County Buildings
Wellington Square
AYR KA7 1DR
Telephone No.   01292 612102

18 February 2026

To: Councillors Dettbarn (Chair), Bell, Hogg, McGinley, Pollock, 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, 25 February 2026 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
Chief Governance Officer

B U S I N E S S

1. Declarations of Interest.

2. Call-ins from Cabinet.

3. Minutes of previous meeting of 3 December 2025 (copy herewith).

4. Action Log and Work Programme (copy herewith).

External Audit Reports

5. External Audit Reports – Progress to 31 December 2025 – Submit Report by the Chief Financial Officer (copy herewith).

Internal Audit Reports

6. Internal Audit – Progress Report to 31 December 2025 – Submit Report by the Chief Internal Auditor (copy herewith).

7. The Global Internal Audit Standard in the UK Public Sector – Self Assessment Results - Submit Report by the Chief Internal Auditor (copy herewith).

Other Governance Reports

8. Local Government in Scotland: Financial Bulletin 2024/25 – Submit Report by the Chief Financial Officer (copy herewith).

9. Treasury Management and Investment Strategy Quarter 3 Update Report 2025/26 – Submit Report by the Chief Financial Officer (copy herewith).

For more information on any of the items on this agenda, please telephone June Chapman,
Committee Services on 01292 272015, Wellington Square, Ayr or
e-mail: committeeservices@south-ayrshire.gov.uk
www.south-ayrshire.gov.uk

Webcasting

Please note: this meeting may be filmed for live and subsequent broadcast via the Council's internet site. At the start of the meeting, it will be confirmed if all or part of the meeting is being filmed.

You should be aware that the Council is a Data Controller under the Data Protection Act 2018. Data collected during this webcast will be retained in accordance with the Council's published policy, including, but not limited to, for the purpose of keeping historical records and making those records available via the Council's internet site.

Generally, the press and public will not be filmed. However, by entering the Council Meeting, you are consenting to being filmed and consenting to the use and storage of those images and sound recordings and any information pertaining to you contained in them for webcasting or training purposes and for the purpose of keeping historical records and making those records available to the public. In making use of your information, the Council is processing data which is necessary for the performance of a task carried out in the public interest.

Live streaming and webcasting takes place for all public South Ayrshire Council meetings. By entering a public Council meeting you are consenting to the possibility that your image may be live streamed on our website, be available for viewing online after this meeting, and video and audio recordings will be retained on Council Records. Further information on how we process your personal data can be found at: https://south-ayrshire.gov.uk/59239

If you have any queries regarding this and, in particular, if you believe that use and/or storage of any particular information would cause, or be likely to cause, substantial damage or distress to any individual, please contact Committee.Services@south-ayrshire.gov.uk

Copyright

Agenda Item no. 3

AUDIT AND GOVERNANCE PANEL.

Minutes of a hybrid webcast meeting on 3 December 2025 at 10.00 a.m.

Present in County Hall:	Councillors Brian McGinley (Chair), Wullie Hogg, Bob Pollock, Cameron Ramsay and George Weir.
Present Remotely:	Councillor Julie Dettbarn
Apologies:	Councillor Kenneth Bell
Attending in County Hall:	S. Penman, Chief Executive; C. Caves, Chief Governance Officer; M Inglis, Director of Health and Social Care; T. Simpson, Service Lead, Corporate Accounting; K. Anderson, Assistant Director – Corporate Policy, Strategy and Performance; W. Carlaw, Service Lead - Democratic Governance; C. McGhee, Chief Internal Auditor; D. Urquhart, Senior Investigations Officer - Internal Audit and Corporate Fraud; K. Copland, Senior Accountant (Capital/ Treasury) - Corporate Accounting; J. Chapman, Committee Services Officer; and E. Moore, Clerical Assistant.

Opening Remarks.

The Chair

(1) welcomed everyone to the meeting;

(2) outlined the procedures for conducting this meeting and advised that this meeting would be broadcast live; and

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. Apologies from Councillor Bell.

2. Call-ins from Cabinet.

The Panel noted that there were no call-ins from Cabinet of 25 November 2025.

3. Minutes of Previous Meeting.

The Minutes of the meeting of 5 November 2025 (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 Service Lead, Corporate Accounting advised there were no actions outstanding.

The Panel

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

5. Audit and Governance Panel – 2025 Annual Self-Assessment Outcome

There was submitted a joint report (issued) of 21 November 2025 by the Chief Financial Officer and Chief Governance Officer confirming the outcome of the Audit and Governance Panel Self-Assessment for 2025, which was undertaken on 30 September 2025 and to seek agreement of the resulting updated action plan.

A Member of the Panel advised that, from his perspective there had been a lack of recent training and questioned how regular training would be provided going forward. The Service Lead – Democratic Governance stated that there had been a reasonable amount of training and that planned training would be organised for next year. The Chief Governance Officer advised that if there was a particular area which Members felt they needed training, this could be considered.

A Member of the Panel advised that as a new Panel Member they thought the Annual Self-Assessment was exceptionally good and that they took the whole session as a training session with intense debate around several of the questions.

A Member of the Panel gave their view on the Annual Self-Assessment and advised that they had no concerns with the level of training that was made available to Panel Members.

Following comments from a Member of the Panel, it was noted that this year's score had risen from 192 to 196 out of a possible 200, and it was encouraging to see that the score could still be improved upon.

The Panel, having considered the recommendations in the report.

Decided:

(1) to note the outcome of the 2025 self-assessment, as set out in 4.1 to 4.6 below and related completed checklist in Appendix 1; and

(2) to approve the updated action plan for improvements per Appendix 3.

6. Corporate Fraud Team – Six-Monthly Activity Report and National Fraud Initiative Update

There was submitted a report (issued) of 19 November 2025 by the Internal Audi Corporate Fraud Team advising the Audit and Governance Panel of the Corporate Fraud Team (CFT) activity from 1 April 2025 to 30 September 2025 and to advise of the progress of the 2024/25 National Fraud Initiative (NFI) to 30 September 2025.

A Member of the Panel asked for an example of what “other Local Authority/ Organisations” constituted in Section 4, Table 1. The Senior Investigations Officer advised that the Other Local Authority/ Organisations could be other areas within the Council or the Department of Work and Pensions.

Following a query from a Member of the Panel in respect of the 5 cases open as referrals in Section 4.8 table 3, it was noted that these cases were still ongoing.

A Member of the Panel asked the Senior Investigations Officer to clarify if whether on page 4, the second half of the table regarding total financial outcomes and total other incomes meant that a case could include both. The Senior Investigations Officer confirmed that this was correct and provided examples.

A Member of the Panel gave his view on the Report and questioned the 24 Council Tax single person discount errors or frauds identified in Appendix 1, National Fraud Investigations and what work could be done to reduce this figure. The Senior Investigations Officer advised that a national data-matching exercise had been undertaken and that, although 24 errors had been identified, more than 500 records had been reviewed to detect them and provided Members with an example of how that process worked. They also advised Members that as far as prevention went, they were actively involved with the National Fraud Initiative.

The Panel, having considered the recommendations in the report.

Decided:

(1) to note the CFT activity for the six-month period to 30 September 2025; and

(2) to note the update on the 2024/25 NFI exercise which would continue to be included within future CFT activity reports until the exercise concludes.

7. Audit Scotland Report - Improving Care Experience: Delivering The Promise

There was submitted a report (issued) of 24 November 2025 by the Chief Executive advising Members of the recent publication of Audit Scotland’s ‘Improving care experience: Delivering the Promise’ report and to highlight progress made in South Ayrshire.

A discussion took place in relation to identifying metrics and it was noted that the Council had developed their own metrics through the change team and benefit tracker which has been shared with the national Promise team.

A Member of the Panel queried how more funding could be acquired from the Whole Family Wellbeing Fund. The Director of Health and Social Care advised that the Council had benefitted significantly from some of the funding and remained ambitious in applying for further funding as it became available.

A Member of the Panel asked how the Key Findings in 4.1 had impacted on the operation locally in South Ayrshire. The Director of Health and Social Care stated that the Council Governance structures were very clear and provided examples to Members of this.

A Member of the Panel thanked the Director of Health and Social Care and the Assistant Director – Corporate Policy, Strategy and Performance for the Report brought to the Panel and commended the fantastic work that had been carried out over the past few years.

A Member of the Panel gave his views and queried if Voice to Power was tracked and recorded. The Director of Health and Social Care advised that it was and provided Members with examples.

The Panel, having considered the recommendations in the report.

Decided:

(1) to consider the CFT activity for the year to 31 March 2025; and

(2) to note the update on the 2024/25 NFI exercise. No! Decision is from previous agenda item.

8. Accounts Commission - Senior Officer Exit Packages

There was submitted a report (issued) of 21 November 2025 by the Chief Financial Officer Financial Officer advising the Panel of the Accounts Commission report relating to the 2023/24 Audit of Glasgow City Council – Senior Officer Exit Packages and to determine if any changes were required to the Council's Scheme of Delegation.

A Member of the Panel commented that there were good governance processes in place and that there was no need to change the Scheme of Delegation. They also noted that the report highlighted the need for full and open transparency.

There was a discussion about whether it had been appropriate for Full Council to delegate authority to the Appointments Panel to deal with packages and it was noted that any such proposal would subsequently be submitted to Council for approval. That the Chief Governance Officer would review the process to see if any improvements could be made.

The Panel, having considered the recommendations in the report.

Decided:

(1) to consider the findings outlined in the Accounts Commission report relating to the 2023/24 Audit of Glasgow City Council – Senior Officer Exit Packages (attached as Appendix 1); and

(2) to note that there were no changes required to the Council's current Scheme of Delegation as the control of the Chief Officer establishment is a power reserved to Council ensuring good governance and full transparency in relation to decision making on these matters.

9. Treasury Management and Investment Strategy Mid-Year Report 2025/26

There was submitted a report (issued) of 21 November 2025 by the Chief Financial Officer providing Members with a mid-year treasury management update for the financial year 2025/26.

Following a question from a member of the Panel, the Service Lead, Corporate Accounting clarified the relationship between the borrowing strategy and the capital financing requirement.

A Member of the Panel asked whether interest rates were stable and whether they were likely to decrease in the short to medium term. The Service Lead, Corporate Accounting explained that whilst interest rates were expected to continue to fall, the rate of reduction was not occurring as quickly as previously anticipated. They added that, for planning purposes, including borrowing strategy and forecasting it was important to be patient.

The Panel, having considered the recommendations in the report.

Decided:

(1) to scrutinise the contents of this report; and

(2) to remit the report to the full council meeting of 19 February 2026 for approval.

10. Final Investigations Report

There was submitted a report (issued – Members Only) of 27 November 2025 by the Chief Executive advising Members of the findings of an investigation report commissioned from an independent consultant ('the Consultant').

The Panel, having considered the terms of the Consultant's report at Appendix 1of the report.

Decided:

(1) To recommend that the Final Investigation Report be remitted to Council for consideration and;

(2) that the Chief Executive bring a report to Council to clarify how the Recommendations at paragraph 5, Appendix 1, of the report may be implemented.

