

County Buildings
Wellington Square
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16 February 2024

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 Thursday, 22 February 2024 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 24 January 2024 (copy herewith).
4. Action Log and Work Programme (copy herewith).

Internal Audit Report.

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; (iv) Quality Assurance and Improvement Programme Update - Submit report by the Chief Internal Auditor (copy herewith).

6./

Other Governance Report.

6. Treasury Management and Investment Strategy Quarter 3 Update Report 2023/24 - Submit report by the Head of Finance, ICT and Procurement (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 24 January 2024 at 10.00 a.m.

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

Present
Remotely: Councillor Kenneth Bell.

Apologies: Councillors Chris Cullen, Mary Kilpatrick and Brian McGinley.

Attending in
County Hall: M. Newall, Chief Executive; T. Baulk, Head of Finance, ICT and Procurement; G. Hunter, Assistant Director – Communities; W. Carlaw, Service Lead – Democratic Governance; C. McGhee, Chief Internal Auditor; K. Anderson Service Lead – Policy, Performance and Community Planning; A Gibson, Committee Services Officer; and E. Moore, Clerical Assistant.

Attending
Remotely: A. Kerr, Audit Scotland.

Opening Remarks.

The Chair

- (1) welcomed everyone to the meeting; 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 16 January 2024.

3. Minutes of Previous Meetings.

The Minutes of the meeting of 6 December 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](#)).

Having heard a Member express his gratitude that the “Update” column in the Work Programme now had detail in it, the Panel

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

Councillor Bell joined the meeting at this point and stated that he had no interests to declare.

External Audit.

5. **Best Value Action Plan 2023 – Progress Update.**

There was submitted a report ([issued](#)) of 12 January 2024 by the Director of Strategic Change and Communities providing an update on the progress toward delivering the Council’s Best Value Action Plan 2023.

The Service Lead – Policy, Performance and Community Planning advised that, with reference to paragraph 3.3 of the report, it should state that the Council’s thematic report was based on fieldwork carried out between January and March of last year and in relation to paragraph 13.3 of the report, the meeting of the Best Value Working Group had been postponed, but that the information had been shared with Members.

A Member of the Panel referred to an Action in Appendix 1, the Best Value Augmented Improvement Action Plan 2023, namely “Continue to develop Integrated Impact Assessment Tool” and enquired as to how the Health and Social Care Partnership were progressing in this area. The Service Lead – Policy, Performance and Community Planning advised that work was ongoing on finalising the tool, with the intention to roll it out over the next few months.

Having heard a Member of the Panel in relation to page 6 of the report and the Action “Develop method to encourage Council staff to suggest project ideas and promote successful projects” and enquire if this Action was achievable as it currently stood at 50% complete, the Service Lead – Policy, Performance and Community Planning advised that, following discussions with senior officers, there was confidence that this could be achieved. Other Members of the Panel made reference to that Action and the Service Lead – Policy, Performance and Community Planning advised that not every project suggested was taken forward, as this was dependant on whether or not it could be supported; and that staff could present ideas through their line managers and that ideas being made directly into the Change Team were currently being explored. The Chief Executive indicated that it was important to encourage employees to come forward with ideas as well as the need to support Council priorities at the same time.

Having heard a Member of the Panel refer to page 8 of the report in relation to the Action “Assess the impact of the Community Engagement Strategy noting how feedback has influenced outcomes”, he made an enquiry regarding the need to evidence the results. The Assistant Director - Communities advised that good consultation and the interpretation of results were key to everything that was being done. The Member of the Panel further stated that he felt that the requirement to evidence the impact of consultation on decisions was unrealistic. The Chief Executive advised of the importance of receiving feedback on the investments made and the Assistant Director – Communities further advised of the importance around the formulation of place plans. A Member of the Panel stated that a good example where feedback could be evidenced was the recent rent increase survey that was presented to a meeting of the Council.

A Member of the Panel expressed his concern that older people would not be included in the consultation to the same extent, as it was being conducted online. The Assistant Director – Communities agreed that the consultation would be as inclusive as possible.

Following a question from a Member of the Panel in relation to the Action on page 10 of the report, namely “Provide Elected Members with a final report on the outcomes of the ICT Strategy 2021-23 and the Digital Strategy” and having heard the Head of Finance, ICT and Procurement, it was noted that the Action listed under that in the report was there by error.

A Member of the Panel referred to page 11 of the report and the Action namely “Review content of the Council Performance and Best Value web pages” and having heard the Service Lead – Policy, Performance and Community Planning, it was noted that this did meet the Statutory Performance Indicator direction, but by its nature, would never be completed.

Having heard a Member of the Panel, it was agreed that the Head of Legal and Regulatory Services would provide Members with details of the current position relating to the Action “Improve accuracy of recording attendance figures at Member briefings”.

Having scrutinised the content of the Best Value Action Plan 2023 update report and considered the progress through the narrative set out within Appendix1, the Panel

Decided: to note the contents of the report.

Other Governance.

6. External Audit Reports – Progress to 31 December 2023.

There was submitted a report ([issued](#)) of 12 January 2024 by the Head of Finance, ICT and Procurement providing an update on the progress that the Council was making in relation to external audit improvement actions.

Having heard a Member of the Panel in relation to an Action listed on page 5 of the report, namely “The Council should ensure formal procedures are in place to validate staff on the payroll” it was confirmed that Wendy Wesson, Chief HR Adviser was the responsible officer for this Action. Further to this Action, a Member of the Panel expressed concern that it was stated that it was proposed to have it completed by 31 March 2024 with it only being 20% complete at present. The Head of Finance, ICT and Procurement stated that work was progressing towards achieving completion of the action, albeit that this was a rolling action.

The Panel, having scrutinised the progress against the Council’s external audit improvement actions

Decided: to note the contents io the report.

The meeting ended at 10.40 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
1.	6 December 2023	Treasury Management and Investment Strategy Mid-Year Report 2023/24	Briefing Session to be organised to help Members understand the work of the Treasury Management Team	Head of Finance, ICT and Procurement	Members briefing took place on 7 February 2024	Yes
2.	24 January 2024	Best Value Action Plan 2023 – Progress Update	To provide Members with details of the current position relating to the Action “Improve accuracy of recording attendance figures at Member briefings”	Head of Legal and Regulatory Services	To be provided by 1 March 2024	NO

Audit and Governance Panel

Work Programme 2023

No	Issue	Actions	Assigned To	Due Date To Panel	Latest update
1.	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	22 February 2024 (progress reported quarterly)	Report to this Panel
2.	Treasury Management and Investment Strategy Quarter 3 Report 2023/24	Report to Panel	Head of Finance, ICT and Procurement	22 February 2024 (Quarterly)	Report to this Panel
3.	Annual Audit Plan 2023/24	Report to Panel	Head of Finance, ICT and Procurement	20 March 2024 (Yearly)	Discussions commenced with External Audit
4.	Annual Internal Audit Plan 2024/25	Report to Panel	Chief Internal Auditor	20 March 2024 (Yearly)	Work underway
5.	Strategic Risk Management	Report to this Panel	Head of Legal and Regulatory Services	20 March 2024 (Biannually)	Work underway
6.	Best Value Action Plan 2023 – Progress Update	Report to this Panel	Director of Strategic Change and Communities	April 2024 (Quarterly)	Not yet started

