

County Buildings
Wellington Square
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30 November 2023

To: Councillors Dettbarn (Chair), Bell, Cullen, Kilpatrick, Lamont, McGinley, Ramsay and Weir

All other Elected Members for information only

Dear Councillors

AUDIT AND GOVERNANCE PANEL

You are requested to participate in the above Panel to be held **on Wednesday, 6 December 2023 at 10.00 a.m.** for the purpose of considering the undernoted business.

This meeting will be held in the County Hall County Buildings, Ayr on a hybrid basis for Elected Members, will be live-streamed and available to view at <https://south-ayrshire.public-i.tv/>

Yours sincerely

CATRIONA CAVES
Head of Legal and Regulatory Services

B U S I N E S S

1. Declarations of Interest.
2. Call-ins from Cabinet.
3. Minutes of previous meeting of 8 November 2023 (copy herewith).
4. Action Log and Work Programme (copy herewith).

Internal Audit Reports

5. Corporate Fraud Team – Activity Report and 2022/23 National Fraud Team Initiative Update - Submit report by the Chief Internal Auditor (copy herewith).

Other Governance Report

6. Treasury Management and Investment Strategy Mid-Year Report 2023/24 - Submit report by the Head of Finance, ICT and Procurement (copy herewith).
7. Audit and Governance Panel – 2023 Annual Self-Assessment Outcome – Submit joint report by the Head of Finance, ICT and Procurement and Head of Legal and Regulatory Services (copy herewith).

For more information on any of the items on this agenda, please telephone Andrew Gibson, Committee Services on 01292 612436, Wellington Square, Ayr or
e-mail: committeeservices@south-ayrshire.gov.uk
www.south-ayrshire.gov.uk

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AUDIT AND GOVERNANCE PANEL.

Minutes of a hybrid webcast meeting on 8 November 2023 at 10.00 a.m.

Present in
County Hall: Councillors Julie Dettbarn (Chair), Chris Cullen, Alan Lamont, Brian McGinley, Cameron Ramsay and George Weir.

Present
Remotely: Kenneth Bell and Mary Kilpatrick.

Attending in
County Hall: M. Newall, Chief Executive; T. Baulk, Head of Finance, ICT and Procurement; W. Carlaw, Service Lead – Democratic Governance; C. Boyd, Service Lead - Risk and Safety; C. McGhee, Chief Internal Auditor; A Gibson, Committee Services Officer; and E. Moore, Clerical Assistant.

Opening Remarks.

The Chair

- (1) welcomed everyone to the meeting, including Councillor Lamont, who was attending his first meeting of this Panel; and
- (2) outlined the procedures for conducting this meeting and advised that this meeting would be broadcast live.

1. Sederunt and Declarations of Interest.

The Chair called the Sederunt for the meeting and, having called the roll, confirmed that there were no declarations of interest by Members in terms of Council Standing Order No. 17 and the Councillors' Code of Conduct.

2. Call-ins from Cabinet.

The Panel noted that there were no call-ins from Cabinet of 31 October 2023.

3. **Minutes of Previous Meetings.**

The Minutes of the meetings of [27 September](#) (Special) and [4 October 2023](#) (issued) were submitted and approved.

4. **Action Log and Work Programme.**

There was submitted an update of the Action Log and Work Programme for this Panel ([issued](#)).

The Head of Finance, ICT and Procurement advised that, in relation to the Action Log, the Members Briefing on the work of the Corporate Fraud Team had now taken place and that a report was on the agenda for this meeting relating to risk implications detailed within Panel reports.

Following a question from a Member regarding the Action Log, it was noted that the Corporate Fraud Team did not provide a service to organisations outwith the Council.

In relation to the Work Programme, a Member of the Panel enquired if the report relating to the Delivery of Good Governance could be reported six-monthly instead of yearly, the Service Lead – Democratic Governance advised that this would not be possible.

The Panel

Decided: to note the current status of the Action Log and Work Programme.

5. **Internal Audit - Progress Report (i) Progress of Annual Internal Audit Plan 2022/23 (ii) Progress of the Annual Internal Audit Plan 2023/24 (iii) Implementation of Internal Audit Action Plans; and (iv) Quality Assurance and Improvement Programme Update.**

There was submitted a report ([issued](#)) of 31 October 2023 by the Chief Internal Auditor advising of progress of the 2022/23 internal audit plan, progress of the 2023/24 internal audit plan, directorates' progress against implementation of internal audit action plans and the status of the current Quality Assurance and Improvement Programme.

After having heard a Member of the Panel ask for a definition of “deliverables” as mentioned in the report, the Chief Internal Auditor advised that it could be defined as an assignment that would have an audit report at the end of it. It was further noted that although thirty deliverables were stated in the report, this number could vary throughout the year.

Following a question from a Member of the Panel, it was noted that that the Chief Internal Auditor was confident that the tasks which had not yet started could still be delivered within timescales subject to there being no large scale investigations required.

A Member of the Panel enquired why it had been stated that the implementation of certain actions relating to schools had been disrupted due to school strikes as the said strikes had not been for any significant period of time. The Chief Internal Auditor advised that as the Head Teachers were responsible for implementing the actions she believed the strikes did have an effect on completion

A Member of the Panel advised that the Council still required to influence more proactively some of the procedures that were not working as well as they should. Having heard various officers, it was noted that matters brought to the Council's attention by Internal Audit and Audit Scotland would be dealt with timeously.

Having heard a Member of the Panel, it was noted that final audit reports were issued to appropriate Council officers and that a SharePoint link was provided to all Elected Members to allow them to view the reports.

The Chief Internal Auditor advised that she would review how the status of actions was presented in future reports to Panel.

The Panel adjourned at this point for a short period.

Following a question from a Member of the Panel regarding a referral for an investigation, as detailed within the report, which had not yet concluded, it was noted that this had now been finalised and was unsubstantiated.

The Panel

Decided: to note the contents of the report.

6. Internal Audit Plan 2023/24 – Midyear Review.

There was submitted a report ([issued](#)) of 31 October 2023 by the Chief Internal Auditor seeking approval for a revision to the 2023/24 Internal Audit Plan, as detailed within paragraph 4.1.2 of the report.

Having heard a Member of the Panel raise the number of days allocated within the approved plan for the follow-up assignments, the Chief Internal Auditor advised of the position.

Having heard a Member of the Panel advise that this report had a status column but no progress column, it was agreed that the Chief Internal Auditor would update this for the next time this report was presented to Panel.

The Panel

Decided: to approve the revised 2023/24 Internal Audit Plan.

7. Risk Implications - Panel Reports.

There was submitted a report ([issued](#)) of 31 October 2023 by the Head of Legal and Regulatory Services providing an update on a review to ascertain if the 'Risk Implications' detailed in Council/Panel reports were being used successfully.

There was discussion, including the matter of an identified risk which had been reported in a report that had become apparent; whether risk reporting was successful; the issue of reported risks not all being of equal value; and that the review had covered Council and Cabinet meetings but not the Scrutiny Panels.

After a Member of the Panel raised how matters would now be taken forward, following the presentation of this report, it was noted that significant risks were reported through Strategic and Directorate risk registers.

Having considered the analysis of 'risk implications' in sample Council and Cabinet Reports since January 2023, the Panel

Decided: to agree

- (1) that the Head of Legal and Regulatory Services would reinforce existing guidance to report authors and request that they sought any additional support, if required, from the Service Lead – Risk and Safety; and
- (2) that the Head of Legal and Regulatory Services remind Elected Members that ongoing scrutiny of the Risk Implications section of Panel reports would support informed decision making.

The meeting ended at 11.00 a.m.

DRAFT

Audit and Governance Panel

Agenda Item No. 4

Action Log

No	Date of Meeting	Issue	Actions	Assigned/ Re-assigned to	Update	Completed
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****NOTHING TO REPORT****

Audit and Governance Panel

Work Programme 2023

No	Issue	Actions	Assigned To	Due Date To Panel	Latest update
1.	Corporate Fraud Team - Activity Report and 2022/23 National Fraud Initiative Update	Report to this Panel	Chief Internal Auditor	6 December 2023 (Biannually)	Report to this Panel
2.	Treasury Management and Investment Strategy Mid-Year Report 2023/24	Report to Panel	Head of Finance, ICT and Procurement	6 December 2023 (reported quarterly following changes to Code of Practice)	Report to this Panel
3.	Audit and Governance Panel – 2023 Annual Self-Assessment Outcome	Report to Panel	Head of Finance and ICT and Head of Legal and Regulatory Services	6 December 2023	Report to this Panel
4.	External Audit Reports – Progress to 30 June 2023	Report to Panel	Head of Finance, ICT and Procurement	6 September 2023 (Quarterly)	Item to be deferred to 24 January 2024 as no change from report to June AGP
5.	Best Value Action Plan 2023	Report to this Panel	Director of Strategic Change and Communities	February 2024 (Quarterly)	

Audit and Governance Panel

No	Issue	Actions	Assigned To	Due Date To Panel	Latest update
6.	Internal Audit - Progress Report (i) Progress of Annual Internal Audit Plan 2022/23 (ii) Progress of the Annual Internal Audit Plan 2023/24 (iii) Implementation of Internal Audit Action Plans (iv) Quality Assurance and Improvement Programme Update	Report to Panel	Chief Internal Auditor	February 2024 (progress reported quarterly)	
7.	Annual Audit Plan 2023/24	Report to Panel	Head of Finance, ICT and Procurement	March 2024 (Yearly)	
8.	Annual Internal Audit Plan	Report to Panel	Chief Internal Auditor	March 2024 (Yearly)	
9.	Strategic Risk Management	Report to this Panel	Head of Legal and Regulatory Services	March 2024 (Biannually)	
10.	Annual Accounts 2023/24	Report to this Panel	Head of Finance, ICT and Procurement	June 2024 (Yearly)	
11.	Delivering Good Governance – 2023/24 Assessment	Report to Panel	Head of Legal and Regulatory Services	June 2024 (Yearly)	
12.	Internal Audit Annual Report 2023/24	Report to Panel	Chief Internal Auditor	June 2024 (progress reported quarterly)	