11. Consideration of Disclosure of the Confidential Report

The Panel agreed that Agenda Item no 10, Final Investigations Report should remain confidential.

The meeting ended at 11:30 a.m.

Audit and Governance Panel

Agenda Item No. 4.

Action Log

No	Date of Meeting	Issue	Actions	Assigned/ Re-assigned to	Update	Completed
			None			

Audit and Governance Panel

Work Programme 2025/26

	Issue	Actions	Assigned To	Due Date to Panel	Latest update
1.	**External Audit Reports – Progress to 31 December 2025**	Report to Panel	Chief Financial Officer	February 2026 (Quarterly)	Report to this panel
2.	**Internal Audit – Progress Report Quarter 3**	Report to Panel	Chief Internal Auditor	February 2026 (Quarterly)	Report to this panel
3.	**Global Internal Audit Standard – Self Assessment Results**	Report to Panel	Chief Internal Auditor	February 2026	Report to this panel
4.	**Local Government in Scotland: Financial Bulletin 2024/25**	Report to Panel	Chief Financial Officer	February 2026	Report to this panel
5.	**Treasury Management and Investment Strategy Quarter 3 Report 2025/26**	Report to Panel	Chief Financial Officer	February 2026 (Quarterly)	Report to this panel
6.	**Audit and Governance Panel – Training Programme**	Report to Panel	Chief Governance Officer	March 2026	Being drafted
7.	**Best Value Action Plan – Progress Update**	Report to Panel	Asst. Director – Corporate Policy, Strategy and Performance	March 2026	Two outstanding actions will be picked up as part of next report on Thematic Review
8.	**Proposed Internal Audit Plan 2026/27**	Report to Panel	Chief Internal Auditor	March 2026 (Annually)	Not yet started

Audit and Governance Panel

	Issue	Actions	Assigned To	Due Date to Panel	Latest update
9.	**Annual Audit Plan 202627**	Report to Panel	Chief Financial Officer	March 2026 (Annually)	Not yet started
10.	**Strategic Risk Management**	Report to Panel	Chief Governance Officer	March 2026 (Biannually)	Not yet started
11.	**External Audit Reports – Progress to 31 March 2026**	Report to Panel	Chief Financial Officer	May 2026 (Quarterly)	Not yet started
12.	**Audit and Governance Panel – 2025/26 Annual Report**	Report to Panel	Chief Financial Officer/ Chief Governance Officer	3 June 2026 (Annually)	Not yet started
13.	**Best Value Action Plan – Progress Update**	Report to this Panel	Asst. Director – Corporate Policy, Strategy and Performance	3 June 2026 (Biannually)	Not yet started
14.	**Draft Annual Accounts 2025/26**	Report to Panel	Chief Financial Officer	24 June 2026 (Annually)	Not yet started
15.	**Delivering Good Governance – 2025/26 Assessment**	Report to Panel	Assistant Director, Corporate Policy, Strategy and Performance	24 June 2026 (Annually)	Not yet started
16.	**Internal Audit Annual Report 2025/26**	Report to Panel	Chief Internal Auditor	24 June 2026 (Annually)	Not yet started
17.	**Treasury Management Annual Report 2025/26**	Report to Panel	Chief Financial Officer	24 June 2026 (Annually)	Not yet started

Audit and Governance Panel

	Issue	Actions	Assigned To	Due Date to Panel	Latest update
18.	**Internal Audit – Progress Report Quarter 1**	Report to Panel	Chief Internal Auditor	2 September 2026 (Quarterly)	Not yet started
19.	**Strategic Risk Management**	Report to Panel	Chief Governance Officer	2 September 2026 (Biannually)	Not yet started
20.	**Corporate Lets**	Report to Panel	Director of Communities and Transformation	2 September 2026 (Annually)	Not yet started
21.	**Treasury Management and Investment Strategy Quarter 1 Report 2026/27**	Report to Panel	Chief Financial Officer	2 September 2026 (Quarterly)	Not yet started
22.	**Final Report on the 2025/26 Audit**	Report to Panel	Chief Financial Officer	30 September 2026 (Annually)	Not yet started
23.	**South Ayrshire IJB External Annual Audit Report 2025-26**	Report to Panel	Director of Health & Social Care	November 2026 (Annually)	Not yet started
24.	**Internal Audit – Progress Report Quarter 2**	Report to Panel	Chief Internal Auditor	November 2026 (Quarterly)	Not yet started
25.	**Internal Audit Plan 2026/27 – Mid-year review**	Report to Panel	Chief Internal Auditor	November 2026 (Annually)	Not yet started
26.	**Accounts Commission - Annual Report**	Report to Panel	Chief Finance Officer	November 2026 (Annually)	Not yet started

Agenda Item No. 5

South Ayrshire Council

Report by Chief Financial Officer to Audit and Governance Panel of 25 February 2026

Subject: External Audit Reports – Progress to 31 December 2025

---

1. Purpose

1.1 The purpose of this report is to provide Members with an update on the progress that the Council is making in relation to external audit improvement actions.

2. Recommendation

2.1 It is recommended that the Panel scrutinises the progress against the Council's external audit improvement actions as presented in this report.

3. Background

3.1 The Final Report on the 2024/245Audit was presented to the Audit and Governance Panel (Special) of 24 September 2025. This report covers progress against the eight recommended improvement actions from that report**.**

4. Proposal

4.1 Progress to 31 December 2025 is summarised below:

Status of External Audit Actions as at 31 December 2025	Completed since 26 Sept 2025	On Target	Not on Target	Total
Annual Report on 2024/25 Audit – Sept 25	3	5	-	8
	3	**5**	**-**	**8**

4.2 During the reporting period, three actions from the 2024/25 External Audit report were completed as noted in Appendix 1.

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 *None*

7. Human Resources Implications

7.1 *None*

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 impact on the reputation of the Council.

9. Integrated Impact Assessment (incorporating Equalities)

9.1 The proposals in this report do not require to be assessed through an Integrated Impact Assessment.

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. Link to Shaping Our Future Council **Yes ☐** **No ☐**

13.1 Not Applicable

14. Results of Consultation

14.1 There has been no public consultation on the contents of this report.

14.2 Consultation has taken place with Councillor Brian Connolly, Portfolio Holder for Corporate and Strategic, and the contents of this report reflect any feedback provided.

Background Papers	**Report to Audit and Governance Panel (Special) of 25 September 2025 –**
Person to Contact	**Tim Baulk, Chief Financial Officer** **County Buildings, Wellington Square, Ayr, KA7 1DR** **Phone 01292 612620** **Email tim.baulk@south-ayrshire.gov.uk**

Date: 4 February 2026

Appendix 1

External Audit Reports - Showing actions complete and still to be completed

Report Title	Action	Due Date	Managed By	Latest Note	SAC Status	Progress	Agreed Revisions	Completed Date
EA2024/25 Final Report on the 2024/25 Audit	**Recommendation** Management should correct the useful lives of affected assets on the asset management system. **Management Response** Required amendments will be actioned in the asset management system in advance of the closure of FY 2025/26 to ensure asset values correctly stated.	31-Mar-2026	Kevin Braidwood	04-Feb-2026 Plans are in place to update these as part of the run up to the 2025/26-year end		50%		
EA2024/25 Final Report on the 2024/25 Audit	**Recommendation** Capital budget reports should include total spend against total budget for projects spanning multiple years. **Management Response** Revised reporting will be introduced as part of the December 2025 Capital quarterly reporting to Members (Cabinet Feb 2026) for material multi-year capital projects.	31-Mar-2026	Kevin Braidwood	04-Feb-2026 Service will include a new appendix to the reports for the Capital out-turn reports.		25%		
EA2024/25 Final Report on the 2024/25 Audit	**Recommendation** Business cases relating to the Ayr Citadel Leisure Centre project and any future significant capital projects should be presented to elected members for scrutiny **Management Response** A members briefing was issued in March 2025 with a formal update report on the Citadel project presented to Council in September 2025. The new Capital project approval protocol presented to Council in September 2025 provides member scrutiny mechanisms for future significant capital projects	31-Dec-2025	Kevin Braidwood	04-Feb-2026 A confidential report was taken to Council in September 2025 on the Citadel and a new protocol was introduced per the next recommendation to deal with significant projects going forward		100%		04-Feb-2026

EA2024/25 Final Report on the 2024/25 Audit	**Recommendation** Delivery of the capital plan needs to improve. A planned revised protocol setting out the capital project approval process should be implemented. **Management Response** The new Capital project approval protocol presented to Council in September 2025 sets out a revised process for the approval of capital projects.	31-Dec-2025	Kevin Braidwood	04-Feb-2026 a report was taken to Council in September 2025 on this subject,		100%		04-Feb-2026
EA2024/25 Final Report on the 2024/25 Audit	**Recommendation** The council should review the ward capital programme to ensure it has the capacity to manage and deliver the programme. Elected members need to be satisfied that the debt charges incurred for these projects represent Best Value for the council given its financial pressure. **Management Response** The Ward capital programme is reviewed through regular officer update meetings on a 3-weekly cycle. Regular meetings take place with Elected Members within their individual Ward groups to discuss the programme including current projects, potential future projects and budget management. Ward Capital Programme update report presented to Council in September 2025 outlining the latest project position status and seeking clarity on priorities from members.	31-Dec-2025	Kevin Braidwood	04-Feb-2026 a report was taken to Council in September 2025 on this subject.		100%		04-Feb-2026
EA2024/25 Final Report on the 2024/25 Audit	**Recommendation** The MTFP needs to show how the council priorities will be delivered without using reserves. Decisions need to be taken by councillors on which options will be taken to reduce costs as part of the next annual budget and review of the MTFP. **Management Response** A number of budget briefings have taken place in recent months regarding the significant anticipated budget deficits in future years with further member workshops planned for the autumn of	31-Mar-2026	Tim Baulk; Kevin Braidwood	04-Feb-2026 New 2026-27 to 2030-31 Medium Term Financial Plan has been drafted and is due to be considered by Council on 19th February 2026.		90%		

	2025. These workshops are aimed at determining priorities and cost reduction measures in advance the formal budget setting for 2026/27. The considerations and outcomes from these workshops will form an integral part of the next planned update of the MTFP.							
EA2024/25 Final Report on the 2024/25 Audit	**Recommendation** Management should prioritise update and approval of ICT security critical incident response and ICT business continuity plans. **Management Response** The Councils Cyber Incident Response Plan has been updated and it is planned to be signed off internally by October 2025. The planning of a wider organisational review of the Council Business Continuity Plans is currently underway, with an output of identifying key ICT dependencies expected by December 2025.	31-Mar-2026	Louise Reid	05-Feb-2026 A Cyber Incident Response Plan is available and requires to be signed off by the CMT Assurance Group. This is scheduled to occur prior to the deadline. The Business Continuity Working Group met during January 2026 and recommended that several actions are taken and changes applied for the next scheduled 6 monthly update of business continuity plans across the organisation. This work will be coordinated by colleagues in Crisis & Resilience and Risk & Safety. Disaster recovery plans are being reviewed for all systems which are not fully hosted by cloud providers and the top 4 systems were identified		80%		
EA2024/25 Final Report on the 2024/25 Audit	**Recommendation** Management should prioritise update and approval of ICT security critical incident response and ICT business continuity plans. **Management Response** The Business Continuity Working Group will meet January 2026 and feedback to ELT, in relation to prioritising internal restoration orders, for systems which are not fully supplier dependant for BC recovery. This list, together with those which are supplier dependant, will be taken through internal governance processes by 31st March 2026.	31-Mar-2026	Stephen Penman	The Business Continuity Working Group met during January 2026 and recommended that several actions are taken and changes applied for the next scheduled 6 monthly update of business continuity plans across the organisation. This work will be coordinated by colleagues in Crisis & Resilience and Risk & Safety. Disaster recovery plans are being reviewed for all systems which are not fully hosted by cloud providers and the top 4 systems were identified. With the remainder on schedule to be defined by the deadline.		25%		

Agenda Item No 6.