Audit and Governance Panel

No	Issue	Actions	Assigned To	Due Date To Panel	Latest update
7.	External Audit Reports – Progress to 31 March 2024	Report to Panel	Head of Finance, ICT and Procurement	April 2024 (Quarterly)	Not yet started
8.	Corporate Fraud Team - Activity Report and National Fraud Initiative Update	Report to this Panel	Chief Internal Auditor	May 2024 (Biannually)	Not yet started
9.	Annual Accounts 2023/24	Report to this Panel	Head of Finance, ICT and Procurement	June 2024 (Yearly)	Not yet started
10.	Delivering Good Governance – 2023/24 Assessment	Report to Panel	Head of Legal and Regulatory Services	June 2024 (Yearly)	Not yet started
11.	Internal Audit Annual Report 2023/24	Report to Panel	Chief Internal Auditor	June 2024 (progress reported quarterly)	Not yet started
12.	Treasury Management Annual Report 2023/24	Report to Panel	Head of Finance, ICT and Procurement	June 2024 (Annually)	Not yet started
13.	Internal Audit Annual Update Report – Integration Joint Board (IJB) Performance and Audit Committee (PAC)	Report to Panel	Chief Internal Auditor	September 2024 (Annually)	Not yet started
14.	Accounts Commission Annual Report 2022/23	Report to this Panel	Head of Finance, ICT and Procurement	October 2024 (Annually)	Not yet started

Audit and Governance Panel

No	Issue	Actions	Assigned To	Due Date To Panel	Latest update
15.	Internal Audit Plan 2023/24 – Midyear Review	Report to this Panel	Chief Internal Auditor	November 2024 (Annually)	Not yet started
16.	Audit and Governance Panel – 2024 Annual Self-Assessment Outcome	Report to Panel	Head of Finance and ICT and Head of Legal and Regulatory Services	December 2024 (Annually)	Not yet started

South Ayrshire Council

**Report by Chief Internal Auditor
to Audit and Governance Panel
of 22 February 2024**

Subject: 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**
-

1. Purpose

- 1.1 The purpose of this report is to advise Members of progress of the 2022/23 and the 2023/24 internal audit plans, directorates' progress against implementation of internal audit action plans and the status of the current Quality Assurance and Improvement Programme.

2. Recommendation

2.1 It is recommended that the Panel:

2.1.1 considers the content of this report; and

2.1.2 approves the revision to the 2023/24 Internal Audit Plan as detailed at paragraph 4.3.5.

3. Background

- 3.1 Progress against the Internal Audit annual plan and implementation of actions are reported to the Audit and Governance Panel on a quarterly basis. The last quarterly progress report was reported to Panel on 8 November 2023 and included progress for the second quarter of 2023/24 to 30 September 2023.

- 3.2 This report provides an update on the progress of the 2022/23 and the 2023/24 Plans for the third quarter to 31 December 2023 and the directorates' progress of implementation of Internal Audit actions to 17 January 2024.

3.3/

3.3 The Public Sector Internal Audit Standard (PSIAS) requires that the Chief Internal Auditor continually reassesses and amends the audit plan throughout the year and where changes are taking place around emerging risks and the environment in which audit work is carried out. As a result of this, proposed changes to the 2023/24 Internal Audit have been identified and are included in paragraph 4.3.5 of this report.

3.4 PSIAS also requires the Chief Internal Auditor to maintain a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity including both periodic internal self-assessments and five-yearly External Quality Assessments (EQA) and reports the results of this to the Panel. The status of the latest QAIP is included at section 4.5 of this report.

4. Proposals

4.1 *Progress of Internal Audit Plan 2022/23*

4.1.1 A summary of all 2022/23 assignments can be found in [Appendix 1](#). Two 2022-23 assignments remain outstanding as at 31 December 2023. Audit testing has concluded and the draft report has been issued for one assignment (Ayrshire Growth Deal – Governance Arrangements). Testing has concluded on the second assignment (Arrangements in place around the use of SWHub) and the report is being drafted.

4.2 *Internal Audit Annual Audit Plan 2023/24 Progress*

4.2.1 One final report has been issued for South Ayrshire Council since the last quarterly update report in November 2023. There have also been three draft SAC reports and one final report for the Ayrshire Valuation Joint Board (NDR Process - Legislative Changes) issued since the last progress report. Links to SAC Internal Audit assignment reports are shared with all Members through SharePoint.

Ref	Assignment	Assurance	No of Actions
2024-36-02	Thriving Communities Grants Review	Limited	9 Actions (4 high risk, 3 medium and 2 low)

4.3 *Performance Indicators 2023/24*

4.3.1 Three performance indicators are included in the plan for 2023/24:

- Productivity/utilisation (para 4.3.2);
- Percentage of reviews completed in audit plan (para 4.3.4); and
- Number of ad-hoc requests and investigations (para 4.3.6).

4.3.2 As at 31 December 2023, audit time for 2023/24 was as follows:

	Target %	2023/24	2022/23	2021/22
Direct	83%	82%	78%	80%
Indirect	11%	12%	13%	14%
Management	6%	6%	9%	6%
	100%	100%	100%	100%

4.3.3 Direct audit time is slightly lower than target due to additional indirect time being spent in the first half of the year for team attendance at a biennial training event held by the Scottish Local Authority Internal Auditors Group (SLACIAG), the completion of the annual Performance Development Review (PDR) process and completion of mandatory training by the whole team. It is expected the targets will be met by the year end.

4.3.4 The revised internal audit plan for 2023/24, approved by the Panel on 8 November 2023, includes 27 deliverable assignments for South Ayrshire Council. There is also an allocation of time for Internal Audit to deliver audit plans for the IJB and the AVJB (assignment numbers 31 and 32 in the audit plan). The full plan including the status of each assignment is at [Appendix 2](#). A summary of the 2023/24 plan completion for SAC deliverable assignments as at 31 December 2023 is included in the table below:

Status	No. of Deliverables	Percentage
Complete	1	4%
Work in progress	21	78%
Not started	5	18%
Total	27	100%

4.3.5 As noted in paragraph 3.3 above, Chief Internal Auditors require to continually reassess and amend the audit plan throughout the year and where changes are taking place around emerging risks and the environment in which audit work is carried out. This has highlighted two assignments which cannot be completed in 2023/24:

- Assignment 3 - Review and Assess progress of implementation of the Corporate Workforce Plan 2022-2025 Action Plan. Internal Audit was advised in November 2023 that Audit Scotland planned to complete their Best Value review of Workforce Planning between December 2023 and February 2024. Therefore, to avoid duplication of work and additional impact of staff resources in this area, it is proposed that this Internal Audit assignment is deferred for consideration in a future year's Internal Audit Plan. It is proposed that this assignment is replaced in the current audit plan with the review of updated Procurement procedures following

implementation of Oracle Fusion which was included in the 2023/24 [Reserve List](#) approved by Panel on 22 March 2023.

- Assignment 29 - Follow up of Actions from 2022/23 Audit Assignment - arrangements in place around the use of SWHub. The draft report has not yet been issued for the 2022/23 assignment, so, to allow the 2022/23 report to be issued and the Service time to implement any actions resulting from the work, it is proposed that this assignment is deferred until 2024/25. The balance of time from this assignment will be added to contingency within the plan.