Audit and Governance Panel

No	Issue	Actions	Assigned To	Due Date To Panel	Latest update
13.	Treasury Management Annual Report 2023/24	Report to Panel	Head of Finance, ICT and Procurement	June 2024 (Annually)	
14.	Internal Audit Annual Update Report – Integration Joint Board (IJB) Performance and Audit Committee (PAC)	Report to Panel	Chief Internal Auditor	September 2024 (Annually)	
15.	Accounts Commission Annual Report 2022/23	Report to this Panel	Head of Finance, ICT and Procurement	October 2024 (Annually)	
16.	Internal Audit Plan 2023/24 – Midyear Review	Report to this Panel	Chief Internal Auditor	November 2024 (Annually)	

South Ayrshire Council

**Report by Chief Internal Auditor
to Audit and Governance Panel
of 6 December 2023**

**Subject: Corporate Fraud Team – Activity Report and 2022/23
National Fraud Initiative Update**

1. Purpose

- 1.1 The purpose of this report is to advise Members of the Corporate Fraud Team's (CFT) activity from 1 April 2023 to 30 September 2023 and to provide an update on the 2022/23 National Fraud Initiative exercise.

2. Recommendation

2.1 It is recommended that the Panel:

2.1.1 considers the CFT activity for the six-month period to 30 September 2023; and

2.1.2 notes the update on the 2022/23 National Fraud Initiative (NFI).

3. Background

- 3.1 Update reports on the work of the CFT are submitted to the Audit and Governance Panel six monthly. The last six-monthly report was submitted to Panel on 31 May 2023 and covered the period 1 October 2022 to 31 March 2023. This report includes six-month period to 30 September 2023.

- 3.2 The CFT is a specialist investigative unit with responsibility for proactively and reactively investigating all types of corporate fraud against the Council, including:

- Council Tax Reduction/ Exemptions/ Discounts;
- Business Rates;
- Scottish Welfare Fund;
- Housing Tenancy;
- Employee Fraud;
- Procurement; and
- Blue Badge Misuse.

- 3.3 Fraud referrals can be received from members of the public through the online form available on the Council's website, by telephone or via email. Concerns regarding employees are reported to the CFT in line with the Council's Special Investigation Procedures or the Whistleblowing Policy and Procedure for reporting concerns at work. Other Council services, including Housing, Revenues and Benefits and Education also make referrals to the CFT to request investigation of suspected or actual fraud.

3.4 The CFT also contributes to the co-ordination of the NFI exercise across the Council and to carrying out investigations of NFI matches in some areas including Council Tax Single Person Discount and Small Business Bonus Scheme rates relief.

4. Proposals

4.1 ***Corporate Fraud Activity 1 April 2023 to 30 September 2023***

4.1.1 The table at [Appendix 1](#) shows a summary of the activity of the CFT from 1 April 2023 to 30 September 2023, with an explanation of each below.

- Council tax investigations comprise of cases where there has been a failure to declare changes in income, residency or changes that may affect discounts and exemptions.
- National Fraud Initiative (NFI) investigations are completed by the CFT where recipients of Single Persons Discounts (SPD) have been matched to other data sets which could indicate that they may not be entitled to SPD.
- The CFT receive individual Non-Domestic Rates referrals and also carry out unannounced checks on properties in receipt of Non-Domestic Rates empty property relief.
- Referrals are made to the CFT where there is a concern that the tenant is not residing in the property or is sub-letting. Checks on homeless applications and tenancy succession applications are also completed at Housing Services request.
- Scottish Welfare Fund visits are carried out by the CFT in relation to community care grant applications for household goods.
- Housing Tenant debt arises where a local authority tenant has left/absconded from a tenancy with outstanding rent arrears. CFT carry out checks to locate and trace the former tenants on behalf of Housing Services.
- Blue Badge investigations can arise where an allegation has been received about misuse.
- Education Services can request school placement applications are checked by CFT.

4.2 ***National Fraud Initiative***

4.2.1 The National Fraud Initiative (NFI) is a counter-fraud exercise whereby data is taken from councils, other public bodies and Companies House and cross matched to identify the potential for fraud. All Council's in Scotland are required to participate in NFI exercises which are carried out every two years. Audit Scotland has responsibility for co-ordinating the exercise across Scotland. Internal Audit and Corporate Fraud are responsible for co-ordinating the exercise within South Ayrshire Council. Investigation of the NFI matches is carried out by relevant staff within either Internal Audit and Corporate Fraud or other Council Services.

4.2.2 South Ayrshire Council has participated in all exercises to date and the required data sets for the latest exercise (2022/23) were uploaded by the due date to allow the data matches to be complete in line with set timescales. The data sets uploaded were:

- payroll;
- housing tenants and waiting lists;
- trade creditors;
- taxi drivers;
- council tax single person's discount;
- electoral register; and
- council tax reduction scheme.

4.2.3 We have been advised that a Small Business Bonus Scheme data match will also be carried out as part of this current exercise and arrangements have been put in place with Revenues and Benefits to ensure this data set is available for upload by the due date of 30 November 2023.

4.2.4 A total of 4,097 NFI matches have been received to date. The approach to investigating the matches was agreed by Cabinet on 17 January 2023 and is consistent with the approach adopted for previous NFI exercises. A minimum target of 1,724 investigations split over eight match areas was agreed for completion by 31 March 2025. The target number of investigations includes all high risk, high quality matches. Additional investigations may be carried out by Services where resources permit. The details of the match areas, the target number of investigations and the number of investigations completed in each area to date is detailed at [Appendix 2](#).

4.2.5 Progress of the 2022/23 NFI exercise will continue to be reported to this Panel through the six-monthly Corporate Fraud update reports until the exercise has been concluded. A Members Information Bulletin will also be issued at the conclusion of the process, after Audit Scotland publish their final report which is likely to be around July 2024.

5. Legal and Procurement Implications

5.1 There are no legal implications arising from this report.

5.2 There are no procurement implications arising from this report.

6. Financial Implications

6.1 Recovery of the amounts due is in progress. In Council Tax Reduction, Discounts and Non-Domestic Rates cases the debtor is rebilled reflecting the amount due. The savings identified of £80,073.28 represents the amount that would have been lost to the Public Purse had the fraud/error/debt remained undetected by the Council's CFT.

7. Human Resources Implications

7.1 Not applicable.

8. Risk

8.1 *Risk Implications of Adopting the Recommendations*

8.1.1 There are no risks associated with adopting the recommendations.

8.2 *Risk Implications of Rejecting the Recommendations*

8.2.1 Rejecting the recommendation may result in ineffective scrutiny of the Council's control arrangements in relation to anti-fraud.

9. Equalities

9.1 The proposals in this report allow scrutiny of the Corporate Fraud Team's activity. The report does not involve proposals for policies, strategies, procedures, processes, financial decisions and activities (including service delivery), both new and at review, that affect the Council's communities and employees, therefore an equality impact assessment is not required.

10. Sustainable Development Implications

10.1 ***Considering Strategic Environmental Assessment (SEA)*** - This report does not propose or seek approval for a plan, policy, programme or strategy or document otherwise described which could be considered to constitute a plan, programme, policy or strategy.

11. Options Appraisal

11.1 An options appraisal has not been carried out in relation to the subject matter of this report.

12. Link to Council Plan

12.1 The matters referred to in this report contribute to the three priorities in the Council Plan; Spaces and Places; Live, Work, Learn and, Civic and Community Pride.

13. Results of Consultation

13.1 There has been no public consultation on the contents of this paper.

13.2 Consultation has taken place with Councillor Ian Davis, Portfolio Holder for Finance, Human Resources and ICT, and the contents of this report reflect any feedback provided.

Background Papers Report to Cabinet of 17 January 2023 - [2022/23 National Fraud Initiative](#)

Report to Audit and Governance Panel of 31 May 2023 - [Corporate Fraud Team - Activity Report and Update on 2022/23 National Fraud Initiative](#)

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Corporate Fraud
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Date: 23 November 2023

Corporate Fraud Activity 1 April 2023 – 30 September 2023

Fraud/Error Type	Cases b/f from previous report	New referrals in period	Total referrals	Closed Cases	Current Live Cases	Non-Financial Benefit/ Outcome	Financial Savings (£)
Council Tax (Reduction, Exemptions and Discounts, Arrears)	5	19	24	17	7	-	£27,047.54
NFI Council Tax SPD data matching checks	0	715	715	679	36	-	£30,964.78
Non-Domestic Rates	10	4	14	13	1		£8,270.85
Scottish Welfare Fund visits	0	4	4	4	0	-	£2,634.38
Tenancy Fraud	3	7	10	6	4	1 tenancy returned 3 Succession Applications rejected	
Housing Tenant Debt Locate & Trace checks	10	62	72	61	11	-	£11,155.73
Blue Badge Investigation	1	2	3	2	1	1 Warning issued 1 Fiscal Fine	
Education	0	1	1	1	0	Application through school registration process rejected	
Total for six-month period to 30/09/23							£80,073.28

NFI 2022/23 Progress of Investigations

Match Area Current Results	Total Matches No.	Target Investigation No.	Target Completed No.	Target Completed %	Additional Investigations completed No.	Total Investigations Completed No.	Errors (Note 1) No.	Fraud No.	Outcome £
Housing Benefit	68	28	2	7%	0	2	0	0	0
Payroll	149	73	73	100%	52	125	0	0	0
Housing Tenants	285	254	113	45%	0	113	0	0	0
Blue Badge	722	645	645	100%	77	722	317	0	£206,050 ¹
Waiting List	320	57	0	0%	0	0	0	0	0
Council Tax Reduction Scheme	472	9	9	100%	50	59	0	0	0
Creditors	2,026	603	0	0	0	0	0	0	0
Procurement	55	55	24	44%	0	24	0	0	0
Total	4,097	1,724	866	50%	179	1,045	317	0	0

Note 1: The errors recorded against the Blue Badge investigations are where the Blue Badge has not been cancelled in Council systems following the death of a service user. Fraud would exist where there was evidence of deliberate misuse of a Blue Badge. There were no instances of deliberate misuse identified during the investigation of the NFI matches.