South Ayrshire Council

Report by Chief Internal Auditor to Audit and Governance Panel of 25 February 2026

Subject: Internal Audit – Progress Report to 31 December 2025

1. Purpose

1.1 The purpose of this report is to advise Members of progress of the 2024/25 and 2025/26 internal audit plans and Directorate's progress against implementation of internal audit action plans.

2. Recommendation

2.1 It is recommended that the Panel:

2.1.1 Considers the content of this report.
2.1.2 Agrees to extend the implementation date of action IA2023/30/04.01 to 30 April 2026.

3. Background

3.1 Progress against the Internal Audit annual plan and implementation of actions is reported to the Audit and Governance Panel on a quarterly basis. The last quarterly progress report was reported to Panel on 5 November 2025 and included progress for the second quarter of 2025/26 to 30 September 2025.

3.2 This report provides an update on the progress of the 2024/25 and the 2025/26 Plans for the period 1 October 2025 to 31 December 2025 and the progress of implementation of Internal Audit actions as at 28 January 2026.

4. Detail

Progress of Internal Audit Plan 2024/25

4.1 Three final reports for South Ayrshire Council (SAC) have been issued since the last quarterly update report in November 2025. Two of the three assignments reported reasonable assurance and one limited assurance. A total of 18 improvement actions were raised within these reports, and all were accepted by management.

4.2 In addition to the three SAC audit reports issued, an audit report was also issued for the Ayrshire Rural and Island Ambition Fund (ARIA). Audit testing is concluding on the final two 2024/25 SAC assignments. A summary of the status of all 2024/25 assignments as at 31 December 2025 can be found in Appendix 1.

Internal Audit Annual Audit Plan 2025/26 Progress

4.3 There was one 2025/26 assignment concluded in this period. This assignment, Housing Allocation Policy (assignment 15) involved provision of advice and guidance in relation to the contents of the policy, therefore did not include an audit opinion. Two draft reports have been issued and are currently being cleared with service management.

4.4 A summary of the of the status of all 2025/26 assignments as at 31 December 2025 can be found in Appendix 2.

4.5 A summary of the findings for each audit completed between 1 October 2025 and 31 December 2025 has been included in Appendix 3. The full audit report for these assignments was shared with all Members after being cleared with the relevant service and issued to management.

Performance Indicators 2025/26

4.6 As agreed as part of the External Quality Assessment (EQA) Action Plan, performance indicators in relation to the delivery of the overall Internal Audit Service have been developed and are included in all quarterly progress reports to this Panel. The Performance included in the table below relates to Internal Audit activity since the last quarterly report in November 2025. Performance in relation to delivery of the IJB and AVJB plans is included within their annual audit reports. Performance of members of the audit team and identification of training needs will continue to be monitored by the Chief Internal Auditor.

Measure	Description	Target	Actual
1. Working Draft Report	Percentage of working draft reports issued within 3 weeks of completion of fieldwork. (SAC assignments only) *(Quarterly Indicator)*	90%	100% (5/5)
2. Final Report	Percentage of final reports issued within 2 weeks of agreeing draft report. (SAC assignments only) *(Quarterly Indicator)*	100%	100% (3/3)
3. Audit Plan Delivery	2025/26 Revised Audit Plan completed to draft by 30 April 2026 *(Annual Indicator)*	90%	10% as at 31 Dec 2025
4. Audit Budget	Percentage of audit assignments completed within budgeted days. *(Quarterly indicator)*	80%	100% (4/4)
	Direct Audit Days delivered *(Quarterly indicator)*	80%	82%
5. Audit Recommendations	Internal Audit recommendations agreed	90%	100% (18/18)

	(Quarterly indicator)		
7. Client Feedback	Percentage of respondents who rated the overall quality of internal audit as satisfactory or above. *(Quarterly Indicator)*	100%	100% (4/4)
8. Delivery of Annual Report	Annual opinion /report presented to AGP *(Annual Indicator)*	By 30 June annually	Target Met Reported 25 June 2025
9. Audit Plan	AGP Approval of audit charter and annual plan *(Annual Indicator)*	By 31 March annually	Target Met Approved 26 March 2025

4.7 The revised internal audit plan for 2025/26, approved by Panel on 5 November 2025, includes 19 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, to audit the Ayrshire Rural and Island Fund (ARIA) 2025/26 Grant Claim and to carry out an independent examination of the East Renfrewshire Trust, which has been completed. A summary of the status of 2025/26 plan for SAC deliverable assignments as at 31 December 2025 is included in the table below:

Status	No. of Deliverables	Percentage
Complete	2	10%
Work in progress	14	74%
Not started	3	16%
Total	**19**	**100%**

4.8 In addition to planned Internal Audit assignments, allocations of time are included within the plan for ad-hoc requests for advice and guidance, contingency assignments, and investigations. There were three requests for advice and guidance received in the quarter to 31 December 2025. One request was in relation to the proposed changes to the Scheme for the Establishment of Community Councils, one was in relation to options appraisal for business support awarded as part of the Ambition Fund and one was from ARIA and was in relation to a project change request. There are two contingency assignments currently ongoing, one is in relation to delivery of actions resulting form the new Failure to Prevent Fraud offence and one is in relation to the updated process for recording and submitting employee timesheets within HSCP. There was one investigation concluded in the period, Heating Systems Repairs, and one investigation, use of subcontractors is ongoing.

Implementation of Internal Audit Action Plans

4.9 Three follow up assignments are included in the 2025/26 revised internal audit plan. Follow up assignments are completed on a risk basis and will be programmed into the Internal Audit work plan in line with agreed action implementation dates. Testing has concluded for one follow up assignment and a draft report issued (assignment 27 – PVG Checks) and testing is underway on the remaining two assignments.

4.10 The follow up of all other internal audit actions is undertaken through review of Ideagen, where all recommendations are uploaded for management action. Quarterly alerts are issued from Ideagen to action owners requesting action status to be updated.

4.11 There are currently three overdue actions and 18 actions due for completion in the next six months open in Ideagen. Details of these actions together with the 'latest notes' recorded in Ideagen by the action owners are included in Appendix 4.

4.12 Extensions to implementation dates may be requested by Services where progress of implementation has been impacted by factors outwith their control and/or which were not known at the time of agreeing the original due date. Up to two extensions may be agreed between the Service and the Chief Internal Auditor with further request for extensions requiring approval from this Panel. A first extension has been agreed for two outstanding actions (IA2025/01.06 and IA2025/01/11), both actions were in low risk areas and extensions are required to allow completion of other higher risk priorities within the Service, including budget preparation and developing training materials for staff. A third extension has been requested for the remaining outstanding action (IA2023/30/04.01). The Service advised that "the development of the new system has taken longer than planned due to East Ayrshire Council deciding to partner with True View Vision and South Ayrshire Council to develop this software for their use in tandem. This required cabinet approval at East Ayrshire Council which lengthened the timescales. However, the benefits of a neighbouring authority developing this software is already apparent as we are able to share ideas and collaborate through Ayrshire Roads Alliance (ARA)". As this is the third request for an extension it requires Panel approval. As detailed in paragraph 2.1.2, it is recommended that the Panel approves this extension.

4.13 In addition to the request for an extension to the implementation date of the overdue actions a first extension has been agreed for one action originally due for implementation in the next six months (IA2025/35/05.04). The progress of this action is recorded as 50% and the extension is required to allow the taxi and private hire policy to be reviewed and new licence conditions approved by Members before being implemented. Assurance has been provided by the Service that there adequate controls in place to mitigate the operational risk identified in the audit.

Quality Assurance and Improvement Programme (Compliance with Global Internal Audit Standards in the UK Public Sector)

4.14 New Global Internal Audit Standards became effective in the Public Sector from 1 April 2025 (GIAS in the UK Public Sector). As with the previous Public Sector Internal Audit Standards (PSIAS) the new standards require the Chief Audit Executive (CAE)[1] to develop a quality assurance and improvement programme (QAIP) that covers all aspects of the Internal Audit function and includes both periodic internal self-assessments and External Quality Assessments (EQA).

4.15 An allocation of time to complete a self-assessment against the GIAS in the UK Public Sector is included within the 2025/26 Internal Audit Plan. The self-assessment has been completed, and the results are included in a separate report

[1] CAE in South Ayrshire Council is the Chief Internal Auditor

to this Panel (*Global Internal Audit Standard in the UK Public Sector – Self Assessment Results*).

4.16 The EQA will continue to be undertaken at least once every five years as part of the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) reciprocal agreement. The next external assessment is scheduled to be completed in 2028/29. The results of this assessment will be reported to the Audit and Governance Panel once 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 all audit reports. 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 Global Internal Audit Standards in the UK Public Sector.

9. Integrated Impact Assessment (incorporating Equalities)

Our Integrated Impact Assessment (IIA) considers the following areas:

- Public Sector Equality Duty, Human Rights and Fairer Scotland Duty:
- United Nations Convention on the Rights of the Child (UNCRC);
- Sustainability, climate change and biodiversity;
- Potential impact on older people;
- Rural communities;
- Health and wellbeing;

- A trauma informed organisation; and
- The Promise.

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 Integrated 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. Link to Shaping Our Future Council **Yes ☐** **No ☑**

13.1 Not applicable.

14. Results of Consultation

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

14.2 Consultation has taken place with Councillor Ian Davis, Policy Lead for Finance and Corporate Services, and the contents of this report reflect any feedback provided.