4.3.6 In addition to planned Internal Audit assignments, allocations of time are included within the plan for contingency, ad-hoc requests for advice and guidance and investigations. During the period to 31 December 2023 there were, nine pieces of work in these areas;

- One contingency assignments relating to procurement of training within Health and Social Care (HSC) is currently ongoing.
- Five separate requests for advice and guidance. These requests were in relation to safe checks, anti-fraud checks within the grant process in Thriving Communities, advice on the treatment/recoding of Museum archives and advice on proposed changes to employability grant procedures and the process to award grants to businesses impacted by the transport restrictions as a result of the former Ayr Station Hotel fire.
- Three referrals for investigations. One investigation was taken forward and concluded by the Service, this investigation related to a fraudulent attempted to change bank details which was not actioned by the service and procedures were updated to strengthened existing controls. The remaining two investigations were completed by Internal Audit. Neither referral was substantiated.

4.3.7 Management information is retained for all assignments which tracks progress of the assignment from the terms of reference at the outset through to the issue of the draft report, and ultimately to the issue of the final report. This management information is used to review progress of the assignment against the budgeted audit days in the plan, assign work within the team and track overall completion of the plan.

4.4 ***Implementation of Internal Audit Action Plans***

4.4.1 Six follow up assignments are included in the revised 2023/24 internal audit plan and approval is being sought within this paper to defer one of these six assignments. One follow up assignment has been completed, a draft report has been issued for one assignment and the remaining assignments are in progress.

4.4.2 The follow up of all other internal audit actions is undertaken through review of Ideagen (formerly known as Pentana), where all recommendations are uploaded for management action. Quarterly alerts

are issued from Ideagen to action owners requesting action status to be updated and notes to be added where required.

4.4.3 There are currently five overdue audit actions and 13 actions due for completion in the next six months. Full details of these action points are included in Appendix 3.

4.4.4 Extensions to implementation dates may be agreed with Services where progress of implementation has been impacted by factors outwith their control and/or which were not known at the time the original due date was agreed. Up to two extensions may be agreed between the Service and the Chief Internal Auditor. Extensions to due dates have been agreed for three outstanding actions. First extensions have been agreed for; action IA2023/07.12 - Compliance with Access Control Standard, as completion was delayed due to the ongoing work on the Council's PSN reaccreditation; and action IA2023/14.09 Update to Management Guidelines on school funds. The extension is required to allow for completion of review of the use of online banking/bank cards in all schools and will tie in with this year's annual internal controls self-assessment which is due to start in February 2024. A second extension has been agreed for action IA2023/07.04 Employee Dismissal/Suspension to allow for management review of changes to policy, this action is 95% complete.

4.4.5 Where more than two extensions to due dates have been requested, a representative from the Service will be asked to attend the AGP and provide an explanation for the request. There are no such requests being made to the Panel during this reporting period.

4.5 ***Quality Assurance and Improvement Programme (Compliance with PSIAS)***

4.5.1 A quality assurance and improvement programme (QAIP) designed to enable an evaluation of the internal audit activity's conformance with PSIAS is in place with Internal Audit. The QAIP also assesses the efficiency and effectiveness of the service and encourages and identifies opportunities for improvement.

4.5.2 The QAIP includes both internal and external assessments. External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The previous external assessment was undertaken in 2017/18 by the Chief Internal Auditor of East Renfrewshire Council. The next external review is being undertaken by the Chief Internal Auditor of Inverclyde Council and is currently ongoing.

4.5.3 An internal assessment of compliance with PSIAS is completed on an annual basis by a member of internal audit. The internal assessment for 2023/24 has been completed and the results of both the internal and external assessments will be included within the quarterly update report to Panel once both have completed.

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 Audit reports include, in the action plans, a separate risk assessment detailing the risk of not implementing each of the Internal Audit recommendation. A recommendation to consider whether the Directorate risk register requires to be updated to reflect issues raised within the report is also included in the report. In addition, quarterly meetings have been set up between Risk and Safety and Internal Audit to ensure new emerging risks are included in Council Risk Registers and the Annual Internal Audit Plan where required.

8.2 Risk Implications of Adopting the Recommendations

8.2.1 There are no risks associated with adopting the recommendations.

8.3 Risk Implications of Rejecting the Recommendations

8.3.1 Rejecting the recommendation could result in failure to perform a scrutiny role in relation to the application of the Public Sector Internal Audit Standards (PSIAS).

9. Equalities

9.1 The proposals in this report allow scrutiny of performance. 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 [Internal Audit Plan 2023-24](#)
[Internal Audit Plan 2023-24 Midyear Review](#)
[Public Sector Internal Audit Standard](#)

Person to Contact Cecilia McGhee, Chief Internal Auditor
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Date: 12 February 2024

PROGRESS AGAINST INTERNAL AUDIT PLAN 2022/23

No	Audit Area	Objectives	Link to Council Plan	Link To Risk Register	Estimated Days	Status	Progress
Key Corporate Systems							
1	Main Accounting	Anti-Fraud Review - NDR Relief Review (Joint review between Internal Audit and Corporate Fraud)	4.4	4	15	100%	Final Report Issued
2	HR and Payroll	Conflict of Interests - Review of arrangements in place to ensure conflict of interests are declared. (consider using NFI report for sample checking).	1.2	3/10	15	100%	Final Report Issued
Governance/Best Value							
3	Following the Public Pound	Ayrshire Growth Deal Testing of internal governance arrangements	4.1	1	20	98%	Draft Report Issued to Service for Management Actions
4	Contract Audit	Review of arrangements in place around the use of HubSW	5.2	9	20	70%	Audit Testing complete
5	Transformational Change	Follow up of the 2021/22 Change Management assignment - review of progress of the South Ayrshire Way Change Programme specifically in relation to transformational change projects and COVID recovery.	1/2.5/4.2	1	20	100%	Final Report Issued
6	National Fraud Initiative	Commencement of 2022/23 Data Matching exercise	-	4	10	100%	Final Report Issued

No	Audit Area	Objectives	Link to Council Plan	Link To Risk Register	Estimated Days	Status	Progress
ICT Auditing							100%
7	System Access Control	Review process and controls over granting and removing access to Council System and Data.	6.2	11	30	100%	Final Report Issued
Directorates							
8	Place	Void Repairs - Procedural Review	1.3/5.2	12	25	100%	Final Report Issued
9	H&SCP	Fostering & Adoption Payments	3.2	5	15	100%	Final Report Issued
10	People	Education Maintenance Allowance (Data Match)	2.3	5	5	100%	Final Report Issued
11	H&SCP	Review of progress against implementation of Care Inspectorate/Scottish Government Improvement Plans	3	5	15	100%	Final Report Issued
12	Place	Review of Climate Change Public Sector Report (CCPSR) (Sample Check return to confirm supporting documentation available to support the contents)	6.1	1/3	20	100%	Final Report Issued
13	Finance, Economic Dev, Regulatory	Review of COVID-19 business grants	4.4	4/9	10	100%	Final Report Issued
Regularity							
14	Schools	Internal Control Self-Assessment Toolkit - Initial Rollout and Management of the Annual Process	2	4	6	100%	Final Report Issued
15	Social Work Locations	Internal Control Self-Assessment Toolkit - Management of the Annual Process	3	4	5	100%	Final Report Issued
16	Continuous auditing	Development of Continuous Auditing to other key risk areas including procurement and payroll	1.3	4	20	100%	Final Report Issued