¹ The Cabinet Office automatically allocates an estimated saving of £650 to each Blue Badge error. This does not represent actual loss or savings for South Ayrshire Council

South Ayrshire Council

**Report by Head of Finance, ICT and Procurement
to Audit and Governance Panel
of 6 December 2023**

Subject: Treasury Management and Investment Strategy Mid-Year Report 2023/24

1. Purpose

1.1 The purpose of this report is to provide Members with a mid-year treasury management update for the financial year 2023/24.

2. Recommendation

2.1 It is recommended that the Panel:

2.1.1 scrutinises the contents of this report; and

2.1.2 remits the report to the Cabinet meeting of 16 January 2024 for approval.

3. Background

3.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned to meet expenditure commitments but also to invest surplus monies in low-risk counterparties (organisations with which the Council has a financial relationship in terms of borrowings or investments), providing adequate liquidity initially before considering optimising investment return.

3.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash will involve arranging long or short-term loans or using longer term cash flow surpluses. In addition, in certain interest rate environments debt previously drawn may be restructured to meet Council risk or cost objectives.

3.3 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021).

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4. Proposals

4.1 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and provides an update on activity in [Appendix 1](#) and [Appendix 2](#) on the following:

4.1.1 [Appendix 1](#) – *Economic Update and Interest rates*

Section	Description
1	Economics and Interest Rates
2	Interest Rates Forecast

4.1.2 [Appendix 2](#) – *Treasury Activity*

Section	Description
1.1 to 1.2	The Council's Capital Expenditure plans and Capital Financing Requirement (CFR);
2.1 to 2.2	Borrowing Strategy for 2023/24
3.1 to 3.2	Review of Investment Strategy and Performance
4.1	Review of compliance with Treasury and Prudential Limits for 2023/24
5.1	Borrowing in advance; and
6.1	Debt Re-scheduling.
7.1	Other

4.2 The Panel is requested to scrutinise the contents of this report; and thereafter agree to remit the report to the Cabinet meeting of 16 January 2024 for approval, in accordance with the requirements of the CIPFA Code.

5. Legal and Procurement Implications

5.1 There are no legal implications arising from this report.

5.2 There are no procurement implications arising from this report.

6. Financial Implications

6.1 *General Services*

6.1.1 **Interest on Revenue Balances** - the Council budgeted for investment income of £0.965m in 2023/24, based on an estimate of the average revenue balances held during the year. Budgeted at achieving an assumed interest rate return of 2.50% on these balances.

At September 2023 (Qtr2) the full year budgeted income is projected at £1.656m, a surplus of £0.691m.

6.1.2 **Capital Financing Costs** - the budget for loan charges in 2023/24 is £14.826m, comprising £6.271m for loan principal, £8.371m for interest costs and £0.184m for loans fund expenses.

The current projection for loans charges to the General Fund is an overspend of £1.440m in interest and expenses. This is offset by the projected surplus of income of £0.691m bringing an overall overspend of £0.749m.

This overspend is currently being reviewed in conjunction with the capital programme and will be monitored closely.

6.2 **Housing Revenue Account (HRA)**

6.2.1 **Interest on Revenue Balances** - the HRA budgeted for investment income of £0.200m in 2023/24, based on an estimate of the average revenue balances held during the year. Budgeted at achieving an assumed interest rate return of 2.50% on these balances.

At September 2023 (Qtr2) the full year estimate for investment income earned is £0.397m resulting in a surplus of £0.197m.

6.2.2 **Capital Financing Costs** - the budget for HRA loan charges in 2023/24 is £4.463m, comprising £1.674m for loan principal, £2.729m for interest costs and £0.060m for loans fund expenses.

The current projection for HRA loan charges is an overspend of £0.270m in interest and expenses. This is offset by the projected surplus of income of £0.197m bringing an overall overspend of £0.073m.

As with the General Fund this will also be monitored closely.

7. **Human Resources Implications**

7.1 Not applicable.

8. **Risk**

8.1 ***Risk Implications of Adopting the Recommendations***

8.1.1 There are no risks associated with adopting the recommendations.

8.2 ***Risk Implications of Rejecting the Recommendations***

8.2.1 Should the recommendations be rejected, then the Council will not be in compliance with the CIPFA Code of Practice on Treasury Management.

9. **Equalities**

9.1 The proposals in this report have been assessed through the Equality Impact Assessment Scoping process. There are no significant potential positive or negative equality impacts of agreeing the recommendations and therefore an Equalities Impact Assessment is not required. A copy of the Equalities Scoping Assessment is attached as [Appendix 3](#).

10. Sustainable Development Implications

- 10.1 **Considering Strategic Environmental Assessment (SEA)** - This report does not propose or seek approval for a plan, policy, programme or strategy or document otherwise described which could be considered to constitute a plan, programme, policy or strategy.

11. Options Appraisal

- 11.1 An options appraisal has not been carried out in relation to the subject matter of this report.

12. Link to Council Plan

The matters referred to in this report contribute to Priority 4 of the Council Plan: Efficient and effective enabling services.

13. Results of Consultation

- 13.1 There has been no public consultation on the contents of this report.
- 13.2 Consultation has taken place with Councillor Ian Davis, Portfolio Holder for Finance, Human Resources and ICT, and the contents of this report reflect any feedback provided.

Background Papers **CIPFA Code of Practice for Treasury Management in the Public Services**

Report to South Ayrshire Council of 1 March 2023 – [Treasury and Investment Strategy](#)

Person to Contact **Tim Baulk, Head of Finance, ICT and Procurement**
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Date: 23 November 2023

Economic Update and Interest Rates

1. Economics and Interest Rates

- The first half of 2023/24 saw:
 - Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
 - Short, medium and long-dated gilts remain elevated as inflation remained higher than expected.
 - A 0.5% m/m decline in real Gross Domestic Product in July, mainly due to more strikes.
 - Consumer Price Index inflation falling from 8.7% in April to 6.7% in August, its lowest rate since February 2022, but still the highest in the G7.
 - Core CPI inflation declining to 6.2% in August from 7.1% in April and May, a then 31 years high.
 - A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose to 7.8% in August, excluding bonuses).
- The 0.5% m/m fall in GDP in July suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.
- The fall in the composite Purchasing Managers Index from 48.6 in August to 46.8 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0.2% q/q rise in real GDP in the period April to June, being followed by a contraction of up to 1% in the second half of 2023.
- The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.
- The higher interest rates are now starting to take effect and the economy is being affected. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. CPI inflation has peaked and is expected to decline further and the economy has got through the cost-of-living crisis without recession. Real household disposable incomes are still affected by the higher interest rates and the phasing out of financial support packages provided by the government during the energy. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.
- The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in

inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.

- But the cooling in labour market conditions still has not fed through to an easing in wage growth. While the monthly rate of earnings growth eased sharply from an upwardly revised +2.2% in June to -0.9% in July, a lot of that was due to the one-off bonus payments for NHS staff in June not being repeated in July. The headline 3myy rate rose from 8.4% (revised up from 8.2%) to 8.5%, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular private sector wage growth eased a touch in July, from 8.2% 3myy in June to 8.1% 3myy, it is still well above the Bank of England's prediction for it to fall to 6.9% in September.
- CPI inflation declined from 6.8% in July to 6.7% in August, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.2%. That reverses all the rise since March and means the gap between the UK and elsewhere has shrunk (US core inflation is 4.4% and in the Euro-zone it is 5.3%). Core goods inflation fell from 5.9% to 5.2% and the further easing in core goods producer price inflation, from 2.2% in July to a 29-month low of 1.5% in August, suggests it will eventually fall close to zero. But the really positive development was the fall in services inflation from 7.4% to 6.8%. That also reverses most of the rise since March and takes it below the forecast of 7.2% the Bank of England published in early August.
- In its latest monetary policy meeting on 20 September, the Bank of England left interest rates unchanged at 5.25%. The weak August CPI inflation release, the recent loosening in the labour market and the downbeat activity surveys appear to have convinced the Bank of England that it has already raised rates far enough. The minutes show the decision was "finely balanced". Five MPC members (Bailey, Broadbent, Dhingra, Pill and Ramsden) voted for no change and the other four (Cunliffe, Greene, Haskel and Mann) voted for a 25bps increase.
- Like the US Federal Reserve, the Bank of England wants the markets to believe in the higher for longer narrative. The statement did not say that rates have peaked and once again said if there was evidence of more persistent inflation pressures "further tightening in policy would be required". Governor Bailey stated, "we'll be watching closely to see if further increases are needed". The Bank continued with the existing guidance that rates will remain at a higher level for a reasonable time period, for them to take effect.
- This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates at the next meeting on 2nd November, or even pause in November and raise rates in December.
- The yield on 10-year Gilts fell from a peak of 4.74% on 17th August to 4.44% on 29th September, mainly on the back of investors revising down their interest rate expectations. But even after their recent pullback, the rise in Gilt yields has exceeded the rise in most other Developed Market government yields since the start of the year. Looking forward, once inflation falls back, Gilt yields are set to reduce further. A (mild) recession over the next couple of quarters will support this outlook if it helps to loosen the labour market (higher unemployment/lower wage increases).
- The pound weakened from its cycle high of \$1.30 in the middle of July to \$1.21 in late September. In the first half of the year, the pound bounced back strongly from the Truss

debacle last autumn. That rebound was in large part driven by the substantial shift up in UK interest rate expectations. However, over the past couple of months, interest rate expectations have dropped sharply as inflation started to come down, growth faltered, and the Bank of England called an end to its hiking cycle.

