrowing costs in year.

6. Legal Implications

- 6.1 The Treasury Management Strategy fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the guidance issued by CIPFA and any other statutory guidance issued by government.

7. Other Implications

- 7.1 There are no other implications arising from this report.

8. Equality and Diversity Implications

- 8.1 Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when the Council makes decisions it must have regard to the need to:
- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act;
 - (b) Advance equality of opportunity between people who share a protected characteristic and those who do not; and
 - (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.
- 8.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).
- 8.3 This report will not have a disproportionately adverse impact on any people with a particular characteristic.

9. List of Appendices

Draft Treasury Management Strategy 2024/25.

10. Background Papers

None.

1. INTRODUCTION

- 1.1 Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has substantial investments and borrowing, meaning it is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.
- 1.2 Treasury risk management is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code).

2. TREASURY MANAGEMENT POLICY & PRACTICES

- 2.1 The following treasury management policy is adopted by the Council:
- 2.2 Treasury management activities are defined as the management of investments and cash flows, banking, money market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
- 2.3 The successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council, and any financial instruments entered into to manage these risks.
- 2.4 Effective treasury management will provide support towards the achievement of the Council's business and service objectives. The Council is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.
- 2.5 The manner in which the Council will seek to achieve its policies and objectives for treasury management are set out in a number of Treasury Management Practices (TMPs), along with supporting schedules – see **Appendix A** for a list of TMPs that are currently maintained.

3. EXTERNAL CONTEXT

3.1 Treasury management activities take place within an economic and market backdrop, including changes in credit outlook. **Appendix B** provides an Economic and Interest Rate Forecast by Arlingclose as at 19th December 2023, which has been used for the purposes of formulating this strategy. Inevitably, events and circumstances will change and as such the Council's treasury management activities will respond accordingly.

4. LOCAL CONTEXT

4.1 The following table shows the actual and forecast amounts of borrowing and investments for the Council over the medium-term.

Table 1 Balance Sheet Analysis

	31.3.23 Actual £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m	31.3.28 Forecast £m
Capital Financing Requirement (CFR)	24.49	22.91	18.49	19.33	17.77	16.19
Less: Leasing liabilities	-2.96	-2.76	-3.64	-5.28	-4.52	-3.75
Loan CFR	21.53	20.15	14.85	14.05	13.25	12.44
Less: External borrowing	-5.80	-5.40	-5.00	-4.60	-4.20	-3.80
Internal Borrowing	15.73	14.75	9.85	9.45	9.05	8.64
Less: Usable reserves	-45.22	-41.09	-31.88	-27.19	-26.35	-26.68
Less: Working capital	-17.64	-16.2	-11.29	-11.71	-12.13	-12.47
Investments	47.13	42.63	33.32	29.45	29.43	30.51

4.2 The Capital Financing Requirement (CFR) measures the underlying need to borrow for capital purposes – actual borrowing may differ. Usable reserves (capital and revenue) and working capital represent underlying resources available for investment. The current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing.

4.3 In recent years the CFR has increased due to an increase in prudential borrowing as part of the agreed financing for several strategic capital projects. This increased borrowing requirement is currently being met through internal borrowing, which has the effect of reducing investment balances.

4.4 **The Liability Benchmark** is a measure of borrowing need based on an alternative strategy which aims to show the lowest risk level of borrowing. This assumes the same forecasts as in Table 1 above, but that all cash and investment balances are kept to a minimum level of £10m, at each year-end to maintain sufficient liquidity and minimise credit risk. This would also maintain investments at a level that ensures the Council retains its 'professional status' for investment activities.

Table 2 Liability Benchmark

	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m	31.3.28 Forecast £m
Loan CFR	20.15	14.85	14.05	13.25	12.44
Less: Usable reserves	-41.09	-31.88	-27.19	-26.35	-26.68
Less: Working capital	-16.29	-11.29	-11.71	-12.13	-12.47
Plus: minimum investments	10.00	10.00	10.00	10.00	10.00
Liability Benchmark	-27.23	-18.32	-14.85	-15.23	-16.71

4.5 Under this alternative strategy the borrowing requirement is minimised such that no new external borrowing would be required over the medium-term.