Background Papers	**Report to Audit and Governance Panel of 5 November 2025 – Internal Audit Plan 2025/26 – Midyear Review** **Report to Audit and Governance Panel of 26 March 2025 – Proposed Internal Audit Plan 2025-26 (including Annual Review of Internal Audit Charter)** **Internal Audit Charter 2025-26** **Global Internal Audit Standards** **The Application Note: GIAS in the UK Public Sector** **CIPFA Code of Governance of Internal Audit**
Person to Contact	**Cecilia McGhee, Chief Internal Auditor**

County Buildings, Wellington Square, Ayr, KA7 1DR
Phone 01292 612432
Email Cecilia.McGhee2@south-ayrshire.gov.uk

Date: 11 February 2026

Appendix 1

PROGRESS AGAINST INTERNAL AUDIT PLAN 2024/25 (As at 31 December 2025)

No	Audit Area	Objectives	Not Started	Planning	Terms of reference Issued	Fieldwork in Progress	Fieldwork Complete	Draft Report Issued	Final report Issued	Included in AGP Progress Report
Key Corporate Systems										
1	Main Accounts	Follow up actions from 2023/24 audit work if required and obtain assurance controls are operating effectively.		✓	✓	✓	✓	✓	✓	25 Feb 2026
2	HR & Payroll	Follow up actions from 2023/24 audit work if required and obtain assurance controls are operating effectively.		✓	✓	✓	✓	✓	✓	3 Sept 2025
3	Procurement	Follow up actions from 2023/24 audit work if required and obtain assurance controls are operating effectively.		✓	✓	✓	✓	✓	✓	5 Nov 2025
Governance/Best Value										
4	National Fraud Initiative (NFI)	Co-ordination and Monitoring of Exercise.		✓	N/A	✓	✓	Included in the Corporate Fraud Update Reports		4 Dec 2024
5	Following the Public Pound	Ayrshire Growth Deal - Follow Up of actions from 2023/24 Assignment (if required). Review of contract management		✓	✓	✓	✓	✓	✓	5 Nov 2025

No	Audit Area	Objectives	Not Started	Planning	Terms of reference Issued	Fieldwork in Progress	Fieldwork Complete	Draft Report Issued	Final report Issued	Included in AGP Progress Report
		within the AGD programme.								
6	Governance and Best Value	Obtain assurance that adequate arrangements are in place for the use of consultancy services throughout the Council.		✓	✓	✓	✓	✓	✓	3 Sept 2025
7	Following the Public Pound	Obtain assurance that there are adequate arrangements in place across the Council to monitor the receipt and issue of grants.	Deferred to 2025-26 Audit Plan							
ICT Auditing										
8	Access Controls	Obtain assurance that there are adequate controls in place over the employee access to Council networks, systems and devices within schools.		✓	✓	✓				
Directorates										
9	Health and Social Care Partnership	Financial Intervention Orders/Corporate Appointeeship - Review of the financial intervention orders/corporate appointeeship procedures to confirm carried out timeously.		✓	✓	✓				

No	Audit Area	Objectives	Not Started	Planning	Terms of reference Issued	Fieldwork in Progress	Fieldwork Complete	Draft Report Issued	Final report Issued	Included in AGP Progress Report
10	Health and Social Care Partnership	CM 2000 review to confirm it meets expected objectives and that outputs from the system are reliable.		✓	✓	✓	✓	✓	✓	5 Nov 2025
11	Education	Review the use of Pupil Equity Fund (PEF) to confirm compliance with the conditions of the fund/national guidance.			✓	✓	✓	✓	✓	3 Sept 2025
12	Strategic Change and Communities	Climate Change - scope to be agreed following development of national audit programme.		✓	✓	✓	✓	✓	✓	25 Feb 2026
13	Chief Executives (Human Resources)	Using Data analytics to confirm all employees have a current/valid Protection of Vulnerable Groups (PVG) Certificate in place where required.		✓	✓	✓	✓	✓	✓	3 Sept 2025
14	Housing Operations and Development	Review of Transport Management System post implementation to confirm it meets expected objectives.		✓	✓	✓	✓	✓	✓	25 Feb 2026
15	Housing Operations and Development	Review Performance information included in the Annual Return on the Charter (ARC).		✓	✓	✓	✓	✓	✓	4 Sept 2024
16	Housing Operations	Review of Scottish Housing Regulator -		✓	✓	✓	✓	✓	✓	26 Feb 2025

No	Audit Area	Objectives	Not Started	Planning	Terms of reference Issued	Fieldwork in Progress	Fieldwork Complete	Draft Report Issued	Final report Issued	Included in AGP Progress Report
	and Development	Annual Assurance Statement.								
17	Housing Operations and Development	Obtain assurance that the new procedure for malicious damage invoices includes adequate controls and is operating effectively.		✓	✓	✓	✓	✓	✓	3 Sept 2025
Regularity										
18	Continuous Auditing	Account Payables, Payroll and Debtors and develop the use of Continuous Audit throughout the Council.		✓	N/A	✓	✓	✓	✓	3 Sept 2025
19	Grants	Audit of claims and annual review of procedures, Ayrshire Rural and Island Ambition Fund (ARIA).		✓	✓	✓	✓	✓	✓	25 Feb 2026
20	Grants	Review of evidence to support Network Support Grant claim.		✓	N/A	✓	✓	✓	✓	3 Sept 2025
21	Self-Assessment Checklist	Internal Control Self Assessment Toolkit - Management of the Annual Process - Social Work Locations.		✓	N/A	✓	✓	✓	✓	3 Sept 2025
22	Self-Assessment Checklist	Internal Control Self Assessment Toolkit - Management of the Annual Process - Schools.		✓	N/A	✓	✓	✓	✓	3 Sept 2025
23	Stores	Obtain assurance that there are adequate		✓	✓	✓	✓	✓	✓	4 Sept 2024

No	Audit Area	Objectives	Not Started	Planning	Terms of reference Issued	Fieldwork in Progress	Fieldwork Complete	Draft Report Issued	Final report Issued	Included in AGP Progress Report
		controls in place to ensure Property Maintenance stock adjustments between the stock count and end and 31/3/2024 are correctly recorded.								
Follow Up Reviews										
24	Directorates	Follow up of Actions from 2023/24 Audit Assignment - **Waste Management.**		✓	N/A	✓	✓	✓	✓	5 Nov 2025
25	ICT Auditing	Follow up of Actions from 2023/24 Audit Assignment- **Social Media.**		✓	N/A	✓	✓	✓	✓	26 Feb 2025
26	ICT Auditing	Follow up of Actions from 2022/23 Audit Assignment - **Systems Access Controls.**		✓	N/A	✓	✓	✓	✓	5 Nov 2025
27	Governance and Best Value	Follow up of Actions from 2023/24 Audit Assignment- **Participatory Budgets.**	Deferred to 2025/26 IA Plan							
28	Directorates	Follow up of Actions from 2023/24 Audit Assignment- **Cash income at Leisure facilities.**		✓	N/A	✓	✓	✓	✓	3 Sept 2025
29	Governance and Best Value	Follow up of Actions from 2023/24 Audit Assignment - **Procurement -**		✓	N/A	✓	Being completed as part of investigation			

No	Audit Area	Objectives	Not Started	Planning	Terms of reference Issued	Fieldwork in Progress	Fieldwork Complete	Draft Report Issued	Final report Issued	Included in AGP Progress Report
		Framework Agreements.								
Other Entities										
30	AVJB	**Elections Act 2022** - To provide assurance that the changes required to processes around on-line postal voters and divergence of Scottish/UK Postal and Overseas have been implemented and are operating effectively		✓	✓	✓	✓	✓	✓	26 Feb 2025
		Staff Training - Council Tax System - To provide assurance that training has been fully carried out on the new Council Tax system.		✓	✓	✓	✓	✓	✓	3 Sept 2025
31	IJB	**Business Continuity and Resilience –** To provided assurance that there are adequate arrangements in place to ensure business continuity and resilience within the HSCP		✓	✓	✓	✓	✓	✓	5 Nov 2025
	Other									

No	Audit Area	Objectives	Not Started	Planning	Terms of reference Issued	Fieldwork in Progress	Fieldwork Complete	Draft Report Issued	Final report Issued	Included in AGP Progress Report
32	Investigations	Allowance for investigations of irregularities.	Two investigations started in 2024-25 carried forward into 2025-26							
33	Advice and Guidance	Client requests, advice and consultancy - including participation on working groups.	Complete – New budget allocation for 2025-26							
34	Transformation Programme	Allocation of time to allow Internal Audit to provide advice & guidance and support to the Transformation Programme.		✓	N/A (Advice and Guidance Assignment)	✓	✓	N/A – no report required		3 Sept 2025
35	Contingency	Contingency budget for unplanned commitments arising during the year.	Complete – New budget allocation for 2025-26							
36	Closure of prior year assignments	Allowance of time for the closure of prior year audit work into 2024/25.	2023-24 Assignments Complete							
37	Management and Audit development	Internal Audit planning, annual reporting, and quarterly reporting and Chief Internal Auditor Review of assignments.	Complete – New budget allocation for 2025-26							
38	Quality Assurance Improvement Programme (QAIP)	Annual self-assessment of compliance with PSIAS.		✓	N/A	✓	✓	Completed as part of the annual report submitted to AGP 25 June 2025		3 Sept 2025

Appendix 2

PROGRESS AGAINST INTERNAL AUDIT PLAN 2025/26 (As at 31 December 2025)

No	Audit Area	Objectives	Not Started	Planning	Terms of reference Issued	Fieldwork in Progress	Fieldwork Complete	Draft Report Issued	Final report Issued	Included in AGP Progress Report
Key Corporate Systems										
1	Main Accounts	Follow up actions from 2024/25 audit work and develop rolling programme of annual audit assignments		✓	✓					
2	HR & Payroll	Follow up actions from 2024/25 audit work and develop rolling programme of annual audit assignments		✓	N/A	✓				
3	Procurement	Review of compliance with the updated One-time Payment process	✓							
4	Procurement	Review compliance with the new Framework Agreement procedures		✓	✓	✓				
Governance/Best Value										
5	Financial Sustainability	To provide assurance that there are adequate arrangements in place within the Council to manage the Council's financial sustainability		✓						
6	National Fraud Initiative (NFI)	Co-ordination and Monitoring of Exercise		✓	N/A	✓	✓			

No	Audit Area	Objectives	Not Started	Planning	Terms of reference Issued	Fieldwork in Progress	Fieldwork Complete	Draft Report Issued	Final report Issued	Included in AGP Progress Report
7	Following the Public Pound	Ayrshire Growth Deal - Follow Up of actions from 2024/25Assignment (if required) and review of high risk areas.		✓	N/A					
8	Following the Public Pound	Obtain assurance that there are adequate arrangements in place across the Council to monitor the receipt and issue of grants.	Deferred							
9	Capital Contract Management	Review of updated contract management procedures, to provide assurance on the governance arrangements around the management of capital projects		✓	✓					
10	Ward Capital Management	Review of the management and delivery of the Ward Capital programme to provide assurance that governance arrangements are in place and operating satisfactorily	✓								
Transformation										
11	Transformation Programme	To provide assurance that approved governance arrangements are being applied consistently with transformation projects		✓							
ICT Auditing										
12	Cloud Based System	To provide assurance over the Council's arrangements to ensure data security where	Deferred							

No	Audit Area	Objectives	Not Started	Planning	Terms of reference Issued	Fieldwork in Progress	Fieldwork Complete	Draft Report Issued	Final report Issued	Included in AGP Progress Report
		business is transacted through the Cloud.								
13	Business Continuity and Resilience	To provide assurance that there are adequate arrangements in place to ensure business continuity and resilience within Council hosted and cloud based ICT systems.		✓	✓	✓	✓	✓		
14	Health and Social Care Partnership	To provide assurance that the **Quality Assurance Process** in place is effective	✓							
15	Corporate Policy and Strategy	To provide assurance that the updated **Housing Allocations Policy** and guidance adequately reflects statutory guidance (changed to an Advice and Guidance Assignment as Housing Policy was not updated at the date of audit work)		✓	✓	✓	✓	✓	✓	25 Feb 2026
16	Corporate Policy and Strategy	To follow up actions from 2024/25 **Climate Change** audit assignment and confirm Council polices and strategies are in place and effective	Withdrawn - Not required.							
17	Corporate Policy and Strategy	To provide assurance that the **Integrated Impact Assessment** is being completed where required	Removed for 2025-26 Audit Plan and added to Reserve List							