No	Audit Area	Objectives	Link to Council Plan	Link To Risk Register	Estimated Days	Status	Progress
Follow Up Reviews							
17	Main accounting	Follow up of 2020/21 Findings	1	9	3	Deferred	Included in 2023/24 Internal Audit Plan
18	Benefits	Benefits - Scottish Welfare Fund	1.4	9	2	100%	Final Report Issued
19	Following the Public Pound	Ayrshire Growth Deal	4.1	9	4	100%	Final Report Issued
20	ICT Auditing	PCI DSS	6.2	11	3	100%	Final Report Issued
21	Contract Audit	Capital contract	5.2	9	4	100%	Final Report Issued
22	Directorate and other Systems	Controls around Hall letting Procedure	2.4/6.2	4	2	100%	Final Report Issued
23	Directorate and other Systems	Controls around fuel systems	6.1	4	4	100%	Final Report Issued
24	Directorate and other Systems	Carefirst	3	4	2	100%	Final Report Issued
25	Regularity	Museums Stores	5.4	4	2	Deferred	Included in 2023/24 Internal Audit Plan
Other Entities							
26	AVJB	AVJB - Core System Review (Migration of CT Data) (Estimated days includes Internal Audit support to the AVJB)	-	-	25	100%	Final Report Issued
27	IJB	Performance Monitoring Arrangements Follow Up of Risk Management Arrangements (Estimated days includes Internal Audit support to the IJB)	-	-	25	100%	Final Report Issued

No	Audit Area	Objectives	Link to Council Plan	Link To Risk Register	Estimated Days	Status	Progress
Other							
28	Investigations	Allowance for investigations of irregularities.	-	4	20	100%	Investigations concluded and reports issued where required
29	Advice and Guidance	Client requests, advice and consultancy - including participation on working groups	-	-	15	100%	
30	Contingency	Contingency budget for unplanned commitments arising during the year	-	-	30	100%	Three reviews completed under contingency during 2022/23
31	Closure of prior year assignments	Allowance of time for the closure of prior year audit work into 2021/22	-	-	50	100%	
32	Management and Audit development	Internal Audit planning, annual reporting, and quarterly reporting	-	-	35	100%	
33	EQA2	South Ayrshire Council independent review of Renfrewshire Council's compliance with PSIAS	-	-	10	100%	Report Issued
34	QAIP	Annual self-assessment of compliance with PSIAS	-	-	10	100%	
TOTAL					497		

PROGRESS AGAINST INTERNAL AUDIT PLAN 2023/24

No	Audit Area	Objectives	Link to Council Plan	Link To Risk Register	Estimated Days	Status	Progress
Key Corporate Systems							
1	Main Accounts	Obtain assurance that there are adequate controls included in updated procedures following implementation of Oracle Fusion and that the controls are operating effectively.	Best Value	11	23	5%	Planning Started
2	HR & Payroll	Obtain assurance that there are adequate controls included in updated procedures following implementation of Oracle Fusion and that the controls are operating effectively.	Live, Work Learn/Best Value	11	20	5%	Planning Started
3	Organisational Development	Review and Assess progress of implementation of the Corporate Workforce Plan 2022-2025 Action Plan	Live, Work Learn/Best Value	13	20	0%	Not Started
Governance/Best Value							
4	National Fraud Initiative	Co-ordination and Monitoring of Exercise and review of Procurement Matches.	Best Value	4	15	70%	Investigations ongoing
5	Following the Public Pound	Ayrshire Growth Deal - Follow Up of actions from 2022/23 Assignment. Objective of the assignment to be agreed when the outcome of the 2022/23 assignment is known. Potentially review arrangements with consultants/suppliers/contractors or project management.	Best Value	1	25	50%	Testing Concluded on follow up of actions.

No	Audit Area	Objectives	Link to Council Plan	Link To Risk Register	Estimated Days	Status	Progress
6	Procurement	Review of "Off Contract Spend" to obtain assurance that spend is properly authorised and that standing orders in relation to contracts and/or procurement legislation is being adhered to.	Best Value	4	20	60%	Testing ongoing
7	Participatory Budgets	Obtain assurance that there are adequate arrangements in place to meet the National target for at least 1% of Local Government Budgets to be subject to participatory budgeting	Civic and Community Pride/ Best Value	1/11	15	5%	Planning Started
8	Records Management	Obtain assurance that services are complying with SCARRS/the Councils records management procedures, retention schedules are up to date, relevant and adhered to.	Equalities and the Fairer Scotland Duty	4	20	0%	Not Started
ICT Auditing							
9	Social Media Accounts	Obtain assurance that there are adequate controls in place around; access to Social Media Channels; creation and deletion of Social Media pages/ channels and monitoring of content/ followers/ following	Equalities and the Fairer Scotland Duty	14	15	95%	Draft report issued
Directorates							
10	Housing, Operations and Development	Review of Waste Management procedures to obtain assurance that controls are in place and operating effectively	Spaces and Places	15	25	80%	Audit Testing concluded – report being drafted
11	Housing, Operations and Development	Anti-Fraud Review - Review of Housing Let procedures to ensure they include adequate controls to identify and prevent fraud (testing will be carried out jointly by Internal Audit and the Corporate Fraud Team)	Live, Work, Learn	4	15	10%	Research and Audit Planning started
12	Education	Review the use of funding allocated to South Ayrshire Council from the Attainment Scotland Fund (ASF) to	The Promise,/Li	9	20	20%	Terms of reference issued


No	Audit Area	Objectives	Link to Council Plan	Link To Risk Register	Estimated Days	Status	Progress
		confirm it complies with the condition of the fund/national guidance and ensure there are adequate arrangements in place to monitor and report impacts and outcomes	ve Work Learn				
13	HSCP	External Providers - Confirm there are adequate arrangement in place to undertake pro- active due diligence on external provider's financial stability	The Promise, Our Ageing Population	6	10	0%	Not Started
14	HSCP	Premises - Confirm there are adequate arrangement in place to ensure the HSCP have adequate premises to provide services/operate its business	The Promise, Our Ageing Population	6	10	0%	Not Started
15	Change and Communities	Follow up of Actions from 2022/23 Audit Assignment and review of annual Climate Change Duty Compliance return for 2022/23	Sustainability, climate change and biodiversity	8	10	95%	Draft report issued
16	Change and Communities	Review of Cash Collection Arrangements in Leisure Facilities and sample testing	Spaces and Places	4	10	85%	Draft report issued – clearance meeting to be arrange
Regularity							
17	Continuous Auditing	Accounts Payable, Payroll and Debtors (including Housing Rent Debtors)	Best Value	4	40	30%	Testing in Progress
18	Grants	Audit of claims and annual review of procedures, Ayrshire Rural and Island Ambition Fund (ARIA)	Live, Work, Learn	4	10	20%	Review of grant procedures completed. Review of grant claims will be completed in quarter 4.
19	Grants	Review of evidence to support Network Support Grant claim	Spaces and Places/Live , Work Learn	9	5	75%	Completed for six month period to 31 March 2023. Review of second claim will be completed in quarter 3/4