5. BORROWING STRATEGY

5.1 The Council currently holds £5.4m of loans, which were refinanced in 2022. The balance sheet forecast in Table 1 shows that borrowing is not expected to be required over the short-term however this will be dependent on the timing of pipeline projects and funds received through anticipated capital receipts. Additional borrowing may be incurred to pre-fund future years' requirements, providing this does not exceed the Council's own authorised limit for borrowing.

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

5.3 **Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Short-term interest rates are currently at a 15-year high but are expected to fall in the coming years and it is therefore likely to be more cost effective over the medium-term to either use internal resources, or to borrow short-term loans instead.

5.4 The Council will consider short and long-term loans from a variety of potential sources, including Public Works Loan Board (PWLB), the capital markets, and local authorities. The Council acknowledges that PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield, which will be a key consideration on future capital investment projects.

5.5 As part of any borrowing activity, forward starting loans might be used, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

- 5.6 In addition, short-term loans may be used to cover unplanned cash flow shortages.
- 5.7 **Sources of borrowing:** The approved sources of long-term and short-term borrowing are:
- HM Treasury’s PWLB lending facility
 - any institution approved for investments (see below)
 - any other bank or building society authorised to operate in the UK
 - any other UK public sector body
- 5.8 Other specialist lenders of finance may be considered, e.g. the Municipal Bonds Agency Plc; however, in these circumstances any proposal would be included within the business case that would require separate Council approval.
- 5.9 As a condition of accessing the PWLB, the Council will be required to confirm there is no intention to buy investment assets primarily for yield in its medium-term capital plans.
- 5.10 **Other sources of debt finance:** In addition, capital finance may be raised by leasing or other similar arrangements that are not borrowing but may be classed as other debt liabilities.
- 5.11 **Short-term and variable rate loans:** These loans result in exposure to the risk of short-term interest rate rises and are therefore subject to an appropriate level of interest rate exposure in any future portfolio determination. Financial derivatives may be used to manage this interest rate risk (see section below).

6. TREASURY INVESTMENT STRATEGY

- 6.1 Significant investments are maintained representing income received in advance of expenditure plus balances and reserves held. Table 3 shows the average investment balances projected over the medium-term:

Table 3 Average Investment Balances

	2022/23 Forecast £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m
Pooled Funds (long-term)	19.00	19.00	19.00	19.00	19.00	19.00
Short-term investments	37.79	40.88	28.48	22.38	20.44	20.98
Total Average Investment balance	56.79	59.88	47.48	41.38	39.44	39.98

- 6.2 **Objectives:** The CIPFA Code requires treasury funds to be invested prudently, having regard to security and liquidity before seeking the highest rate of return, or yield. The objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and

the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the aim will be to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Authority aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing

- 6.3 **Strategy:** As demonstrated by the liability benchmark above, the Authority expects to be a long-term investor and treasury investments will therefore include both short-term low risk instruments to manage day-to-day cash flows and longer-term instruments where limited additional risk is accepted in return for higher investment income to support local public services.
- 6.4 **ESG policy:** Environmental, social and governance (ESG) considerations are increasingly a factor in investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's ESG approach does not currently include ESG scoring or other real-time ESG criteria at an individual investment level.
- 6.5 **Approved counterparties:** Surplus funds may be invested with any of the counterparty types in Table 4 below, subject to the limits shown.

Table 4 Approved Investment Counterparties

Sector	Time limit	Counterparty limit	Sector limit
UK Government	50 years	Unlimited	n/a
Local authorities (UK)	3 years	£5m	Unlimited
Secured investments*	3 years	£5m	(a) Unlimited (UK) (b) Foreign £5m per country – max all £10m
Banks (unsecured)*	13 months	£3m	(a) Unlimited (UK) (b) Foreign £3m per country – max all £6m
Building societies (unsecured)	13 months	£3m	£5m
Registered providers (unsecured)*	3 years	£3m	£5m
Money market funds*	n/a	£5m	Unlimited
Strategic pooled funds	n/a	£5m	£25m
Real estate investment trusts	n/a	£3m	£6m

- 6.7 **Minimum credit rating*:** Treasury investments in these sectors will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However,

investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be considered.