No	Audit Area	Objectives	Not Started	Planning	Terms of reference Issued	Fieldwork in Progress	Fieldwork Complete	Draft Report Issued	Final report Issued	Included in AGP Progress Report
18	Communities and Transformation	To provide assurance that there are adequate controls in place and operating effectively within the **Ambition Fund** programme	Removed for 2025-26 Audit Plan and added to Reserve List							
19	Housing Operations and Development	To provide assurance that there are adequate controls in place to ensure the Council's estate is properly valued and managed in line with the **Asset Management Plan/Transforming Our Estate** project	✓							
20	Housing Operations and Development	Review Performance information included in the **Annual Return on the Charter (ARC**).		✓	✓	✓	✓	✓	✓	3 Sept 2025
Regularity										
21	Continuous Auditing/Data Analytics	Account Payables, Bank Accounts, Payroll and Expenses and develop the use of Continuous Audit in other Council Services.		✓	N/A	✓				
22	Grants	Audit of claims and annual review of procedures, Ayrshire Rural and Island Ambition Fund (ARIA).	✓							
23	Grants	Review of evidence to support Network Support Grant claim.			N/A	✓				
Follow Up Reviews										
24	Directorates	Follow up of Actions from 2024/25 Audit Assignment - **Malicious Damage**		✓	N/A					

No	Audit Area	Objectives	Not Started	Planning	Terms of reference Issued	Fieldwork in Progress	Fieldwork Complete	Draft Report Issued	Final report Issued	Included in AGP Progress Report
25	Governance and Best Value	Follow up of Actions from 2023/24 Audit Assignment - **Participatory Budgeting**		✓	N/A					
26	Governance and Best Value	Follow up of Actions from 2024/25 Audit Assignment - **Use of Consultancy Services**	Removed from Plan - not required							
27	Follow Up Contingency	Follow up of Actions from 2024/25 Audit Assignment – **PVG Checks**		✓	✓	✓	✓	✓		
Other Entities										
28	AVJB	Civil Penalty Notices		✓						
		Training and Development		✓						
29	IJB	Financial Sustainability	✓							
30	East Renfrewshire - Audit of Trust Accounts	Part of reciprocal arrangements between South Ayrshire, North Ayrshire and East Renfrewshire Council		✓	✓	✓	✓	✓	✓	5 Nov 2025
Other										
31	Investigations	Allowance for investigations of irregularities.	Two investigations completed to date and report issued, one ongoing							
32	Advice and Guidance	Client requests, advice and consultancy - including participation on working groups.	Ongoing through the year							
33	Contingency	Contingency budget for unplanned commitments arising during the year.	Ongoing							
34	Closure of prior year assignments	Allowance of time for the closure of prior year audit work into 2025/23.	Ongoing							

No	Audit Area	Objectives	Not Started	Planning	Terms of reference Issued	Fieldwork in Progress	Fieldwork Complete	Draft Report Issued	Final report Issued	Included in AGP Progress Report
35	Management and Audit development	Internal Audit planning, annual reporting, and quarterly reporting and Chief Internal Auditor Review of assignments.	Ongoing through the year							
36	Quality Assurance Improvement Programme (QAIP)	Annual self-assessment of compliance with GIAS in the UK Public Sector.		N/A	N/A	✓	✓	N/A	✓	25 February 2026

2024/25 Internal Audit Reports Issued in period 1 October 2025 to 31 December 2025

Assignment Name/Ref	Assurance[2]	No of Actions Raised
2025-01 Main Accounting - Fusion Controls	**Reasonable**	**11 (3 medium risk, 8 low risk)**

Assignment Summary

The objective of this assignment was to obtain assurance that there are adequate Main Accounting system controls following the implementation of Oracle Fusion and that they are operating effectively. Follow-up was also conducted on the actions from the IA2021-40 Main Accounting system assignment as part of these reviews, where the actions are relevant to the Fusion system. The assignment sought to provide assurances that controls are in place and operating effectively in the following areas:

- User access rights within the General Ledger and Budget modules of Oracle Fusion
- Chart of Accounts
- Subsidiary/ feeder systems
- Suspense and Holding Accounts
- Journals
- System reports/ output
- Budget Monitoring

Overall reasonable assurance was obtained in the areas within the scope of the assignment.

The audit gave rise to 11 recommendations which management agreed to implement. The recommendations relate to; exploring the development system reports, issuing anonymous budget holder surveys, delivering training, including commitments and obligations in Budget Monitoring Reports (BRM), reviewing the basis of internal recharges, issuing reminders to complete Budget Transfer Request and carrying out periodic sample testing of budget entries, reviewing budget transfer logs, issuing reminders in relation to the audit trail for manual journals, reviewing and clearing suspense accounts, reviewing

[2] Substantial Assurance. A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Reasonable Assurance. There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

Limited Assurance. Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

No Assurance. Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Assignment Name/Ref	Assurance[2]	No of Actions Raised
system access rights, and exploring the use of the Microsoft Approval App. Unless these recommendations are addressed, there is a risk of non-compliance with Council Financial Regulations in relation to budget transfer approval and ineffective budget monitoring potentially leading to poor decision making. Multiple access rights create a risk of fraud/ error not being detected due to absence of segregation of duties and lack of oversight. There is also a risk of inaccurate internal recharges, incomplete presentation of income/ spend and of unauthorised or erroneous budget transfers/ journals.		
2025-12 Climate Change	**Reasonable**	**6 (1 high risk, 4 medium risk and 1 low)**
Assignment Summary The objective of this assignment was to obtain assurance that there is a strategic framework in place to support the achievement of Council and National climate change targets and statutory duties in relation to Climate Change The assignment sought to provide assurances that: • an appropriate climate change strategy is in place which addresses national and/or regional direction and cultural need; • the climate change strategy is reviewed annually and updated in line with legislative requirements; • the Council has identified the actions required to meet the targets set within the climate change strategy; • adequate arrangements are in place for monitoring the progress made in achieving the projected targets; and • adequate data is available to allow the accurate reporting of climate change performance against targets. Overall reasonable assurance was obtained in the areas within the scope of the assignment. The audit gave rise to six recommendations which management agreed to implement. The key recommendations relate to ensuring the SD &CC strategy is updated, all relevant outstanding actions from the 2019-2024 Strategy are reviewed and carried forward to the new strategy where required and arrangements are put in place to ensure successful delivery of the new strategy. Unless these recommendations are addressed there is a risk that the Sustainable Development and Climate Change Strategy will not deliver and the Council could fail to meet its statutory duties and national targets in relation to these areas.		
2025–14 Review of Transport System	**Limited**	**1 (medium risk)**
Assignment Summary The objective of this review was to obtain assurance that the Transport Management System is delivering the objectives and benefits as detailed in the project business case. The assignment sought to provide assurances provide assurances that the Transport Management System is delivering the objectives and benefits as outlined within the business case. Specifically, that it is supporting the needs of the service by:		

Assignment Name/Ref	Assurance[2]	No of Actions Raised

- Providing a replacement system that automates and integrates as many essential fleet management functions as possible, thus allowing Fleet Services to retire as many legacy systems as possible, spreadsheets and databases whilst providing greater automation, integration and analytics.
- Automatically generates critical date reminders for MOT/Tax and servicing alongside utilising dashboards, automated emails, system interfaces and storage facility for vehicle records.
- Interfaces with existing systems such as Oracle HR, Triscan Odyssey fuel system, MOTUS repairs system, McConechys system for tyres and the Motor Insurance Database.
- Uses web portals allowing departments to view details of the vehicles allocated to them highlighting their maintenance history, servicing schedules and vehicle replacement dates.
- Provides a pool car booking/external hire request web portal that integrates directly with the Transport Management System and checks that the requestor has a valid driving licence.
- Uses an on-line, self-service form to replace the current paper-based accident claim form for the relevant driver and manager to complete

Overall limited assurance was obtained in the areas within the scope of the assignment.

The audit gave rise to one recommendation which management agreed to implement. The recommendation relates to undertaking a strategic review of the use of the Tranman System considering Fleet Services' current and future operational/strategic needs and the process of managing any future projects of a similar nature. Unless this recommendation is addressed, there is a risk that the Tranman System will only be partially utilised and will not achieve all of the benefits of an integrated system for Fleet Management and that similar future development or transformation projects will fail to properly track and measure any benefits, efficiencies or financial savings.

Appendix 4

Overdue Actions (As at 28 January 2026)

IA2023/30/04 EE Masts Riverside Place							
Action	**Due Date**	**Managed By**	**Assigned To**	**Latest Note**	**Status**	**Progress**	**Agreed Revisions**
IA2023/30/04.01 Document and implement contract management procedures	31-Dec-2025	Christina Cox	Pauline Bradley	18-Jan-2026 A revised completion date of 30 April 2026 has been requested. Good progress has been made, East Ayrshire Council have also decided to implement a similar bespoke system leading to efficiencies for both councils, however, this has lengthened the timescales for delivery and implementation.		96%	1st Extension granted to 31/3/2025 2nd Extension granted to 31/12/2025, to allow full implementation and roll out. An audit assignment to review procedure/processes around capital contract management is included within the 2025-26 Internal Audit Plan 3rd Extension to 30 April 2026 requested

IA2025/01 Main Accounting - Fusion Controls							
Action	**Due Date**	**Managed By**	**Assigned To**	**Latest Note**	**Status**	**Progress**	**Agreed Revisions**
IA2025/01.06 BTR Reminder and periodic sample testing	31-Dec-2025	Tim Baulk	Tom Simpson	09-Feb-2026 No significant concerns; however progress has slipped beyond the due date. BTR guidance is currently being reviewed and updated and will be in place before the end of financial year 2025/26.		50%	1st Extension granted to 31/3/2026

IA2025/01.11 Approvals App	31-Dec-2025	Tim Baulk	Tom Simpson	09-Feb-2026 No significant concerns; however a review of Microsoft Approvals app has not yet taken place. This will be scheduled before the end of financial year 2025/26.		50%	1st Extension granted to 31/3/2026

Actions Due within next 6 Months (As at 28 January 2026)

IA2021/20 Controls around meeting waste management regulations							
Action	**Due Date**	**Managed By**	**Assigned To**	**Latest Note**	**Status**	**Progress**	**Agreed Revisions**
IA2021/20/02 Mid-term review of strategy	31-Mar-2026	Kenny Dalrymple	Fiona Ross	15-Oct-2025 that should be SPP rather than AGP		80%	