No	Audit Area	Objectives	Link to Council Plan	Link To Risk Register	Estimated Days	Status	Progress	
20	Schools	Internal Control Self Assessment Toolkit - Management of the Annual Process	Live Work Learn/The Promise	4	10	30%	Self-Assessment Questionnaire being updated	
21	Social Work Locations	Internal Control Self Assessment Toolkit - Management of the Annual Process	The Promise/Our Ageing Population	4	7	70%	Self-Assessment Questionnaire issued	
Follow Up Reviews								
22	Regularity	Follow Up of actions from 2021/22 Audit Assignment - Museum Stores	-	5	4	70%	Testing concluded - Draft report being prepared	
23	Main accounting	Follow up of Actions from 2020/21 Audit Assignment - Main Accounting Review	-	5/11	0	N/A	Included within Fusion audit	
24	ICT Auditing	Follow up of Actions from 2022/23 Audit Assignment - Systems Access Controls	-	5/14	0	N/A	Deferred to 2024/25 plan	
25	Directorate	Follow up of Actions from 2022/23 Audit Assignment - Void repairs	-	5/15	3	70%	Testing Concluded – report being drafted	
26	Directorate	Follow up of Actions from 2022/23 Audit Assignment - Fostering and Adoption	-	5/6	3	5%	Planning Started	
27	Main Accounting	Follow up of Actions from 2022/23 Audit Assignment - NDR Relief Review	-	5/4	3	Complete	Final Report Issued	
28	Directorate	Follow up of Actions from 2022/23 Audit Assignment - Implementation of Care Inspectorate/Scottish Government Improvement Plans	-	5/6	0	N/A	Follow up not required as original audit gave substantial assurance	
29	Governance and Best Value	Follow up of Actions from 2022/23 Audit Assignment - arrangements in place around the use of SWHub	-	5/11	4	0%	Not Started	
30	Contingency	Follow up of Actions from 2022/23 Audit Assignment - Golf Club House Income Controls	-	5/4	5	95%	Draft report issued	


No	Audit Area	Objectives	Link to Council Plan	Link To Risk Register	Estimated Days	Status	Progress
Other Entities							
31	AVJB	Review of implementation of Voters Authority Certificate (VAC) process Review of implementation of Non Domestic Rate (NDR) legislative changes	-	-	25	100%	Final reports issued
32	IJB	Workforce Planning Follow Up – Performance Monitoring Arrangements	-	-	25	5%	Planning Started
Other							
33	Investigations	Allowance for investigations of irregularities.	-	4	30	Ongoing	Three concluded as at 31 December 2023
34	Advice and Guidance (general)	Client requests, advice and consultancy - including participation on working groups	-	-	5	Ongoing	Advice and Guidance provided in five separate areas
35	Advice and Guidance (Service Reviews/Redesign)	Time to allow Internal Audit to respond to requests from services to provide advice & guidance or to review updated/changes to procedures following Service redesigns, or implementation of new processes or ICT Systems	-	3	30	Ongoing	Initial meeting with Service to discuss audit participation in the project to replace Carefirst within HSC
36	Contingency	Contingency budget for unplanned commitments arising during the year	-	-	15	Ongoing	Review of HSC procurement of Training Courses
37	Closure of prior year assignments	Allowance of time for the closure of prior year audit work into 2022/23	-	-	53	95%	One assignment (HubSw) to be concluded
38	Management and Audit development	Internal Audit planning, annual reporting, and quarterly reporting and Chief Internal Auditor Review of assignments	-	-	50	Ongoing	Ongoing
39	QAIP	Annual self-assessment of compliance with PSIAS	-	-	10	90%	Self Assessment completed. To be reported to Audit and Governance Panel together

No	Audit Area	Objectives	Link to Council Plan	Link To Risk Register	Estimated Days	Status	Progress
							with the results of the external.
TOTAL					610		


Overdue Actions (As At 17 January 2024)

IA2022/18 Fuel Management							
Action	Due Date	Managed By	Assigned To	Latest Note	Status	Progress	Agreed Revisions
IA2022/18.07 Review of Procedures	30-Apr-2023	Kenny Dalrymple	Fiona Ross	10-Jan-2024 All aspects of the audit have been completed and the Drivers Handbook & the traffic and Transport Policy will be going to Cabinet in February for approval.		98%	1st extension granted to 31/1/23 to allow other actions to be implemented (AGP 9/11/22) 2nd extension granted to 30/4/23 to allow other actions to be implemented (AGP 22/2/2023)





IA2023/07 System Access Controls							
Action	Due Date	Managed By	Assigned To	Latest Note	Status	Progress	Agreed Revisions
IA2023/07.04 Employee Dismissal/ Suspension	31-Dec 2023	Wendy Wesson	Noemi Cecconi	15-Jan-2024 The termination part is completed. The update required is only about the managers responsibility regarding contacting ICT to suspend the employee's access. A sentence will be added to the disciplinary policy about this rather than waiting to update the policy in line with the policy review schedule. Extension requested to 9 February to allow for the review of updated policy		95%	1 st extension granted to 31/12/2023 2 nd Extension requested to 9 February 2024
IA2023/07.08 Line manager responsibilities	31-Dec 2023	Kevin Mullen	Jennifer Blake	29-Sep-2023 The Cheat Sheet to accompany the Device Governance Standards has been devised and awaiting final completion in poster format after which, it will be distributed to Service Leads etc using existing communication channels.		90%	1 st extension granted to 31/12/2023





IA2023/07.12 Compliance with Access Control Standard	31-Dec-2023	Tim Baulk	Stewart McCall	12-Jan-2024 Completion of this action delayed by the ongoing work on the Council's PSN reaccreditation. Will now be completed 31 March 2024		45%	1 st extension requested to 31/03/2024
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IA2023/14 School Self-Assessment Checklist results 22-23							
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Action	Due Date	Managed By	Assigned To	Latest Note	Status	Progress	Agreed Revisions
IA2023/14.09 Update to Management Guidelines on school funds	31-Dec-2023	Lyndsay McRoberts	Gavin Cockburn	<p>04-Dec-2023 Education Support Services will be late in completing this action as the review of the use of online banking / bank cards by schools has not been concluded, and therefore the subsequent update of the Education Management Guideline on 'School Funds' (proposed v7) has not yet taken place.</p> <p>The revised 2024 School's Self-Assessment Toolkit does include 9 new questions for schools who use bank cards and online banking for the School Fund and this will improve governance around online banking and the use of bank cards for the School Fund, where any issues with security are identified through the annual audit.</p> <p>Educational Services expects the action to be completed by 31 March 2024.</p>		60%	1 st extension requested to 31/03/2024

Actions Due within next 6 Months (As At 17 January 2024)