- 6.8 For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.
- 6.9 **Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.
- 6.10 **Banks and building societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.
- 6.11 **Registered providers (unsecured):** Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated and as providers of public services, they retain the likelihood of receiving government support if needed.
- 6.12 **Money market funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, care is taken to diversify investments over a variety of providers to ensure access always to cash.
- 6.13 **Strategic pooled funds:** Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow diversification 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 investment objectives will be monitored regularly.
- 6.14 **Real estate investment trusts (REITs):** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced

returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

- 6.15 **Operational bank accounts:** The Council has financial exposure, for example through current accounts, collection accounts and merchant acquiring services. These are not classed as investments but are still subject to the risk of a bank bail-in, and therefore balances are maintained at a minimum level commensurate with operational requirements.
- 6.16 **Risk assessment and credit ratings:** Credit ratings are obtained and monitored by Arlingclose, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
- no new investments will be made,
 - any existing investments that can be recalled or sold at no cost will be, and
 - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.
- 6.17 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “negative watch”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn at short notice will be made with that organisation until the outcome of the review is announced.
- 6.18 **Other information on the security of investments:** Full regard is given to other available information on the credit quality of organisations, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from Arlingclose. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.
- 6.19 When deteriorating financial market conditions affect the creditworthiness of all organisations, investments will be restricted to those of higher credit quality along with reductions in the maximum duration. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest in, then increased amounts will be held with UK Government or other local authorities. This will likely cause investment returns to fall but will protect the principal sum invested.
- 6.20 **Investment limits:** It is revenue reserves that would be required to cover investment losses. In order that reserves are not put at risk in the case of a single

default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5m.

- 6.21 **Liquidity management:** A medium-term cash flow forecast is maintained to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of being forced to borrow on unfavourable terms to meet financial commitments. Limits on long-term investments are set by reference to a medium-term financial plan and cash flow forecast. A daily cash flow for the financial year is maintained to manage short-term liquidity requirements.
- 6.22 Liquid cash is spread over several accounts and funds to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

7. **TREASURY MANAGEMENT INDICATORS**

- 7.1 The Council measures and manages its exposures to treasury management risks using the following indicators.
- 7.2 **Security:** A voluntary measure of exposure to credit risk has been adopted by monitoring the value-weighted average credit rating of the investment portfolio. The target is to maintain the portfolio at an overall equivalent credit rating of at least A.
- 7.3 **Refinancing risk:** Any new borrowing undertaken in line with this strategy will be arranged to control future refinancing risk by ensuring a spread of maturities.
- 7.4 **Principal sums invested for periods longer than a year:** The purpose of this indicator is to control exposure to the risk of incurring losses by seeking early repayment of investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Table 5 Investment beyond One Year Limit

Price risk indicator	2024/25	2025/26	2026/27
Limit on principal invested beyond year end.	£15m	£10m	£10m

8. **OTHER RELATED MATTERS**

- 8.1 **Financial derivatives:** Standalone financial derivatives (such as swaps, forwards, futures, and options) will only be used where they can be clearly demonstrated to reduce the overall level of financial risk exposure and having taken appropriate advice. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

8.2 **Markets in Financial Instruments Directive (MiFID):** The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers, and fund managers, allowing access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of treasury management activities, the Section 151 Officer believes this to be the most appropriate status.

9. **FINANCIAL IMPLICATIONS**

9.1 The budget for investment income in 2024/25 is £2.1m, based on an average investment portfolio of £47m. This represents an overall estimated return of 4.75%.

9.2 Interest payable on current borrowing is £134k per annum and £70k in relation to the premium repayment in respect of refinanced LOBOs. Minimum Revenue Provision (MRP) set aside is budgeted at £1.026m

9.3 If actual levels of investments and borrowing, or actual interest rates, differ from that forecast, performance against budget will be correspondingly different.