- The FTSE 100 has gained more than 2% since the end of August, from around 7,440 on 31st August to 7,608 on 29th September. The rebound has been primarily driven by higher energy prices which boosted the valuations of energy companies. The FTSE 100's relatively high concentration of energy companies helps to explain why UK equities outperformed both US and Euro-zone equities in September. Nonetheless, as recently as 21st April the FTSE 100 stood at 7,914.

2. Interest Rates Forecast

The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

The latest forecast on 25th September sets out a view that both short, medium and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to reduce the inflation within the economy.

Link Group's PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1st November 2012.

Link Group Interest Rate View		25.09.23											
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.00	2.75	2.75	2.75	2.75	2.75
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.00	2.80	2.80	2.80	2.80	2.80
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.10	2.90	2.90	2.90	2.90	2.90
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.20	3.00	3.00	3.00	3.00	3.00
5 yr PWLB	5.10	5.00	4.90	4.70	4.40	4.20	4.00	3.90	3.70	3.70	3.60	3.60	3.50
10 yr PWLB	5.00	4.90	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.60	3.60	3.50	3.50
25 yr PWLB	5.40	5.20	5.10	4.90	4.70	4.40	4.30	4.10	4.00	3.90	3.80	3.80	3.80
50 yr PWLB	5.20	5.00	4.90	4.70	4.50	4.20	4.10	3.90	3.80	3.70	3.60	3.60	3.60

Treasury Activity

1.1 The Council's Capital Expenditure plans and Capital Financing Requirement (CFR)

- (1) The following section provides the information relating to the 2023/24 capital position and prudential indicators.
- The Council's capital expenditure plans.
 - How these plans are being financed.
 - The impact of the capital expenditure plans on the prudential indicators and the underlying need to borrow.
 - Compliance with the limits in place for borrowing activity.
- (2) The tables below draw together the main movement in terms of the capital expenditure plans compared to the original plan, highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements for capital expenditure. The borrowing element of Table 1 for both General Services and HRA below revises the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR).

Table 1

	<i>2023/24 Original Estimate £'000</i>	<i>2023/24 Latest Estimate £'000</i>
Prudential Indicator – General Services		
Capital Expenditure	99,145	73,303
General Services - Financed By		
General and Specific Grant	20,407	14,746
Capital Receipts/Other	24,331	8,590
Borrowing	54,407	49,966
	99,145	73,303
Prudential Indicator – HRA		
Capital Expenditure	75,740	71,632
HRA - Financed By		
Borrowing	53,671	46,650
CFR, Draw on surplus	7,510	8,460
Other Receipts/ Grants	14,559	16,522
	75,740	71,632

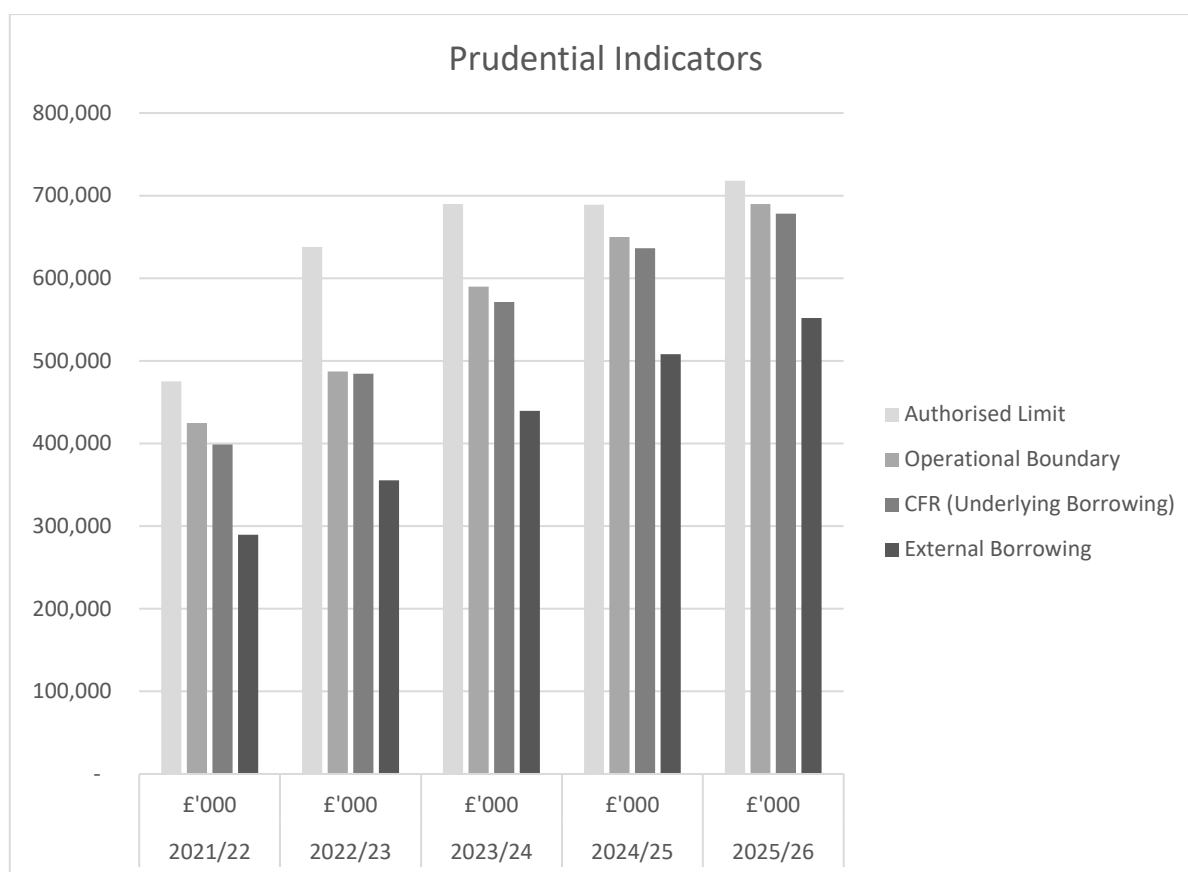
1.2 Capital Financing Requirement, Debt Position and Operational Boundary Indicators

- (1) Table 2 shows the CFR, which is the underlying need to incur borrowing for a capital purpose.

Table 2

<i>Prudential Indicator – CFR</i>	<i>2023/24 Original Estimate £'000</i>	<i>2023/24 Updated Estimate £'000</i>
Capital Financing Requirement – GS	455,043	449,178
Capital Financing Requirement – HRA	129,426	122,253
Total Capital Financing Requirement	584,469	571,430

(2) Prudential Indicators Chart



The chart shown at (2) above shows estimated key prudential indicators in graph format:

- External Borrowing** – shows significant increase in the next two years as the Council utilises borrowing to fund capital investment
- Capital Financing Requirement** – shows increases in CFR in line with external debt. The Council ended 2022/23 in an under borrowed position (CFR compared with external debt) of £32,272m. The current strategy will be to reflect an under-borrowed position in the short/medium term as reflected in the graph.

3. **Operational Boundary** – this indicator is higher than external debt and CFR as it includes provision for other long term financing liabilities such as PPP and Finance leases, and short term cash flow variations.
4. **Authorised Limit** – the limit which cannot be exceeded in terms of the Council’s debt position. This indicator is higher than the operational limit as provision is made for other cash flow variation and potential borrowing in advance.

Table 3

<i>Prudential Indicators – Debt</i>	<i>2023/24 Original £'000</i>	<i>2023/24 Updated £'000</i>
Authorised Limit	641,000	641,000
Operational Limit	590,000	590,000
External Debt	435,660	439,660

2.1 Borrowing Strategy 2023/24 (Update)

- (1) The Council’s capital financing requirement (CFR) estimate for 2023/24 has been revised to £571,430 based on the revised capital spend projections, as shown at 1.2, Appendix (2) Table 1. The CFR denotes the Council’s underlying need to borrow for capital purposes. To fund the CFR the Council may borrow from the PWLB or the market (external borrowing) or fund from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions and availability of internal cash resources.
- (2) The original borrowing requirement for 2023/24 was set at £108.08m but has been revised to £96.61m. This drop is attributed to shortage of supplies which has led to a delay in some of the capital programme. This has resulted in movement in the current year of the capital programme.
- (3) This has resulted in revising the external borrowing requirement from the original £147.0m to £95.0m.
- (4) The current strategy is to consider medium term external borrowing in Qtr3 of £10.0m and Qtr. 4 of £15.0m of medium to long borrowing, with further PWLB or medium term at the end of Qtr 4. To date in Qtr. 1 and 2 £5.0m long term borrowing has been taken from PWLB securing a lower interest rate being offered. A further £10.0m of medium to long term borrowing was secured in Qtr. 1 from the other local authority market, again taking advantage of lower interest rates being offered.