IA2021/40 Main Accounting System Review							
Action	Due Date	Managed By	Assigned To	Latest Note	Status	Progress	Agreed Revisions
IA2021/40.06 Format of service level budget monitoring reports for all SAC services to be reviewed to include commitments and obligations to present complete spend against budget.	31-Mar-2024	Tim Baulk	Tom Simpson	06-Sep-2023 Extension agreed - AGP 6/9/2023		90%	1st extension granted to Oracle Fusion Go Live date 31/3/23 2 nd Extension Granted to 31/3/2024
IA2021/40.10 Internal training to be made available to those with budget monitoring responsibilities to enhance their knowledge and skills to effectively manage their budget.	31-Mar-2024	Tim Baulk	Tom Simpson	06-Sep-2023 Extension to 31/3/2024 agreed - AGP 6/9/2023		75%	1st extension granted to Oracle Fusion Go live date 31/3/23 2 nd Extension Granted to 31/3/2024
IA2021/40.11 Format of budget monitoring reports to be reviewed to enable budget holders to drill down on the information presented. Consideration should be given to providing budget holders with real time budget and expenditure information.	31-Mar-2024	Tim Baulk	Tom Simpson	06-Sep-2023 Extension to 31/3/2024 agreed - AGP 6/9/2023		85%	1st extension granted to Oracle Fusion go live dated 31/3/2023 2 nd Extension Granted to 31/3/2024
IA2021/40.15 Basis of internal recharges to be reviewed where based on historic pre-approved rates	31-Mar-2024	Tim Baulk	Tom Simpson	06-Sep-2023 Extension to 31/3/2024 agreed - AGP 6/9/2023		35%	1st extension granted to 31/12/2022 2nd extension granted to 30/3/2023 3rd Extension Granted to 31/3/2024 (AGP 6/9/2023)

IA2023/07 System Access Controls							
Action	Due Date	Managed By	Assigned To	Latest Note	Status	Progress	Agreed Revisions
IA2023/07.02 Turnaround time	31-Mar-2024	Tim Baulk	Kevin Mullen; Wendy Wesson			0%	
IA2023/07.09 Equipment and System Inventory templates	31-Mar-2024	Kevin Mullen	Jennifer Blake	29-Sep-2023 Template has been shared with services in an hoc basis for now and will form part of the wider inventory exercise planned for early 2024, to help ensure that all completed templates are returned in advance of 31.03.24		75%	
IA2023/07.10 ICT equipment records and Device Governance Standard roll-out	31-Mar-2024	Kevin Mullen	Jennifer Blake	29-Sep-2023 Template to record ICT equipment has been finalised and will be part of a wider inventory exercise that will take place early in the new year to ensure all completed responses are received prior to 31.03.24. The Device Governance Standards will be communicated to all staff via Service Leads and other appropriate communication channels.		75%	
IA2023/07.11 Review of Staff Access Rights	31-Mar-2024	Kevin Mullen	Jennifer Blake	29-Sep-2023 This will be tackled as part of a wider inventory exercise planned for the new year. However, as per the original response, it should be noted that ICT will only be responsible for network access. The rights have staff have to individual systems e.g. Care First etc will be governed by whatever protocols are being enforced by the various System Administrators.		55%	

IA2023/11 Implementation of progress against CI/SG Reports							
Action	Due Date	Managed By	Assigned To	Latest Note	Status	Progress	Agreed Revisions
IA2023/11.03 Decision log	31-Mar-2024	Tim Eltringham	Sheila Tyeson	21-Sep-2023 Initial discussion due to take place to map out how to implement and manage a decision log scheduled for mid October.		65%	

IA2023/12 Climate Change Duty Report							
Action	Due Date	Managed By	Assigned To	Latest Note	Status	Progress	Agreed Revisions
IA2023/12/04 Review and update of Energy Strategy	31-Mar-2024	Christina Cox; Neil Grant	Tom Burns; Neil Grant	10-Jan-2024 Action still on target, Consultant work ongoing on the Ayrshire Energy Masterplan which is due to be completed now by 7th March 2024.		80%	

South Ayrshire Council

**Report by Head of Finance, ICT and Procurement
to Audit and Governance Panel
of 22 February 2024**

**Subject: Treasury Management and Investment Strategy Quarter
3 Update Report 2023/24**

1. Purpose

- 1.1 The purpose of this report is to provide Members with an update on the 2023/24 treasury prudential indicators for the period October-December 2023 (Quarter 3) and provide an update on the latest wider economic position.

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 Quarter 3 Update Report to the next Cabinet meeting on 12 March 2024 for approval.

3. Background

Treasury Management

- 3.1 CIPFA published revised Treasury management and Prudential Codes in December 2021 which stated that revisions contained within the codes needed to be included in the reporting framework from the 2023/24 financial year.

- 3.2 The Council's Treasury Management and Investment Strategy for 2023/24 approved by the Council in March 2023, contained the requirements of the updated codes. For reporting purposes, the Strategy incorporated the intention to introduce two further quarterly update Treasury management and Investment Strategy reports in addition to the mid-year and out-turn reports.

- 3.3 The Chief Finance Officer (CFO) is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. Per the Prudential code 2021:

'monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to Full Council and should be reported as part of the authority's integrated capital and Balance Sheet monitoring.'

- 3.4 The Council reports these two additional quarterly update reports to the Audit and Governance Panel and thereafter to Cabinet. This report fulfils the additional reporting requirements of the 2021 Treasury Management and Prudential codes.

- 3.5 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 borrowing and investments), providing adequate liquidity initially before considering optimising investment return.
- 3.6 The other 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 cashflow 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.

4. Proposals

- 4.1 This Quarter 3 report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management and provides an update on Economic activity and Interest rates in [Appendix 1](#) and Prudential and Treasury Indicators in [Appendix 2](#).
- 4.2 The Panel is requested to scrutinise the contents of this report and thereafter remit the report to the Cabinet meeting of 12 March 2024 for approval.

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 December 2023 (Qtr3) the full year budgeted income is projected at £1.950m, a surplus of £0.985m.

- 6.1.2 **Capital Financing Costs** - the budget for loan charges in 2023/24 is £14.826, 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 £1.872m in interest and expenses. Budget has been allocated from reserves to reduce this overspend to £1.115m This is further offset by the projected surplus of income of £0.985m bringing an overall overspend of £0.130m.

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 December 2023 (Qtr3) the full year estimate for investment income earned is £0.467m resulting in a surplus of £0.267m.

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 £0.134m in interest and expenses. This is offset by the projected surplus of income of £0.267m bringing an overall underspend of £0.133m.