9.4 A treasury management reserve is maintained to cover future financial risks associated with varying investment returns or borrowing costs; and potential reductions in the fair value of investments where these might be realised. Outperformance on treasury management activities that generate increased revenue income (or reduced costs) against the budget will be added to the reserve.

9.5 During 2023-24, the Department for Levelling Up, Housing and Communities published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. Although the override has been extended for 2 years until 31st March 2025, after this time the Council would need to manage fluctuations in the valuation of its funds within the General Fund. In order to manage and mitigate this change, the Treasury Management reserve needs to be assessed to ensure it is sufficient to manage this additional risk.

9.6 Interest and annual MRP charges arising from lease arrangements are covered by the relevant service revenue budgets.

10. **Other Options Considered**

10.1 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Section 151 Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed 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; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain

Appendix A – Treasury Management Practices (TMPs)

- TMP1 Risk management
- TMP2 Performance measurement
- TMP3 Decision making and analysis
- TMP4 Approved instruments, methods and techniques
- TMP5 Organisation, clarity and segregation of responsibilities, and dealing arrangements
- TMP6 Reporting requirements and management information arrangements
- TMP7 Budgeting, accounting and audit arrangements
- TMP8 Cash and cash flow management
- TMP9 Money laundering
- TMP10 Training and qualifications
- TMP11 Use of external service providers
- TMP12 Corporate governance

Appendix B - Arlingclose Economic & Interest Rate Forecast – December 2023

1. Economic Background

- 1.1 The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the treasury management strategy for 2024/25.
- 1.2 The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level in September and then again in November. Members of the BoE's Monetary Policy Committee voted 6-3 in favour of keeping Bank Rate at 5.25%. The three against wanted to increase rates by another 0.25%.
- 1.3 The November quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) growth with the potential for a mild contraction due to ongoing weak economic activity. The outlook for CPI inflation was deemed to be highly uncertain, with near-term risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.
- 1.4 Office for National Statistics (ONS) figures showed CPI inflation was 6.7% in September 2023, unchanged from the previous month but above the 6.6% expected. Core CPI inflation fell to 6.1% from 6.2%, in line with predictions. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling, declining to around 4% by the end of calendar 2023 but taking until early 2025 to reach the 2% target and then falling below target during the second half 2025 and into 2026.
- 1.5 ONS figures showed the UK economy grew by 0.2% between April and June 2023. The BoE forecasts GDP will likely stagnate in Q3 but increase modestly by 0.1% in Q4, a deterioration in the outlook compared to the August MPR. The BoE forecasts that higher interest rates will constrain GDP growth, which will remain weak over the entire forecast horizon.
- 1.6 The labour market appears to be loosening, but only very slowly. The unemployment rate rose slightly to 4.2% between June and August 2023, from 4.0% in the previous 3-month period, but the lack of consistency in the data between the two periods made comparisons difficult. Earnings growth remained strong, with regular pay (excluding bonuses) up 7.8% over the period and total pay (including bonuses) up 8.1%.
- 1.7 Interest rates have also paused in the US, with the US Federal Reserve pausing in September and November, and maintaining the Fed Funds rate target at the range of 5.25% - 5.50%. It is likely this level represents the peak in US rates, but central bank policymakers emphasised that any additional tightening would be dependent on the cumulative impact of rate rises to date, together with inflation and developments in the economy and financial markets.

- 1.8 Eurozone inflation has declined steadily since the start of 2023, falling to an annual rate of 2.9% in October 2023. Economic growth has been weak, and GDP was shown to have contracted by 0.1% in the three months to September 2023. In line with other central banks, the European Central Bank has been increasing rates, taking its deposit facility, fixed rate tender, and marginal lending rates to 3.75%, 4.25% and 4.50% respectively.