A pragmatic approach however is being taken in terms of the timing of new long term external borrowing given the current market uncertainties due to a number of factors such as the overall economic climate and interest rate fluctuations along with the pace of the spend in the Council’s capital programme.

- (5) The table at 2.2.1 below shows the high and low rates available from the PWLB during the period April 23 – Sept 23.

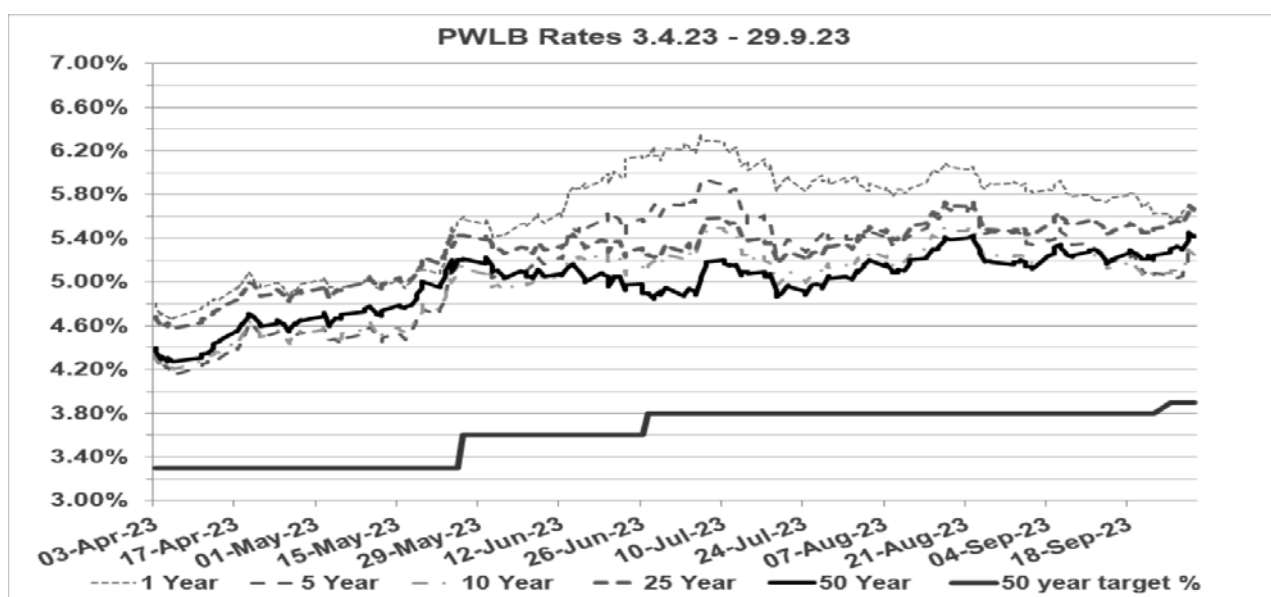
2.2 The current PWLB rates are set as margins over gilt yields as follows:-

1. **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
2. **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
3. **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

(1) **PWLB certainty rates 1 April 2023 to 30 September 2023**

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.14%	4.20%	4.58%	4.27%
Date	06/04/2023	06/04/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.51%	5.73%	5.45%
Date	06/07/2023	07/07/2023	22/08/2023	17/08/2023	28/09/2023
Average	5.62%	5.16%	5.01%	5.29%	5.00%
Spread	1.71%	1.79%	1.31%	1.15%	1.18%

(2) **PWLB Interest Rates – Apr 23 – Sep 23**



3.1 **Investment Strategy**

- (1) The Treasury Management Strategy Statement (TMSS) for 2023/24, which includes the Annual Investment Strategy, was approved by the Council on 1st March 2023. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council’s investment priorities as being:

- security of capital;
- liquidity; and
- yield

- (2) The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council’s risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but also

to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness.

3.2 Investment Performance 2023/24

- (1) The Council's average level of funds available for investment purposes in the first half of the year 2023/24 was **£63.2m**. These funds are available on a temporary basis and are dependent on a number of factors including cash flows, reserve balances, borrowing strategy, etc. As these funds are linked to Council reserves earmarked for specific purposes, they are not available to spend on additional services and represent the current 'cash' position.
- (2) LIBOR and LIBID rates ceased from the end of 2021. LIBOR has been replaced with a rate based on SONIA (Sterling Overnight Index Average). On advice received from the Council's consultants, Link Group, the replacement benchmark to be used is the 90-day backward SONIA compounded rate.

Below table shows the rates for the first half of 2023/24.

	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	5.25	5.19	5.19	5.20	5.12	4.78	4.06
High Date	03/08/2023	29/09/2023	04/09/2023	27/09/2023	29/09/2023	29/09/2023	29/09/2023
Low	4.25	4.18	4.18	4.02	3.81	3.32	2.27
Low Date	03/04/2023	04/04/2023	11/04/2023	03/04/2023	03/04/2023	03/04/2023	03/04/2023
Average	4.81	4.74	4.71	4.64	4.44	4.10	3.16
Spread	1.00	1.01	1.01	1.17	1.31	1.46	1.79

- (3) The Council's average performance rate for Quarter ended 30th September 2023 was **3.80%**. This is on a par with the 90 day benchmark return as above. Investments will continue to be monitored in the current climate of changing interest rates.
- (4) The Head of Finance and ICT confirms that the approved investment strategy was not breached in the first half of the financial year 2023/24.
- (5) The Council continues to lend to other local authorities in order to diversify its investment portfolio and to provide the highest level of security in delivering the objectives of security, liquidity and yield in its investment portfolio. Interest rates in the recent climate are very volatile and after a long period of extremely low rates are rising at a fairly quick pace. This makes borrowing more expensive but on the counter side the council is achieving a greater rate of interest on investments than previously forecast, because of this some forward planning has been undertaken to try and secure the best rates available. Also, to ensure some form of liquidity advantage has been taken of short-term investments (up to 6 months) with other banking authorities such as Bank of Scotland (Treasury) and Standard Chartered Bank.

The following table summarises the Council's investments as of 30 September 2023.

Table 6

Counterparty	Type	Principal £'000	Interest Rate	Maturity	Colour Code (Based on credit information)
Bank of Scotland	Liquidity	11,350	5.20%	N/a	Orange
Money Market Fund - GoldmanSachs International Bank	Liquidity	2,000	5.21%	N/A	
Money Market Fund – Federated (Prime Rate Class3)	Liquidity	10,000	5.35%	N/A	AAA
Money Market Fund - Aberdeen Liquidity Fund - Sterling Fund Class L-1	Liquidity	3,000	5.29%	N/A	
Bank of Scotland (Treasury)	Maturity	5,000	5.36%	01/12/23	
Blackpool Borough Council	Maturity	5,000	4.10%	05/02/24	
Eastleigh Borough Council	Maturity	5,000	4.75%	08/01/24	
Blackpool Borough Council	Maturity	5,000	5.35%	27/11/23	
Leeds City Council	Maturity	5,000	5.30%	05/10/23	
Standard Chartered Bank	Maturity	5,000	5.30%	03/10/23	Red
Standard Chartered Bank	Maturity	5,000	5.35%	05/10/2023	Red
Total Investment		61,350			

4.1 Review of Compliance with Treasury and Prudential Limits for 2023/24

- (1) The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

Table 7 below shows that the 2023/24 year end projected total debt position of £439,660 is below the projected CFR of £571,430 which indicates that external borrowing is only being used for capital purpose.

Table 7

	2022/23 Actual £'000	2023/24 Borrowing as @ 30/9/23 £'000	2023/24 Projection £'000
Long Term Borrowing – PWLB	211,184	216,184	284,460
Long Term Borrowing - LOBO	41,200	41,200	38,200
Long Term Borrowing - Market	28,000	33,000	44,000
Short Term Borrowing – Market	75,000	73,000	73,000
External Debt	355,384	363,316	433,659
Other Long-Term Liabilities	91,951	91,951	88023
Total Debt	447,335	455,267	527,683
Capital Financing Requirement (CFR)	484,608	571,430	571,430
(Under) Over borrowed	(37,273)	(116,163)	(43,747)

- (2) A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government in Scotland Act 2003.

Table 8 below shows the authorised limit amended from the original 2023/24 indicator.