IA2023/07 System Access Controls							
Action	**Due Date**	**Managed By**	**Assigned To**	**Latest Note**	**Status**	**Progress**	**Agreed Revisions**
IA2023/07.05 Employee Movers	31-Mar-2026	Louise Reid	Kevin Mullen; Wendy Wesson	03-Oct-2024 Although work has been ongoing in this area, the Starters, Movers and Leavers' is now a year 2 transformation project which should be concluded by end of FY 25/26 and should deliver efficiencies in terms of the Councils approach. Therefore an extension to March 26 is requested.		55%	Extension to 31/3/2026 agreed at AGP 6/11/2024

IA2024/02 and IA2025/02a HR and Payroll Fusion Controls - employee set-up							
Action	**Due Date**	**Managed By**	**Assigned To**	**Latest Note**	**Status**	**Progress**	**Agreed Revisions**
IA2025/02a.11 Tasks/ Client journeys	31-Jan-2026	Jane Murray	Amy Meechan	21-Oct-2024 notes as previously 16-Oct-2025 After a meeting with Mastek, we are going to have a meeting to look at Journeys and how we use them, and if/how we can make this easier for managers/employees		20%	

IA2024/08 Records Management

Action	Due Date	Managed By	Assigned To	Latest Note	Status	Progress	Agreed Revisions
IA2024/8/03 Obtain assurance of Compliance	28-Feb-2026	Catriona Caves	Deborah McVey	05-Jan-2026 Service Leads will be contacted over the course of January.		80%	Extension Granted to 28 February 2026

IA2024/10 Waste Management Procedures

Action	Due Date	Managed By	Assigned To	Latest Note	Status	Progress	Agreed Revisions
IA2024/10/04 Implement a suitable stock control system	31-May-2026	Fiona Ross	Paul Dougall	15-Oct-2025 Waste management are working to implement a robust undercover method of stock control of bins, however this is subject to the ongoing development of Heathfield which is taking some time to progress. In the interim Waste management have implemented improved security, storage and recording of stock.		65%	1st extension granted to 31/3/2025 2nd extension granted to 31/5/2026

IA2025/01 Main Accounting - Fusion Controls

Action	Due Date	Managed By	Assigned To	Latest Note	Status	Progress	Agreed Revisions
IA2025/01.01 PBCS Reports	31-Mar-2026	Tim Baulk	Tom Simpson	09-Feb-2026 The ability to develop a robust and reliable report for this purpose is currently being explored with the Council's Fusion Support partner.		10%	
IA2025/01.02 Anonymous Budget Holder Survey	31-Mar-2026	Tim Baulk	Tom Simpson	09-Feb-2026 A survey of budget holders and other 'clients' of the Corporate Accounting service will be undertaken as an initial part of the service's forthcoming Service Review.		5%	
IA2025/01.03 Internal Training	31-Mar-2026	Tim Baulk	Tom Simpson	09-Feb-2026 Training on Procurement and Order Status Maintenance is now underway and encouraging feedback has been received from early participants. This programme will continue and also be adapted for delivery to Service Leads and budget holders in due course.		20%	

IA2025/10 CM2000 Review

Action	Due Date	Managed By	Assigned To	Latest Note	Status	Progress	Agreed Revisions
IA2025/10.01 Reduce the use of Spreadsheets to record information available through CM2000 and explore whether additional functions and reports are available from the system	31-Mar-2026	Stewart Marshall	Helen Brown	15-Oct-2025 this is in progress due to staff confidence in system		50%	
IA2025/10.02 Steps should be taken to explore integration with payroll systems in line with the Business Case.	31-Mar-2026	Stewart Marshall	Helen Brown			0%	

IA2025/12 Climate Change

Action	Due Date	Managed By	Assigned To	Latest Note	Status	Progress	Agreed Revisions
IA2025/12.02 Assign officers and target dates for all actions	31-Mar-2026	Susan McCardie	Lorna Jarvie	12-Jan-2026 A new SD&CC Strategy has now been adopted (11 Dec 2025 at Full Council) which will require a new action plan which will take over from the earlier action plan. A meeting has been set for later this week to work towards closing off and update actions from the previous plan as well as establishing new actions. All actions being taken forward in previous or revised formats will have assigned officers and target dates.		10%	
IA2025/12.03 Complete outstanding actions from 2019-2024 Strategy	31-Mar-2026	Susan McCardie	Lorna Jarvie	12-Jan-2026 A meeting to establish the status of actions from the 2019-24 Strategy will take place this week. Actions will be marked complete, carried forward or revised and carried forward as appropriate into the new strategy action plan.		20%	
IA2025/12.04 Reestablish the SD & CC Member Officers Working Group	31-Jan-2026	Susan McCardie	Lorna Jarvie	12-Jan-2026 A decision has been taken now to have a SD&CC MOWG going forward. This was set out in a response by the Assistant Director to a Councillor question at Cabinet in late November when the Annual Climate Change Reporting paper was being heard.		0%	

IA2025/12.06 Recognising Sustainable Development and Climate Change Risk in Directorate risk registers	30-Apr-2026	Susan McCardie	Lorna Jarvie	12-Jan-2026 A meeting has been held today (12 Jan 2026) between Risk and Sustainability to agree a way forward. The required pathway to implement this is now being established.		20%	

IA2025/14 Review of Transport Management System

Action	Due Date	Managed By	Assigned To	Latest Note	Status	Progress	Agreed Revisions
IA2025/14/01 Undertake a strategic review of the Tranman System	31-Mar-2026	Fiona Ross	Tommy Howieson	04-Dec-2025 Further demonstrations of updates systems from Civica and also other TMS have taken place with the view of evaluating the most suited application in moving forward. We are also looking at other systems that we are already using for driver/ tachograph analysis who are also developing a management system that may be more suited to our current and future needs. Work continues with ICT/ Transformation to also look at utilisation of our current Microsoft 365 packages that can be developed for vehicle maintenance programming to ensure that compliance is met.		20%	

IA2025/35/05 Taxi and Private Hire Vehicle Licence checks

Action	Due Date	Managed By	Assigned To	Latest Note	Status	Progress	Agreed Revisions
IA2025/35/05.04 Removal of plates – failed inspections	31-Mar-2026	Catriona Caves	Laura McChristie; Christine McMenamin	16-Jan-2026 The garage has been reminded of the requirement for plates to be removed from vehicles which fail the MOT test on a do not drive. A new requirement for plates to be removed for any failure would require to be incorporated into Policy/licence conditions. We are currently undertaking a review of the taxi and private hire policy and will include this in the review. We expect it to be complete by the end of 2026.		50%	1st Extension Agreed to31 December 2026

IA2026/31/01b St Ninians and Hourstons Controls Report

Action	Due Date	Managed By	Assigned To	Latest Note	Status	Progress	Agreed Revisions
IA2026/31/01b.07 Transfer of procurement responsibility for capital contracts from PDS to Procurement	31-Jan-2026	Stephen Penman	Tim Baulk	12-Jan-2026 Responsibility for procurement of capital contracts has transferred from PDS to Procurement. Vacancy management process has been completed with appointments confirmed and only the start dates of new staff is still to be confirmed.		95%	

IA2026/31/07 Heating System Repairs

Action	Due Date	Managed By	Assigned To	Latest Note	Status	Progress	Agreed Revisions
IA2026/31/07.01 Comparison of purchases between 2024 and 2025	28-Feb-2026	Kenny Dalrymple	William Andrew	28-Jan-2026 We have introduced the weekly business objects report on heating materials and costs for each job completed, I have also instructed that this information provided is to be brought into formal investigation of the former Technical Officer that was in charge of this contract.		70%	

Agenda Item No 7.

South Ayrshire Council

Report by Chief Internal Auditor
to Audit and Governance Panel
of 25 February 2026

Subject: Global Internal Audit Standard in the UK Public Sector – Self Assessment Results

---

1. Purpose

1.1 The purpose of this report is to advise Members of the outcome of the Internal Audit self-assessment of conformance against the Global Internal Audit Standards (GIAS) in the UK Public Sector.

2. Recommendation

2.1 It is recommended that the Panel:

2.1.1 Notes the contents of the report, the summary results for all domains in Appendix 1, the self-assessment action plan in Appendix 2 and the detailed self-assessment outcome against Domain III "Governing the Internal Audit Function" in Appendix 3.

2.1.2 Agrees that progress against the action plan will be included within the quarterly update reports to this Panel until fully implemented.

3. Background

3.1 The Global Internal Audit Standards (GIAS) came into effect in January 2025 and replace the Public Sector Internal Audit Standards (PSIAS) 2013 (updated 2017). They include a section on *Applying the Global Internal Audit Standards in the Public Sector*, and recognise that differences in governance structures, regulations and funding in the public sector may sometimes need different approaches to maintain appropriate quality, efficiency, and effectiveness in delivering internal audit.

3.2 An application note was developed to provide a framework for the practice of Internal Audit in the UK Public Sector when taken together with the GIAS. The Application Note: GIAS in the UK Public Sector sets out interpretations and requirements which need to be applied to the GIAS to form a suitable basis for Internal Audit practice in the UK Public Sector.

3.3 The Internal audit standards for UK Public Sector therefore encompasses both the GIAS and the Application Note and are expressed as the GIAS in the UK Public Sector.

3.4 In addition to GIAS and the Application Note, CIPFA produced a new Code of Practice for the Governance of Internal Audit in Local Government to support compliance with the principles and standards in Domain III (Governing the IA Function) of the GIAS in the UK Public Sector.

3.5 As with the previous Public Sector Internal Audit Standards (PSIAS) the new standard requires the Chief Internal Auditor to develop a quality assurance and improvement programme (QAIP) that covers all aspects of the Internal Audit function and includes both periodic internal self-assessments and External Quality Assessments (EQA).

3.6 An allocation of time to complete a self-assessment against the GIAS in the UK Public Sector was included within the 2025/26 Internal Audit Plan approved by this Panel on 26 March 2025. This report includes the results of the self-assessment and the proposed action plan to address improvements identified through the exercise. A summary of the self-assessment results is at Appendix 1 and the action plan at Appendix 2.

3.7 The self-assessment was completed using the toolkit prepared by the Institute of Internal Auditors (IIA) which incorporates the Global Internal Audit Standards 2024, the Internal Audit Code of Practice (the Code) and the UK Public Sector Application Note. The Internal Audit Code of Practice is intended to be applied by organisations in the financial services, private and third sectors. Although not designed for the Public Sector, there are sections of the Code which are common to the GIAS in the UK Public Sector. Therefore, the sections within toolkit which related to the Code were also considered during this self-assessment.

3.8 As Domain III of the standards, Governing the Internal Audit Function, relates to leading the internal audit function and sets out a role for those ‘charged with governance’ within an organisation, this section has most relevance for the Audit and Governance Panel in its role as the Council’s Audit Committee. It was agreed that this section would be shared with the Panel for review and comment prior to conclusion of the self-assessment process. The draft self-assessment of Domain III was shared with all Panel Members on 17 December 2025. A full copy of this section, updated for comments received where required, is included at Appendix 3 for information.