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

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 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: 12 February 2024

1. Economic Activity

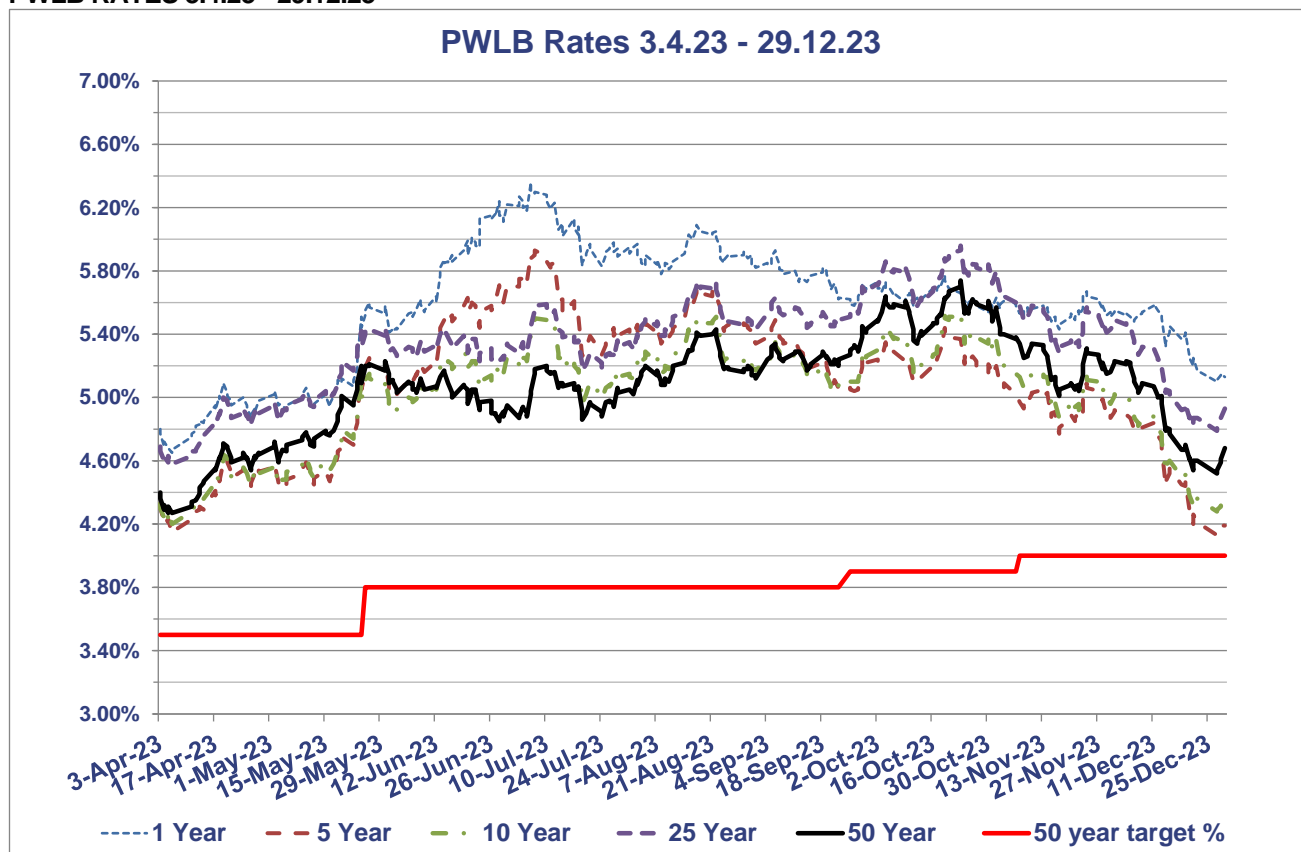
- The third quarter of 2023/24 saw:
 - A 0.3% m/m decline in real GDP in October, potentially partly due to unseasonably wet weather, but also due to the ongoing effect from higher interest rates. Growth for the second quarter, ending 30th September, was revised downwards to -0.1% and growth on an annual basis was also revised downwards, to 0.3%.
 - A sharp fall in wage growth, with the headline 3myy rate declining from 8.0% in September to 7.2% in October, although the ONS rate of unemployment has remained low at 4.2%.
 - Consumer Price Index (CPI) inflation continuing on its downward trajectory, from 8.7% in April to 4.6% in October, to 3.9% in November with a slight increase to 4.0% in December
 - Core CPI inflation decreasing from April and May's 31 years' high of 7.1% to 5.2% in December. This is slight increase to November's figure of 5.1% which was the lowest rate since January 2022.
 - The Bank of England holding rates at 5.25% in November and December.
 - A steady fall in 10-year gilt yields as investors revised their interest rate expectations lower.
- Higher interest rates have weakened the housing market but, overall, it remains resilient with only marginal falls showing year on year on the Halifax (-1%) and Nationwide (-1.8%) indices. However, the full impact in real consumer spending and real business investment has yet to come as currently it is estimated that around two thirds to a half of the impact of higher interest rates on household interest payments has yet to be felt.
- Overall, we expect real GDP growth to remain low throughout 2024 as the effect from higher interest rates is prolonged but as the cost-of-living crisis diminishes and interest rates are cut in the second half of 2024, this will support a recovery in GDP growth in 2025.
- The labour market remains tight, but the sharp fall in wage growth seen in October will reinforce the overall thoughts in markets that interest rates will be cut mid-2024. Wage growth eased in October much faster than the consensus expected. Total earnings fell by 1.6% m/m, which meant the headline 3myy rate eased from 8.0% in September to 7.2% in October. This news will be welcomed by the Bank of England. Indeed, the timelier three-month annualised rate of average earnings growth fell from +2.4% to -1.2%. Excluding bonuses, it fell from 5.3% to 2.0%.
- The fall in wage growth occurred despite labour demand being stronger in October than expected. The three-month change in employment eased slightly from +52,000 in September to +50,000 in October. But resilient labour demand was offset by a further 63,000 rise in the supply of workers in the three months to October. That meant labour supply exceeded its pre-pandemic level for the first time, and the unemployment rate remained at 4.2% in October. In the three months to November, the number of job vacancies fell for the 17th month in a row, from around 959,000 in October to around 949,000. That has reduced the vacancy to unemployment ratio as demand for labour eases relative to supply, which may support a further easing in wage growth in the coming months.
- CPI inflation fell from 6.7% in September to 4.6% in October, and then again to 3.9% in November. Both these falls were bigger than expected and there are clear signs of easing in domestic inflationary pressures. The fall in core CPI inflation from 5.7% to 5.1% in November was bigger than expected (consensus forecast 5.6%). That is the lowest rate since January 2022. Some of the decline in core inflation was due to the global influence of core goods inflation, which slowed from 4.3% to 3.3%. But some of it was due to services inflation falling from 6.6% to 6.3%. The Bank views the latter as a key barometer of the persistence of inflation and it came in further below the Bank's forecast of 6.9% in its November Monetary Policy Report. This will give the Bank more confidence that services inflation is now on a firmly downward path.
- The Bank of England left interest rates at 5.25% for the third time in a row at the December monetary policy committee (MPC) meeting. The MPC continue to maintain its tightening bias

saying that “further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures”. And it continued by, saying that policy will be “sufficiently restrictive for sufficiently long” and that “monetary policy is likely to need to be restrictive for an extended period of time”. Meaning that the MPC is not yet willing to endorse investors’ expectations that rates will be cut as soon as May 2024.