2. Credit Outlook

- 2.1 Credit Default Swap (CDS) prices were volatile during 2023, spiking in March on the back of banking sector contagion concerns following the major events of Silicon Valley Bank becoming insolvent and the takeover of Credit Suisse by UBS. In the second half of the year, higher interest rates and inflation, the ongoing war in Ukraine, and now the Middle East, have led to CDS prices increasing steadily.
- 2.2 On an annual basis, CDS price volatility has so far been lower in 2023 compared to 2022, but this year has seen more of a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.
- 2.3 Moody's revised its outlook on the UK sovereign to stable from negative to reflect its view of restored political predictability following the volatility after the 2022 mini-budget.

3. Interest Rate Forecast

- 3.1 Although UK inflation and wage growth remain elevated, the Authority's treasury management adviser Arlingclose forecasts that Bank Rate has peaked at 5.25%. The Bank of England's Monetary Policy Committee will start reducing rates in 2024 to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.
- 3.2 Arlingclose expects long-term gilt yields to be broadly stable at current levels (amid continued volatility), following the decline in yields towards the end of 2023, which reflects the expected lower medium-term path for Bank Rate. Yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

4. Detailed Interest Rate Forecast

4.1 Underlying assumptions:

- UK inflation and wage growth remain elevated but, following a no-change MPC decision in November, Bank Rate appears to have peaked in this rate cycle. Near-term rate cuts are unlikely, although downside risks will increase as the UK economy risks sliding into recession and inflation falls more quickly.

- The much-repeated message from the MPC is that monetary policy will remain tight as inflation is expected to moderate to target slowly. In the Bank's forecast, wage and services inflation, in particular, will keep CPI above the 2% target until 2026.
- The UK economy has so far been relatively resilient, but recent data indicates a further deceleration in business and household activity growth as higher interest rates start to bite. Global demand will remain soft, offering little assistance in offsetting weakening domestic demand. A recession remains a likely outcome.
- Employment demand is easing, although the tight labour market has resulted in higher nominal wage growth. Anecdotal evidence suggests slowing recruitment and pay growth, and we expect unemployment to rise further. As unemployment rises and interest rates remain high, consumer sentiment will deteriorate. Household spending will therefore be weak. Higher interest rates will also weigh on business investment and spending.
- Inflation will fall over the next 12 months. The path to the target will not be smooth, with higher energy prices and base effects interrupting the downtrend at times. The MPC's attention will remain on underlying inflation measures and wage data. Arlingclose believe policy rates will remain at the peak for another 10 months, or until the MPC is comfortable the risk of further 'second-round' effects has diminished.
- Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant policy loosening in the future to boost activity.
- Global bond yields will remain volatile, particularly with the focus on US economic data and its monetary and fiscal policy. Like the BoE, the Federal Reserve and other central banks see persistently high policy rates through 2023 and 2024 as key to dampening domestic inflationary pressure. Bond markets will need to absorb significant new supply, particularly from the US government.
- There is a heightened risk of geo-political events causing substantial volatility in yields.

4.2 Forecast:

- The MPC held Bank Rate at 5.25% in November. Arlingclose believe this is the peak for Bank Rate.
- The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Rate cuts are forecast from Q3 2024 to a low of around 3% by early-mid 2026.
- The immediate risks around Bank Rate remain on the upside, but these diminish over the next few quarters and shift to the downside before balancing out, due to the weakening UK economy and dampening effects on inflation.
- Arlingclose expects long-term gilt yields to eventually fall from current levels (amid continued volatility) reflecting the lower medium-term path for Bank Rate.

However, yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply.

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	5.40	5.40	5.40	5.30	5.15	4.80	4.30	4.10	3.80	3.50	3.25	3.05	3.05
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
5yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.28	4.35	4.30	4.25	4.10	4.00	3.75	3.50	3.40	3.30	3.30	3.30	3.35
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
10yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.32	4.40	4.35	4.30	4.25	4.15	4.00	3.80	3.75	3.65	3.60	3.65	3.70
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
20yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.78	4.70	4.65	4.55	4.45	4.35	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
50yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.38	4.30	4.25	4.20	4.15	4.15	4.10	4.10	4.10	4.10	4.10	4.10	4.10
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00