3.9 The external assessments will continue to be undertaken at least once every five years as part of the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) reciprocal agreement. The next external assessment is scheduled to be completed in 2028/29. The self-assessment will continue to be completed on an annual basis. The results of both external and internal self-assessments will be reported to the Audit and Governance Panel once completed.

4. Detail

4.1 The GIAS in the UK Public Sector comprise of five domains which are underpinned by 15 Principles and 52 Standards. The five domains are:

- I Purpose of Internal Auditing
- II Ethics and Professionalism

- III Governing the Internal Audit Function
- IV Managing the Internal Audit Function
- V Performing Internal Audit Services

4.2 Domains I and II, the Purpose of Internal Auditing and Ethics and Professionalism, are the foundations which apply across all other domains. Domain III of the standard, Governing the Internal Audit Function, relates to leading the internal audit function and sets out a role for those 'charged with governance' within an organisation, Domain IV is around leading the internal audit function and therefore is the focus of the Chief Internal Auditor and Domain V is focused on completing internal audit assignments.

4.3 As noted in paragraph 3.7 above, the self-assessment also considered areas within the Internal Audit Code of Practice. There are 37 separate principles included within the Code, 25 of these share common themes with the GIAS in the UK Public Sector and 12 were not applicable.

4.4 The self-assessment was completed in January 2026 and concluded that overall, the internal audit service generally conforms with the GIAS in the UK Public Sector and with the Code of Practice where relevant. There were no areas of non-conformance identified.

Summary Results

4.5 Although the new standards came into effect on 1 April 2025, it is not possible to demonstrate full compliance on this date. Until audit assignments are completed, outcomes reported, and the 2025/26 annual report and assurance statement prepared, it will not be possible to evidence conformance with the GIAS in the UK Public Sector.

4.5 Conformance against all five (100%) Domains was generally achieved. Four (27%) principles were fully achieved and 11 (73%) generally achieved and, of the 52 standards assessed, 29 (56%) were fully achieved and 23 (44%) generally achieved. There were no areas assessed as partially or not achieved.

4.6 Of the 25 relevant principles included within the Code of Practice, 19 (76%) were fully achieved and six (24%) generally. There were no areas assessed as partially or not achieved.

4.7 The assessment against the individual domains, principles and standards is included at Appendix 1.

Domain III Results

4.8 Domain III (Governance of the Internal Audit function) is underpinned by three principles and nine standards.

4.9 Conformance against this Domain was generally achieved, one (33%) principle was fully achieved and two (67%) generally achieved. Five (56%) standards were fully achieved and four (44%) were generally achieved.

4.10 The detailed assessment of Domain III is at Appendix 3.

Action Plan

4.11 Although no areas of partially or non-conformance were identified, the self-assessment identified areas of improvement which will strengthen the Internal Audit function.

4.12 The full action plan is included at Appendix 2 and includes 27 actions. Most actions (13) relate to updating the audit manual, supporting documents and auditing templates and to providing training and briefings to the Internal Audit team and senior managers. The remaining actions include updating training records, developing current internal audit processes further and reviewing the contents of report to the Audit and Governance Panel to ensure they include key information in relation to performance and common risk themes.

4.13 One action (No. 26) has been completed and two (Nos. 5 and 12) are in progress.

4.14 It is proposed that progress against implementation of the action plan will be included in the quarterly progress reports to this Panel.

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 recommendation could result in the Council failing conform with the GIAS in the UK Public Sector and the requirements of the *Local Authority Accounts (Scotland) Regulations 2014* to operate a professional and objective internal auditing service in accordance with recognised standards and practices.

9. Integrated Impact Assessment (incorporating Equalities)

Our Integrated Impact Assessment (IIA) considers the following areas:

- Public Sector Equality Duty, Human Rights and Fairer Scotland Duty:
- United Nations Convention on the Rights of the Child (UNCRC);
- Sustainability, climate change and biodiversity;
- Potential impact on older people;
- Rural communities;
- Health and wellbeing;

- A trauma informed organisation; and
- The Promise.

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 Integrated 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. Link to Shaping Our Future Council **Yes ☐** **No ☑**

13.1 Not applicable.

14. Results of Consultation

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

14.2 Consultation has taken place with Councillor Ian Davis, Policy Lead for Finance and Corporate Services, and the contents of this report reflect any feedback provided.

Background Papers	**The Global Internal Audit Standards (GIAS) in the UK Public Sector** **Internal Audit Charter 2025-26** **Global Internal Audit Standards** **The Application Note: GIAS in the UK Public Sector** **CIPFA Code of Governance of Internal Audit**
Person to Contact	**Cecilia McGhee, Chief Internal Auditor** **County Buildings, Wellington Square, Ayr, KA7 1DR** **Phone 01292 612432** **Email Cecilia.McGhee2@south-ayrshire.gov.uk**

Date: 11 February 2026

Appendix 1

Global Internal Audit Standards/Internal Audit Code of Practice Compliance Self Assessment 2025-26 Summary Results and Action Plan Reference

Global Internal Audit Standards		Conformance Assessment	Action No.
Domain I: Purpose of Internal Auditing		Generally achieved	

Domain II: Ethics and Professionalism		Generally achieved	
Overall Assessment of Principle 1: Internal auditors demonstrate integrity in their work and behaviour.		Generally achieved	
Standard 1.1	Honesty and Professional Courage	Generally achieved	1
Standard 1.2	Organization's Ethical Expectations	Generally achieved	2
Standard 1.3	Legal and Ethical Behaviour	Generally achieved	
Overall Assessment of Principle 2: Internal auditors maintain an impartial and unbiased attitude when performing internal audit services and making decisions.		Generally achieved	
Standard 2.1	Individual Objectivity	Generally achieved	3
Standard 2.2	Safeguarding Objectivity	Fully achieved	
Standard 2.3	Disclosing Impairments to Objectivity	Generally achieved	4
Overall Assessment of Principle 3: Internal auditors apply the knowledge, skills, and abilities to fulfil their roles and responsibilities successfully.		Generally achieved	
Standard 3.1	Competency	Generally achieved	5
Standard 3.2	Continuing Professional Development	Fully achieved	
Overall Assessment of Principle 4: Internal auditors apply due professional care in planning and performing internal audit services.		Generally achieved	
Standard 4.1	Conformance with the Global Internal Audit Standards	Generally achieved	6
Standard 4.2	Due Professional Care	Generally achieved	7
Standard 4.3	Professional Scepticism	Generally achieved	

Overall Assessment of Principle 5: Internal auditors use and protect information appropriately.		Fully achieved	
Standard 5.1	Use of Information	Fully achieved	
Standard 5.2	Protection of Information	Fully achieved	

Domain III: Governing the Internal Audit Function		Generally achieved	
Overall Assessment of Principle 6: The board establishes, approves, and supports the mandate of the internal audit function.		Generally achieved	
Standard 6.1	Internal Audit Mandate	Fully achieved	
Standard 6.2	Internal Audit Charter	Fully achieved	
Standard 6.3	Board and Senior Management Support	Generally achieved	8
Overall Assessment of Principle 7: The board establishes and protects the internal audit function's independence and qualifications.		Fully achieved	
Standard 7.1	Organizational Independence	Fully achieved	
Standard 7.2	Chief Audit Executive Qualifications	Fully achieved	
Overall Assessment of Principle 8: The board oversees the internal audit function to ensure the function's effectiveness		Generally achieved	
Standard 8.1	Board Interaction	Generally achieved	9
Standard 8.2	Resources	Generally achieved	
Standards 8.3	Quality	Generally achieved	10
Standard 8.4	External Quality Assessment	Fully achieved	

Domain IV: Managing the Internal Audit Function		Generally achieved	
Overall Assessment of Principle 9: The chief audit executive plans strategically to position the internal audit function to fulfil its mandate and achieve long-term success.		Generally achieved	
Standard 9.1	Understanding Governance, Risk Management and Control Processes	Fully achieved	
Standard 9.2	Internal Audit Strategy	Fully achieved	
Standard 9.3	Methodologies	Generally achieved	11
Standard 9.4	Internal Audit Plan	Generally achieved	12 13
Standard 9.5	Coordination and Resilience	Generally achieved	14 15
Overall Assessment of Principle 10: The chief audit executive manages resources to implement the internal audit function's strategy and achieve its plan and mandate.		Generally achieved	

Standard 10.1	Financial Resource Management	Generally achieved	
Standard 10.2	Human Resource Management	Generally achieved	
Standard 10.3	Technological Resources	Generally achieved	16
Overall Assessment of Principle 11: The chief audit executive guides the internal audit function to communicate effectively with its stakeholders.		Generally achieved	
Standard 11.1	Building Relationships and Communicating with Stakeholders	Fully achieved	
Standard 11.2	Effective Communication	Generally achieved	17
Standard 11.3	Communicating Results	Generally achieved	18
Standard 11.4	Error and Omissions	Fully achieved	19
Standard 11.5	Communicating the Acceptance of Risks	Fully achieved	
Overall Assessment of Principle 12: The chief audit executive is responsible for the internal audit function's conformance with the Global Internal Audit Standards and continuous performance improvement.		Generally achieved	
Standard 12.1	Internal Quality Assessment	Fully achieved	
Standard 12.2	Performance Measurement	Fully achieved	20
Standard 12.3	Oversee and Improve Engagement Performance	Generally achieved	21

Domain V: Performing Internal Audit Services		Generally achieved	
Overall Assessment of Principle 13: Internal auditors plan each engagement using a systematic, disciplined approach.		Fully achieved	
Standard 13.1	Engagement Communication	Fully achieved	22
Standard 13.2	Engagement Risk Assessment	Fully achieved	
Standard 13.3	Engagement Objectives and Scope	Fully achieved	
Standard 13.4	Evaluation Criteria	Fully achieved	
Standard 13.5	Engagement Resources	Fully achieved	
Standard 13.6	Work Program	Fully achieved	
Overall Assessment of Principle 14: Internal auditors implement the engagement work program to achieve the engagement objectives.		Generally achieved	
Standard 14.1	Gathering Information for Analyses and Evaluation	Fully achieved	
Standard 14.2	Analyses and Potential Engagement Findings	Fully achieved	
Standard 14.3	Evaluation of Findings	Generally achieved	23
Standard 14.4	Recommendations and Action Plans	Fully achieved	

Standard 14.5	Engagement Conclusions	Fully achieved	
Standard 14.6	Engagement Documentation	Fully achieved	
Overall Assessment of Principle 15: Internal auditors communicate the engagement results to the appropriate parties and monitor management's progress toward the implementation of recommendations or action plans.		Fully achieved	
Standard 15.1	Final Engagement Communication	Fully achieved	
Standard 15.2	Confirming the Implementation of Recommendations or Action Plans	Fully achieved	