- Looking ahead, Capital Economics forecast that the recent downward trends in CPI and core inflation will pause over the next few months before starting to decline more decisively again in February. This is the reasoning that the Bank of England won’t feel comfortable cutting interest rates until the second half of 2024.
- The fall in UK market interest rate expectations in December has driven most of the decline in 10-year gilt yields, which have fallen in line with 10-year US Treasury and euro-zone yields. 10-year gilt yields have fallen from 4.68% in October 2023 to around 3.70% at the time of writing, with further declines likely if falling inflation is maintained.
- Investors’ growing expectations that the Federal Reserve will cut interest rates soon has led to an improvement in risk sentiment, which has boosted the pound and other risky assets. In addition, the rise in the pound, from \$1.21 in November to \$1.27 now, has also been supported by the recent relative decline in UK wholesale gas prices.
- The further fall in 10-year real gilt yields in December has supported the recent rise in the FTSE 100. That said, the index remains 5% below its record high in February. This modest rise in equities appears to have been mostly driven by strong performances in the industrials and rate-sensitive technology sectors. But UK equities have continued to underperform US and euro-zone equities. The FTSE 100 has risen by 2.2% in December, while the S&P 500 has risen by 3.8%. This is partly due to lower energy prices, which have been a relatively bigger drag on the FTSE 100, due to the index’s high concentration of energy companies.

In the chart below, the rise in gilt yields across the curve in the first half of 2023/24, and therein PWLB rates, is clear to see, prior to the end of year change based on a mix of supportive domestic and international factors.

PWLB RATES 3.4.23 - 29.12.23



MPC meetings 2 November and 14 December 2023

- On 2nd November, the Bank of England's MPC voted to keep Bank Rate on hold at 5.25%, and on 14th December reiterated that view. Both increases reflected a split vote, the latter by 6 votes to 3, with the minority grouping voting for an increase of 0.25% as concerns about stagnant inflation remained in place.
- However, with UK CPI inflation now at 3.9%, and core inflating beginning to moderate (5.1%), markets may carry the opinion that rate cuts should begin in Q1 2024/25, some way ahead of the indications from MPC members. The data will be the determining factor, so future publications of employment, wages and inflation numbers will be of particular importance, and on-going volatility in Bank Rate expectations and the gilt yield curve can be expected.
- In addition, what happens outside of the UK is also critical to movement in gilt yields. The US Federal Open Market Committee (FOMC) has kept short-term rates in the range of 5.25%-5.50%, whilst the European Central Bank (ECB) has moved its Deposit rate to a probable peak of 4%. Markets currently expect both central banks to start cutting rates in 2024.

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 07.11.23													
	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	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

Treasury Activity

1.1 The Council's Capital Expenditure and Prudential Indicators

- (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	63,806
General Services - Financed By		
General and Specific Grant	20,407	13,969
Capital Receipts/Other	24,331	8,925
Borrowing	54,407	40,912
Prudential Indicator – HRA		
Capital Expenditure	75,740	46,550
HRA - Financed By		
Borrowing	53,671	30,641
CFCR, Draw on surplus	7,510	7,510
Other Receipts/ Grants	14,559	8,399
	75,740	46,550

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	440,133
Capital Financing Requirement – HRA	129,426	106,243
Total Capital Financing Requirement	584,469	546,375

(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.
- 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.
- 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 Estimate £'000</i>	<i>2023/24 Updated Estimate £'000</i>
Authorised Limit	641,000	600,000
Operational Limit	590,000	550,000
External Debt	435,660	409,660

(3) **Liability Benchmark**

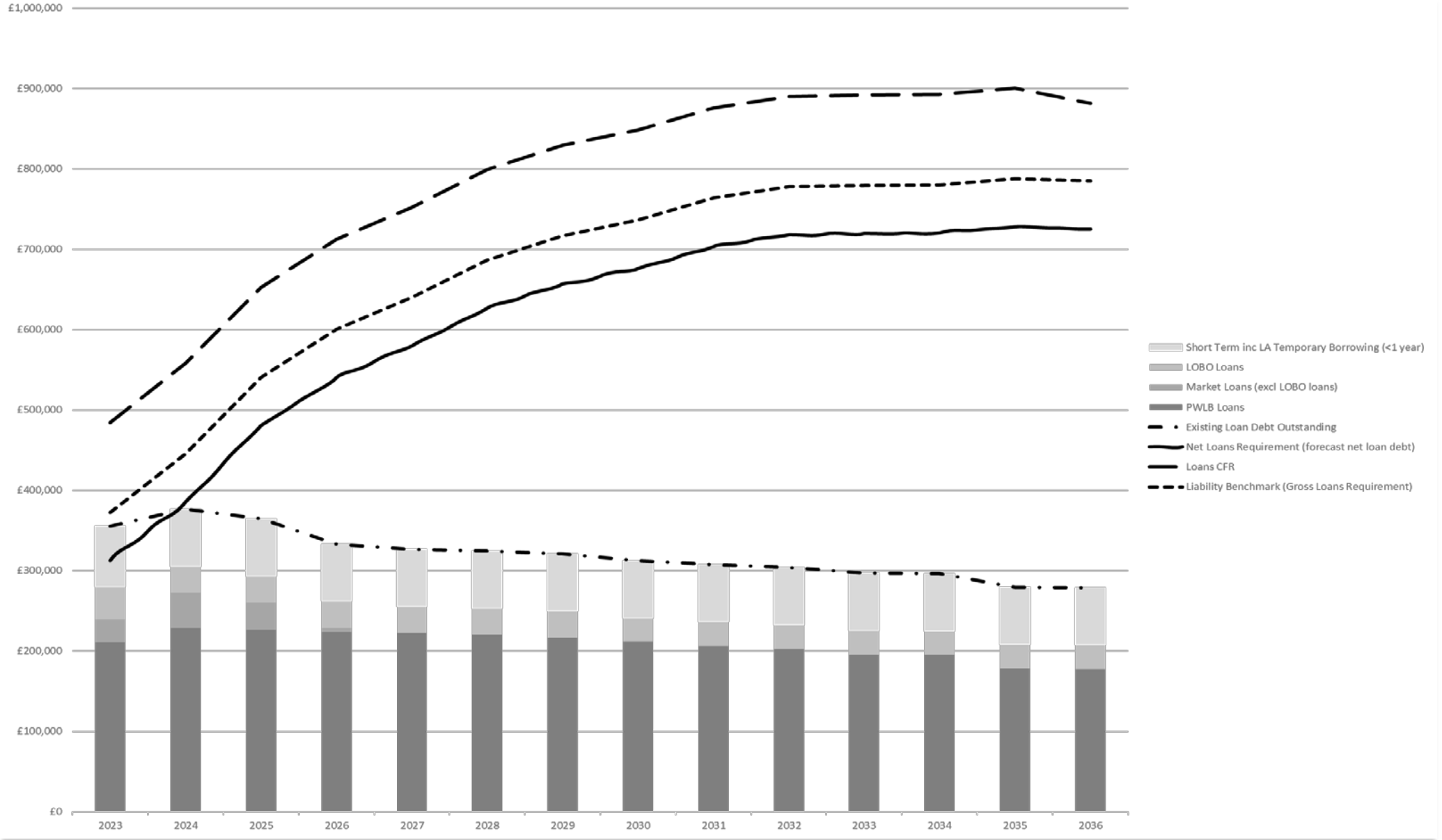
A third and new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

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.

This chart shows that South Ayrshire have a significant borrowing requirement over the coming years, as highlighted by the middle-dashed line, which is a risk. However, this borrowing is being monitored to determine timescales and interest rate risk factors and borrowing will only be taken if required.



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 Quarter 1 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	-	-

3. What likely impact will this policy have on people experiencing different kinds of social disadvantage? (Fairer Scotland Duty). 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	-	-