Table 8

Prudential Indicator – Authorised Limit for External Debt	2023/24 Original Indicator £'000	2023/24 Revised Indicator £'000
Borrowing	474,000	485,000
Other Long-Term Liabilities	132,000	156,000
Authorised Limit	606,000	641,000

(3) Liability Benchmark

A third and new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

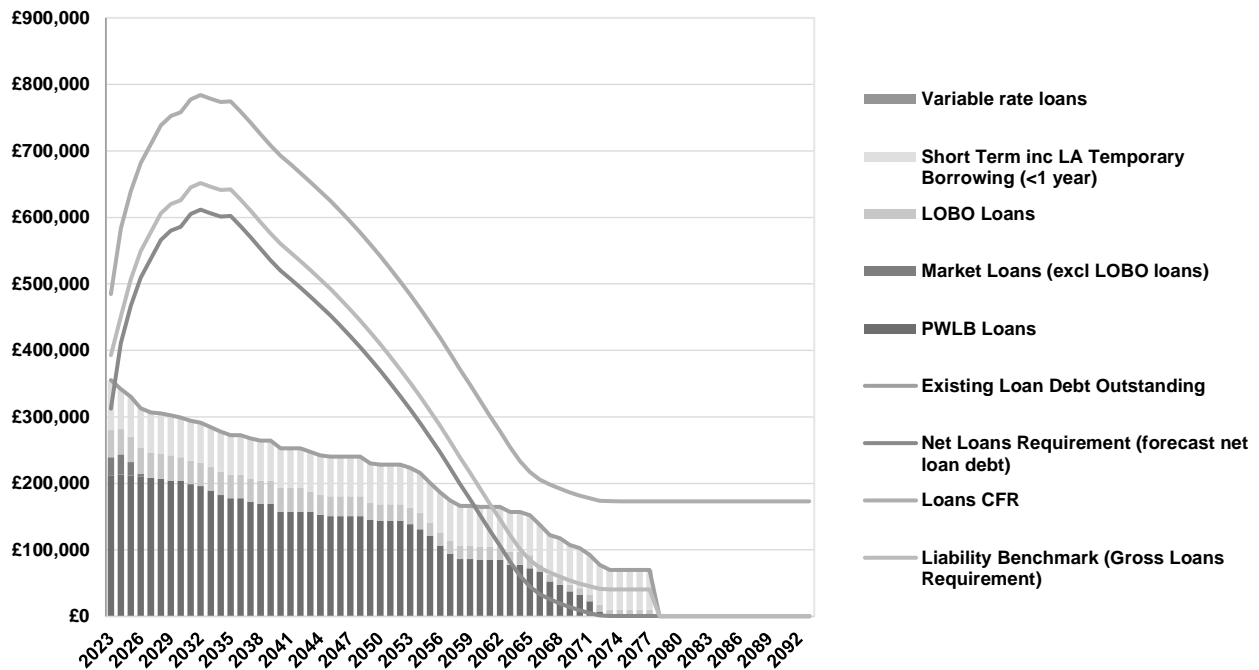
CIPFA notes on page 13 of the 2021 TM Code: "The liability benchmark should be analysed as part of the annual treasury management strategy, and any substantial mismatches between actual loan debt outstanding and the liability benchmark should be explained. Any years where actual loans are less than the benchmark indicate a future borrowing requirement; any years where actual loans outstanding exceed the benchmark represent an overborrowed position, which will result in excess cash requiring investment (unless any currently unknown future borrowing plans increase the benchmark loan debt requirement). The treasury strategy should explain how the treasury risks inherent in these mismatched positions will be managed."

There are four components to the LB:-

1. **Existing loan debt outstanding:** the Authority's existing loans that are still outstanding in future years.
2. **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned Loans Fund advances/Loans Fund principal repayments. (Note only approved prudential borrowing is included).
3. **Net loans requirement:** this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned Loans Fund principal repayments and any other major cash flows forecast.
4. **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity allowance.

The graph below shows the projected movement in the liability benchmark.

Liability Benchmark



5.1 **Borrowing in Advance of Need**

The Local Government Investment Regulations (Scotland) 2010 requires the Council to set out its strategy and approach to borrowing in advance of need, which is defined as any borrowing undertaken which will result in the total external debt exceeding the CFR for the following twelve-month period. The Council has not borrowed in advance of need during the six months to 30 September 2023.

6.1 **Debt Rescheduling**

Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year. However, now that the whole of the yield curve has shifted higher there may be better opportunities in the future, although only prudent and affordable debt rescheduling will be considered.

7.1 **Other Current Issues**

Sources of Borrowing – regarding ESG (Environmental, Social and Governance)

While the prime considerations when investing surplus funds are security liquidity and yield, it is recognised that consideration must be given to other factors such as climate change, environmental, social, and good governance (ESG), to support a policy of sustainability. For these considerations to work effectively any policy should be derived on a corporate level, at which point the finance team can implement for treasury investing. Most highly rated lenders will have an ESG policy in place, which can be reviewed periodically and form part of the counterparty selection process for treasury investments. We currently have investments with Standard Chartered Fixed Term ESG deposit accounts. The same interest rate is offered for both non-ESG and ESG accounts allowing investment at the same return but also in line with policy.

South Ayrshire Council Equality Impact Assessment Scoping Template

Equality Impact Assessment is a legal requirement under the Public Sector Duty to promote equality of the Equality Act 2010. Separate guidance has been developed on Equality Impact Assessment's which will guide you through the process and is available to view here: [Equality Impact Assessment including Fairer Scotland Duty](#)

Further guidance is available here: [Assessing impact and the Public Sector Equality Duty: a guide for public authorities \(Scotland\)](#)

The Fairer Scotland Duty ('the Duty'), Part 1 of the Equality Act 2010, came into force in Scotland from 1 April 2018. It places a legal responsibility on Councils to actively consider ('pay due regard to') how we can reduce inequalities of outcome caused by socio-economic disadvantage, when making strategic decisions. See information here: [Interim Guidance for Public Bodies](#) in respect of the Duty, was published by the Scottish Government in March 2018.

1. Policy details

Policy Title	Treasury Management and Investment Strategy Mid-year Report 2023/24
Lead Officer (Name/Position/Email)	Kate Copland, Senior Finance Officer, Treasury/ Capital – kate.copland@south-ayrshire.gov.uk

2. Which communities, groups of people, employees or thematic groups do you think will be, or potentially could be, impacted upon by the implementation of this policy? Please indicate whether these would be positive or negative impacts

Community or Groups of People	Negative Impacts	Positive impacts
Age – men and women, girls & boys	-	-
Disability	-	-
Gender Reassignment (Trans/Transgender Identity)	-	-
Marriage or Civil Partnership	-	-
Pregnancy and Maternity	-	-
Race – people from different racial groups, (BME) ethnic minorities and Gypsy/Travellers	-	-
Religion or Belief (including lack of belief)	-	-
Sex – gender identity (issues specific to women & men or girls & boys)	-	-
Sexual Orientation – person's sexual orientation i.e. LGBT+, lesbian, gay, bi-sexual, heterosexual/straight	-	-
Thematic Groups: Health, Human Rights & Children's Rights	-	-

South Ayrshire Council

**Joint Report by Head of Finance, ICT and Procurement
and Head of Legal and Regulatory Services
to Audit and Governance Panel
of 6 December 2023**

**Subject: Audit and Governance Panel – 2023 Annual Self-
Assessment Outcome**

1. Purpose

1.1 The purpose of this report is to confirm the outcome of the Audit and Governance Panel Self-Assessment for 2023, which was undertaken on 7 September 2023; and to seek agreement of the resulting action plan.

2. Recommendation

2.1 It is recommended that the Panel:

2.1.1 notes the outcome of the 2023 self-assessment, as set out in 4.1 to 4.6 below and related completed checklist in Appendix 1;

2.1.2 approves the action plan for improvements per Appendix 3; and

2.1.3 agrees to receive an annual joint report by the Head of Legal and Regulatory Services and the Head of Finance, ICT and Procurement in May 2024 outlining the work of the Audit and Governance Panel for the financial year 2023-24 (per Action 1 in Appendix 3); and agrees thereafter to remit the report to Council in June 2024.

3. Background

3.1 The Audit and Governance Panel (AGP) previously undertook an informal self-assessment in August 2021. Following the 2021 assessment it was agreed that the next assessment would take place after a period of two years, in September 2023.

3.2 The format of the self-assessment undertaken in 2021 comprised 65 individual questions and whilst the outcome of the assessment was generally a positive one, with the work of the Panel being considered effective there was no formal reporting of the outcome of the assessment and, due to the number and style of the questions involved, the overall process was considered overly cumbersome by officers with no effective mechanism for assessing performance of the Panel and measuring further improvement opportunities.

3.3/

- 3.3 For 2023 officers identified the CIPFA document 'Audit Committees: Practical Guidance for Local Authorities and Police – 2022 Edition', with particular reference to the 'Self-Assessment of Good Practice – Checklist' provided within that document, as being an appropriate mechanism for this year's self-assessment process.
- 3.4 As per the previous self-assessment, Committee members undertook the process in an informal, workshop style session, rather than within a formal Panel meeting format, being aware that the Head of Legal and Regulatory Services and the Head of Finance, ICT and Procurement would provide a joint formal report to the AGP on the considerations and outcomes from the session.
- 3.5 In advance of the self-assessment discussion Members of the Panel were issued with the CIPFA documentation and checklist to aid the informal discussion on the day of the assessment. It was considered that this approach would allow a better opportunity for members to think through and respond to the range of questions in the Checklist.
- 3.6 The assessment took place on 7 September 2023 with six of the eight AGP members attending in person or online, along with support from the Head of Finance, ICT and Procurement, the Service Lead - Democratic Governance and the Chief Internal Auditor.

4. Proposals

- 4.1 The self-assessment checklist, attached as Appendix 1, has been prepared following the discussions at the self-assessment session held on 7 September 2023 and collectively represent the views of all Members of the AGP.
- 4.2 The checklist contains 29 high level questions with several sub questions contained therein. For each question in the checklist a five-point weighted score of between zero and five is available for selection, with zero being: Major Improvement required and five being: No Further Improvement required. There are a total of 40 questions and sub questions, meaning that a maximum score of 200 is possible.
- 4.3 Appendix 1 indicates that an assessed overall score of 159 has been achieved for 2023.
- 4.4 In general terms, the outcome of the self-assessment 2023, as evidenced by the score of 159 out of 200, and was broadly similar to 2021 (although not directly comparable due to the change in methodology), with Members being satisfied with the effectiveness of the Panel in undertaking its role and discharging its functions within the Council's decision-making arrangements in most respects. Appendix 2 provides a brief commentary for each question, drawn from the discussions on the day.
- 4.5 Notwithstanding the considered overall general effectiveness of the Panel, a small number of important matters were raised relative to which actions for improvement are required, and these are captured in the Action Plan provided at Appendix 3.
- 4.6 It is recommended that the AGP agrees the improvement activity contained in the Action Plan (Appendix 3) and note that the self-assessment process will now take place annually in September. In addition, an annual joint report will be presented to the AGP by the Head of Legal and Regulatory Services and the Head of Finance, ICT and Procurement in May each year, outlining the work of the AGP for the

previous financial year. Following approval by the Panel, the report will be remitted to Council for consideration.

5. Legal and Procurement Implications

5.1 There are no legal implications arising from this report.

5.2 There are no procurement implications arising from this report.

6. Financial Implications

6.1 Not applicable.

7. Human Resources Implications

7.1 Not applicable.

8. Risk

8.1 *Risk Implications of Adopting the Recommendations*

8.1.1 There are no risks associated with adopting the recommendations.

8.2 *Risk Implications of Rejecting the Recommendations*

8.2.1 Rejecting the recommendations may result in missed opportunities for strengthening the role of the AGP in providing an independent and high-level resource to support good governance and strong public financial management as laid out in CIPFA's 'Audit Committees: Practical Guidance for Local Authorities and Police – 2022 Edition'

9. Equalities

9.1 The proposals in this report have been assessed through the Equality Impact Assessment Scoping process. There are no significant potential positive or negative equality impacts of agreeing the recommendations and therefore an Equalities Impact Assessment is not required. A copy of the Equalities Scoping Assessment is attached as Appendix 4.

10. Sustainable Development Implications

10.1 ***Considering Strategic Environmental Assessment (SEA)*** - This report does not propose or seek approval for a plan, policy, programme or strategy or document otherwise described which could be considered to constitute a plan, programme, policy or strategy.

11. Options Appraisal

11.1 An options appraisal has not been carried out in relation to the subject matter of this report.

12. Link to Council Plan

12.1 The matters referred to in this report contribute to Priority 4 of the Council Plan: Efficient and effective enabling services.

13. Results of Consultation

- 13.1 There has been no public consultation on the contents of this report.
- 13.2 Consultation has taken place with Councillor Ian Davis, Portfolio Holder for Finance, Human Resources and ICT, and the contents of this report reflect any feedback provided.

Background Papers **CIPFA document - Audit Committees: Practical Guidance for Local Authorities and Police – 2022 Edition and Self-Assessment of Good Practice – Checklist**

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Date: 23 November 2023

APPENDIX E

Self-assessment of good practice

This appendix provides a high-level review that incorporates the key principles set out in CIPFA's Position Statement and this publication. Where an audit committee has a high degree of performance against the good practice principles, it is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee.

A regular self-assessment should be used to support the planning of the audit committee work programme and training plans. It will also inform the annual report.

Good practice questions	Does not comply	Partially complies and extent of improvement needed*			Fully complies
	Major improvement	Significant improvement	Moderate improvement	Minor improvement	No further improvement
Weighting of answers	0	1	2	3	5

Audit committee purpose and governance

- 1 Does the authority have a dedicated audit committee that is not combined with other functions (eg standards, ethics, scrutiny)?
- 2 Does the audit committee report directly to the governing body (PCC and chief constable/full council/full fire authority, etc)?
- 3 Has the committee maintained its advisory role by not taking on any decision-making powers?
- 4 Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's 2022 Position Statement?
- 5 Do all those charged with governance and in leadership roles have a good understanding of the role and purpose of the committee?
- 6 Does the audit committee escalate issues and concerns promptly to those in governance and leadership roles?
- 7 Does the governing body hold the audit committee to account for its performance at least annually?

* Where the committee does not fully comply with an element, three options are available to allow distinctions between aspects that require significant improvement and those only requiring minor changes.

Good practice questions	Does not comply					Partially complies and extent of improvement needed					Fully complies														
	Major improvement					Significant improvement					Moderate improvement					Minor improvement					No further improvement				
Weighting of answers	0					1					2					3					5				
8 Does the committee publish an annual report in accordance with the 2022 guidance, including:																									
<ul style="list-style-type: none"> compliance with the CIPFA Position Statement 2022 																									
<ul style="list-style-type: none"> results of the annual evaluation, development work undertaken and planned improvements 																									
<ul style="list-style-type: none"> how it has fulfilled its terms of reference and the key issues escalated in the year? 																									
Functions of the committee																									
9 Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement as follows?																									
Governance arrangements																									
Risk management arrangements																									
Internal control arrangements, including:																									
<ul style="list-style-type: none"> financial management value for money ethics and standards counter fraud and corruption 																									
Annual governance statement																									
Financial reporting																									
Assurance framework																									
Internal audit																									
External audit																									
10 Over the last year, has adequate consideration been given to all core areas?																									
11 Over the last year, has the committee only considered agenda items that align with its core functions or selected wider functions, as set out in the 2022 guidance?																									
12 Has the committee met privately with the external auditors and head of internal audit in the last year?																									

Good practice questions	Does not comply					Partially complies and extent of improvement needed				Fully complies
	Major improvement	Significant improvement	Moderate improvement	Minor improvement	No further improvement					
Weighting of answers	0	1	2	3	5					

Membership and support

<p>13 Has the committee been established in accordance with the 2022 guidance as follows?</p> <ul style="list-style-type: none"> • Separation from executive • A size that is not unwieldy and avoids use of substitutes • Inclusion of lay/co-opted independent members in accordance with legislation or CIPFA's recommendation 										
14 Have all committee members been appointed or selected to ensure a committee membership that is knowledgeable and skilled?										
15 Has an evaluation of knowledge, skills and the training needs of the chair and committee members been carried out within the last two years?										
16 Have regular training and support arrangements been put in place covering the areas set out in the 2022 guidance?										
17 Across the committee membership, is there a satisfactory level of knowledge, as set out in the 2022 guidance?										
18 Is adequate secretariat and administrative support provided to the committee?										
19 Does the committee have good working relations with key people and organisations, including external audit, internal audit and the CFO?										

Effectiveness of the committee

20 Has the committee obtained positive feedback on its performance from those interacting with the committee or relying on its work?										
21 Are meetings well chaired, ensuring key agenda items are addressed with a focus on improvement?										
22 Are meetings effective with a good level of discussion and engagement from all the members?										
23 Has the committee maintained a non-political approach to discussions throughout?										

Good practice questions	Partially complies and extent of improvement needed				Fully complies	
	Does not comply	Major improvement	Significant improvement	Moderate improvement	Minor improvement	No further improvement
Weighting of answers	0	1	2	3	5	
24 Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?						
25 Does the committee make recommendations for the improvement of governance, risk and control arrangements?						
26 Do audit committee recommendations have traction with those in leadership roles?						
27 Has the committee evaluated whether and how it is adding value to the organisation?						
28 Does the committee have an action plan to improve any areas of weakness?						
29 Has this assessment been undertaken collaboratively with the audit committee members?						
Subtotal score						
Total score						
Maximum possible score						200**

** 40 questions/sub-questions multiplied by five.

Checklist Commentary and Link to Action Plan

Question	Score	Comment
1	5	It is considered that AGP effectively fulfils its role within the Council's overall decision-making arrangements based on the Terms of Reference as set out in the Scheme of Delegation which provides for the Panel to have a wider role than just that of an audit committee. These arrangements continue to work well and accordingly, notwithstanding the nature of the question, it is considered that no further improvement is required on this point.
2	3	Minutes of the meeting of the AGP are submitted to Council for information however no formal reporting take place. It is considered appropriate to introduce an annual report on AGP activity that is considered and approved by the AGP and then remitted to Full Council for consideration Action Plan – Action 1
3	5	Decision making powers are limited and strictly as provided for within the Terms of Reference. Regarding service-related matters that come before the Panel, it is the role of APG to review and make recommendations to the appropriate decision-making authority within the Council.
4	5	The purpose of an audit committee as set out in the CIPFA Position Statement is reflected within the AGP Terms of Reference in respect of its audit committee functions.
5	5	It is considered that there is a good understanding of the role of the Committee by those charged with governance and in leadership roles, which is a result of training received and experience gained as members of the Panel.
6	5	It is considered that suitable mechanisms are provided for within the Council's decision-making arrangements and within the protocols for the operation of AGP to ensure that any issues or concerns identified by Panel are promptly taken forward.
7	0	Currently not compliant with this good practice recommendation. The development and introduction of an annual report to Full Council on the activity of the AGP would meet this requirement. Action Plan – Action 1
8 (i), (ii), (iii)	0	Currently not compliant with this good practice recommendation. The development and introduction of an annual report to Full Council on the activity of the AGP would meet this requirement. Action Plan – Action 1
9 (i) to (viii)	5	All the areas are included within the AGP's Terms of Reference.
10	5	All core areas covered as evidenced by the range of business dealt with by AGP during the course of the year.
11	5	The Scheme of Delegation provides for the Panel to have a wider role than just that of an audit committee. The wider areas specified within CIPFA guidance relate to Treasury and Corporate Improvement (Best Value) - AGP receives reports on these matters on a regular basis. These wider scope arrangements continue to work well and accordingly, notwithstanding the nature of the question, it is considered that no further improvement is required on this point.
12	2	The Chair (and former Chair) and vice chair have met privately on an informal basis with external auditors twice during 2023 and meet regularly with the Chief Internal Auditor prior to each scheduled Panel date. The views of the Council's current external auditor, Audit Scotland, will be sought as to

Question	Score	Comment
		whether it is appropriate that the private meetings be expanded to all members of the Panel. Action Plan – Action 2
13 (i)	5	This is evidenced through the Panel’s Terms of Reference within the wider Scheme of Delegation
13 (ii)	5	The size of the Panel is commensurate with its role and the wider requirements and responsibilities placed on Elected Members generally in populating Cabinet and other Panels to ensure effective decision making within the Council.
13 (iii)	5	It is not considered that such appointments would have the potential to significantly enhance the effectiveness of the Panel at this time therefore no further improvement required.
14	5	It is considered that the current membership of the Panel is commensurate with the wider requirements and responsibilities placed on Elected Members generally in populating Cabinet and other Panels to ensure effective decision making within the Council.
15	5	An assessment of training needs was undertaken as part of the induction process following the Local Government elections in May 2022. Further training has been provided in recent weeks. It is recognised that skills and knowledge of Panel members will continue to develop going forward through further experience and training, as required.
16	5	Training on the Panel’s functions was provided to Panel members in 2022, as part of the induction arrangements at the start of the current Council term. . It is recognised that skills and knowledge of Panel members will continue to develop going forward through further experience and training, as required.
17	5	It is considered that the Panel is currently undertaking its role effectively on the basis of the knowledge and experience of Panel members.
18	5	Appropriate support is provided by the Committee Services team within the Democratic Services function.
19	5	Good working relationships are in place with key staff and organisations such as external audit, as evidenced by the range of business dealt with by the Panel and the nature of engagement.
20	0	This is not something that is being undertaken currently therefore it is proposed that a mechanism be developed to obtain feedback from Elected Members and officers of the Council and include results in the annual report to Council. Action Plan – Action 3
21	5	It is considered that meetings are well chaired, recognising the learning aspects for all Panel members over the last year, and the recent appointment of a new Chair.
22	3	Meetings are considered effective and there is a good level of discussion and engagement on agenda items, however there is always room for improvement to encourage further engagement from all members. Action Plan – Action 4
23	5	Recognising that the Panel operates within a political environment, it is considered that the approach and discussions remain non-political.
24	5	Engagement is evidenced by the reports dealt with by the Panel at meetings provided by the Chief Auditor and the External Auditor, and active participation in discussions at meetings by the appropriate responsible officers.
25	5	Evidenced by Panel’s consideration of reports relative to governance, risk and control arrangement, which feature within the workplan. Panel make recommendations for improvements when needed.

Question	Score	Comment
26	5	The nature of relationships and engagement between the Panel and those key officers concerned with audit committee functions ensure that any recommendations which may arise are implemented. All arising actions are monitored and compliance is reported back to Panel at various points during the workplan cycle.
27	1	An AGP self-assessment was undertaken in 2021 to determine the effectiveness of the Panel however this was not formally considered at Panel. The introduction of the new Cipfa self-assessment checklist approach annually will allow the effectiveness of the Panel to be more readily measured and improvements identified, implemented and monitored. Action Plan – Action 5
28	2	A formal approved action plan did not feature as part of the previous self-assessment process in 2021 however an action plan has been included as part of this year’s 2023 self-assessment evaluation report. Action Plan – Action 5
29	5	This self-assessment was undertaken by members of the Audit and Governance Panel which has responsibility for audit committee functions along with support from the Head of Finance, ICT and Procurement, The Service Lead- Democratic services and the Chief Internal Auditor.
Total Score	159	

Action Plan

Action	Self-Assessment Ref.	Good practice assessment	Proposed action	Responsible Officer	Due date
1	<p>Question 2 – Does the Audit Committee report directly to the governing body (full council)</p> <p>Question 7 – Does the governing body hold the audit committee to account for its performance at least annually?</p> <p>Question 8 – Does the committee publish an annual report in accordance with the 2022 guidance including:</p> <ul style="list-style-type: none"> • Compliance with the CIPFA position statement • Results of the annual evaluation, development work 	<p>Minor improvement</p> <p>Major Improvement</p> <p>Major Improvement</p>	<p>Introduce an annual report on the activities of the AGP to be considered and approved by AGP and then remitted to Council for consideration</p> <p>Include relevant evaluation information and areas for development in the self-assessment reporting (Dec 2023) and include compliance information in the annual report to Council</p>	Service Lead – Democratic Governance	June 2024
2	Question 12 - Has the committee met privately with the external auditors and head of internal audit in the last year?	Moderate Improvement	Engage with Audit Scotland to seek to widen private discussions beyond Chair and Vice Chair to all AGP members	Head of Finance, ICT and Procurement	June 2024
3	Question 20 – Has the committee obtained positive feedback on its performance from those interacting with the committee or relying on its work?	Major Improvement	Develop and implement mechanisms for obtaining feedback from Elected Members and officers of the Council and include results in the annual report to Council	Service Lead – Democratic Governance	June 2024

Action	Self-Assessment Ref.	Good practice assessment	Proposed action	Responsible Officer	Due date
4	Question 22 - Are meetings effective with a good level of discussion and engagement from all the members?	Minor Improvement	Members of the AGP should be encouraged to contribute and engage in the scrutiny process whenever possible	Chair and Members of the Panel	Oct 2024
5	Question 27 - Has the committee evaluated whether and how it is adding value to the organisation? Question 28 - Does the committee have an action plan to improve any areas of weakness?	Major Improvement Moderate Improvement	Self-assessment to be undertaken annually (Sept) with outcomes to be considered by AGP each December and annual report to be consider by full Council in June each year. Annual self-assessment to include action plan for areas of improvement	Service Lead – Democratic Governance	Dec 2023 and then annually

**South Ayrshire Council
Equality Impact Assessment
Scoping Template**

Equality Impact Assessment is a legal requirement under the Public Sector Duty to promote equality of the Equality Act 2010. Separate guidance has been developed on Equality Impact Assessment's which will guide you through the process and is available to view here: <https://www.south-ayrshire.gov.uk/equalities/impact-assessment.aspx>

Further guidance is available here: <https://www.equalityhumanrights.com/en/publication-download/assessing-impact-and-public-sector-equality-duty-guide-public-authorities/>

The Fairer Scotland Duty ('the Duty'), Part 1 of the Equality Act 2010, came into force in Scotland from 1 April 2018. It places a legal responsibility on Councils to actively consider ('pay due regard to') how we can reduce inequalities of outcome caused by socio-economic disadvantage, when making strategic decisions. [FSD Guidance for Public Bodies](#) in respect of the Duty, was published by the Scottish Government in March 2018 and revised in October 2021. See information here: <https://www.gov.scot/publications/fairer-scotland-duty-guidance-public-bodies/>

1. Policy details

Policy Title	Annual Self-Assessment 2023
Lead Officer (Name/Position/Email)	Tim Baulk, Head of Finance, ICT and Procurement tim.baulk@south-ayrshire.gov.uk Catriona Caves, Head of Legal and Regulatory Services – catriona.caves@south-ayrshire.gov.uk

2. Which communities, groups of people, employees or thematic groups do you think will be, or potentially could be, impacted upon by the implementation of this policy? Please indicate whether these would be positive or negative impacts

Community or Groups of People	Negative Impacts	Positive impacts
Age – men and women, girls & boys	-	-
Disability	-	-
Gender Reassignment (Trans/Transgender Identity)	-	-
Marriage or Civil Partnership	-	-
Pregnancy and Maternity	-	-
Race – people from different racial groups, (BME) ethnic minorities and Gypsy/Travellers	-	-
Religion or Belief (including lack of belief)	-	-
Sex – (issues specific to women & men or girls & boys)	-	-

Community or Groups of People	Negative Impacts	Positive impacts
Sexual Orientation – person’s sexual orientation i.e. LGBT+, lesbian, gay, bi-sexual, heterosexual/straight	-	-
Thematic Groups: Health, Human Rights & Children’s Rights	-	-

3. What likely impact will this policy have on people experiencing different kinds of social disadvantage i.e. The Fairer Scotland Duty (This section to be completed for any Strategic Decisions). Consideration must be given particularly to children and families.

Socio-Economic Disadvantage	Negative Impacts	Positive impacts
Low Income/Income Poverty – cannot afford to maintain regular payments such as bills, food, clothing	-	-
Low and/or no wealth – enough money to meet Basic living costs and pay bills but have no savings to deal with any unexpected spends and no provision for the future	-	-
Material Deprivation – being unable to access basic goods and services i.e. financial products like life insurance, repair/replace broken electrical goods, warm home, leisure/hobbies	-	-
Area Deprivation – where you live (rural areas), where you work (accessibility of transport)	-	-
Socio-economic Background – social class i.e. parent’s education, employment and income	-	-

4. Do you have evidence or reason to believe that the policy will support the Council to:

General Duty and other Equality Themes Consider the ‘Three Key Needs’ of the Equality Duty	Level of Negative and/or Positive Impact (High, Medium or Low)
Eliminate unlawful discrimination, harassment and victimisation	Low
Advance equality of opportunity between people who share a protected characteristic and those who do not	Low
Foster good relations between people who share a protected characteristic and those who do not. (Does it tackle prejudice and promote a better understanding of equality issues?)	Low
Increase participation of particular communities or groups in public life	Low
Improve the health and wellbeing of particular communities or groups	Low
Promote the human rights of particular communities or groups	Low
Tackle deprivation faced by particular communities or groups	Low

5. Summary Assessment

Is a full Equality Impact Assessment required? (A full Equality Impact Assessment must be carried out if impacts identified as Medium and/or High)	YES NO
Rationale for decision: This report confirms the outcome of the Audit and Governance Panel Self-Assessment for 2023. Members' decision on this has no specific equality implications	
Signed: Tim Baulk Date: 9 October 2023	Head of Service