Internal Audit Code of Practice		**Conformance Assessment**	**Improvement Action**
Overall Assessment Outcome A: Purpose and Mandate of Internal Audit		Generally achieved	
Principle 1:	**Primary purpose of internal audit**	Generally achieved	24
Principle 2:	**Tone at the top**	Fully achieved	
Principle 3:	**Reporting on application of the Code**	Fully achieved	
Principle 4:	**Annual report and accounts**	Generally achieved	25
Overall Assessment Outcome B: Scope and priorities of internal audit.		Fully achieved	
Principle 5:	**Internal audit's scope should be unrestricted**	Fully achieved	
Principle 6:	**Risk assessment and prioritisation of internal audit work**	Fully achieved	
Principle 7:	**Internal audit coverage and planning**	Fully achieved	
Principle 8:	**Scope of internal audit**	Generally achieved	26
Overall Assessment Outcome C: Reporting Results		Generally achieved	
Principle 9:	**Internal audit reporting**	Fully achieved	
Principle 10:	**Internal audit reporting content**	Generally achieved	See Actions 18 and 23
Principle 11:	**Internal audit overall opinion of governance, risk management and control framework**	Fully achieved	
Overall Assessment Outcome D: Interaction with risk management, compliance, finance and control functions.		Fully achieved	
Principle 12:	**CAE other responsibilities**	Not applicable	
Principle 13:	**Reliance on other assurance providers**	Fully achieved	

Principle 14:	**Coordination with other assurance providers**	Not applicable	

Overall Assessment Outcome E: Independence and authority of internal audit.		Fully achieved
Principle 15:	**Position of CAE in the organisation structure**	Fully achieved	
Principle 16:	**Right to attend and observe executive meetings**	Fully achieved	
Principle 17:	**Unrestricted and time access to information, personnel and physical locations**	Fully achieved	
Principle 18:	**CAE reports to Chair of the audit committee**	Fully achieved	
Principle 19:	**Chair of audit committee appoints and removes CAE**	Not applicable	
Principle 20:	**Code applies to outsource provision**	Not applicable	
Principle 21:	**Chair of audit committee sets the CAE's objectives and performing annual appraisal**	Not applicable	
Principle 22:	**Chair of audit committee recommends CAE remuneration to remuneration committee.**	Not applicable	
Principle 23:	**Divisional heads of internal audit reporting lines**	Not applicable	
Principle 24:	**CAE administrative reporting line**	Not applicable	

Overall Assessment Outcome F: Resources		Generally achieved	
Principle 25:	**CAE responsibility for IAF skills, experience and knowledge**	Fully achieved	
Principle 26:	**CAE reporting of adequacy of IAF skills and budget to Audit Committee**	Not applicable	
Principle 27:	**IAF diversity of skills and experience mix.**	Generally achieved	
Principle 28:	**CAE responsibility for tools and technology**	Generally achieved	See action 16
Principle 29:	**Audit committee approval of internal audit budget**	Not applicable	

Overall Assessment Outcome G: Quality Assurance and Improvement Programme (QAIP)		Fully achieved	
Principle 30:	**Audit committee approval and evaluation of internal audit's performance objectives.**	Fully achieved	
Principle 31:	**Internal audit policies, procedures, methodology and performance and effectiveness measures.**	Fully achieved	
Principle 32:	**Internal audit QAIP, incl. self-assessment against the Code and Global Standards**	Fully achieved	

Principle 33:	**QAIP for outsourced and co-sourced internal audit work**	Not applicable	
Principle 34:	**External Quality Assessment**	Fully achieved	

Overall Assessment Outcome H: Relationship with regulators and external audit.		Fully achieved
Principle 35:	**Relationship with regulators**	Fully achieved
Principle 36:	**Relationship with external audit**	Fully achieved

Overall Assessment Outcome I: Wider Considerations		Not applicable	
Principle 37:	**Chartered IIA commission independent review of the Code every 5 years**	Not applicable	

Appendix 2

Global Internal Audit Standards/Internal Audit Code of Practice
Compliance Self Assessment 2025-26
Action Plan

Action No.	Global Internal Audit Standards		Improvement Action	Action Owner	Target Implementation Date	Progress
Domain II: Ethics and Professionalism						
Overall Assessment of Principle 1: Internal auditors demonstrate integrity in their work and behaviour.						
1	Standard 1.1	Honesty and Professional Courage	Update Internal Audit Manual to reflect requirement to display "professional courage"	Chief Internal Auditor	30 June 2026	
2	Standard 1.2	Organization's Ethical Expectations	Develop a template for auditors to sign to confirm they attended briefing on Domain II and Internal Audit Manual	Chief Internal Auditor	30 June 2026	
Overall Assessment of Principle 2: Internal auditors maintain an impartial and unbiased attitude when performing internal audit services and making decisions.						
3	Standard 2.1	Individual Objectivity	Provide update on GIAS requirements to the Internal Audit Team using IIA Domain II training. Training delivered will include an update on the changes made to the Audit Manual (Audit Team to sign to evidence that they have read and understood the audit manual (to be repeated after every audit manual update). Attendance at training will be recorded on training record.	Chief Internal Auditor	31 July 2026	
4	Standard 2.3	Disclosing Impairments to Objectivity	Update the Internal Audit Staff declaration form/objectivity register to reflect any changes/additions to the plan or any findings that could create a potential conflict which were not known at the time of being assigned the audit	Chief Internal Auditor	30 June 2026	

Overall Assessment of Principle 3: Internal auditors apply the knowledge, skills, and abilities to fulfil their roles and responsibilities successfully.						
5	Standard 3.1	Competency	Review the IIA Competency Framework and consider whether it is suitable to use/adapt to use as part of the annual staff performance appraisal process.	Chief Internal Auditor	30 June 2026	
Overall Assessment of Principle 4: Internal auditors apply due professional care in planning and performing internal audit services.						
6	Standard 4.1	Conformance with the Global Internal Audit Standards	Update the Internal Audit Manual to reflect requirements of GIAS in the UK Public Sector.	Chief Internal Auditor	30 June 2026	In progress – 20% complete
7	Standard 4.2	Due Professional Care	Update the Audit Manual and working paper templates to provide more detail on why auditors have reached the conclusion they have, including exploring root cause of findings	Chief Internal Auditor	30 June 2026	
	Standard 4.3	Professional Scepticism				

Domain III: Governing the Internal Audit Function						
Overall Assessment of Principle 6: The board establishes, approves, and supports the mandate of the internal audit function.						
8	Standard 6.3	Board and Senior Management Support	Deliver briefing on Domain III briefing to Senior Managers. Institute of Internal Auditor's (IIA) presentation and guidance will be used for this. Briefing on GIAS will be delivered to new Members of the AGP and new Senior Managers on an ongoing basis as required.	Chief Internal Auditor	31 July 2026	
Overall Assessment of Principle 8: The board oversees the internal audit function to ensure the function's effectiveness						
9	Standard 8.1	Board Interaction	Quarterly reports were updated following the last QAIP in 2024 to include performance information and a summary of concluded audits. Establish	Chief Internal Auditor	30 September 2026	

			if the AGP require additional information to be included within the quarterly reports.			
10	Standards 8.3	Quality	Request Chair of AGP's input into CIA's performance appraisal from 2026.	Chief Executive	31 December 2026	

Domain IV: Managing the Internal Audit Function						
Overall Assessment of Principle 9: **The chief audit executive plans strategically to position the internal audit function to fulfil its mandate and achieve long-term success.**						
11	Standard 9.3	Methodologies	Audit Manual to be updated to reflect the new GIAS in the UK Public Sector (See action at Standard 1.1)	Chief Internal Auditor	30 June 2026	
12	Standard 9.4	Internal Audit Plan	Invite AGP Members to share their views on the high risk areas for the Council for consideration when developing the annual plan	Chief Internal Auditor	28 February 2026	In progress – request sent to Members with response request by 13/2/2026
13			Update Appendix 2 in AGP proposed audit plan report to document the reason for not covering high risks where required (consider adding the risk rating to the appendix)	Chief Internal Auditor	30 June 2026	
14	Standard 9.5	Coordination and Resilience	Develop assurance mapping further to identify all potential external assurance agendas and then update reviews completed/planned on an annual basis.	Chief Internal Auditor	31 December 2026	
15			Update the Internal Audit Charter to make clear that CIA cannot influence the timing of or co-ordinate activity of external assurance providers	Chief Internal Auditor	20 February 2026	
Overall Assessment of Principle 10: **The chief audit executive manages resources to implement the internal audit function's strategy and achieve its plan and mandate.**						
16	Standard 10.3	Technological Resources	Develop Continuous Audit Areas and the use of technology in routine audit work	Senior Auditor	31 March 2027	

Overall Assessment of Principle 11: The chief audit executive guides the internal audit function to communicate effectively with its stakeholders.						
17	Standard 11.2	Effective Communication	Record new start Internal Audit induction and all audit manual updates on Coast	Chief Internal Auditor	31 August 2026	
18	Standard 11.3	Communicating Results	Provide a summary of the key themes of risk/recommendations made in the quarterly progress reports and within the annual report/assurance statement i.e. in addition to recording the total number of actions split by risk level also record where there are common themes e.g. breaches of financial regulations, lack of proper authorisation. Also record if/where there are no common themes identified. (This information can also be shared with the CMT at the quarterly assurance meetings set up to replace the integrity group meetings).	Chief Internal Auditor	30 June 2026	
19	Standard 11.4	Error and Omissions	Update the Internal Audit Manual to record what is considered a significant error or omission	Chief Internal Auditor	30 June 2026	
Overall Assessment of Principle 12: The chief audit executive is responsible for the internal audit function's conformance with the Global Internal Audit Standards and continuous performance improvement.						
20	Standard 12.2	Performance Measurement	Confirm if the performance information included within the quarterly progress reports to the AGP is sufficient for them to fulfil their role in relation to governing the internal audit function.	Chief Internal Auditor	31 August 2026	
21	Standard 12.3	Oversee and Improve Engagement Performance	Develop a checklist to be completed by the review auditor to provide evidence of consideration of all GIAS requirements.	Chief Internal Auditor	30 June 2026	

Domain V: Performing Internal Audit Services

Overall Assessment of Principle 13: Internal auditors plan each engagement using a systematic, disciplined approach.						
22	Standard 13.1	Engagement Communication	Update the "work done" section in audit working papers to specifically include a list of evidence obtained and reviewed or not available	Chief Internal Auditor	30 June 2026	
Overall Assessment of Principle 14: Internal auditors implement the engagement work program to achieve the engagement objectives.						
23	Standard 14.3	Evaluation of Findings	Update the "findings" section in the audit working papers to record the root cause of issues identified through audit testing.	Chief Internal Auditor	30 June 2026	

Action No.	**Internal Audit Code of Practice**		**Improvement Action**	**Action Owner**	**Target Implementation Date**	**Progress**
Overall Assessment Outcome A: Purpose and Mandate of Internal Audit						
24	**Principle 1:**	**Primary purpose of internal audit**	Consider whether the Internal Audit Charter should be available on the SAC Website.	Chief Internal Auditor	31 March 2026	
25	**Principle 4:**	**Annual report and accounts**	Consider whether the IA section in the Governance Statement should be updated to include purpose of IA as per the Charter/Mandate	Chief Internal Auditor in consultation with Service Lead, Performance, Community Planning and Sustainability	31 March 2026	
Overall Assessment Outcome B: Scope and priorities of internal audit.						
26	**Principle 8:**	**Scope of internal audit**	Consider whether the areas in Principle 8 could/should be incorporated into the Audit process as part of Risk and Control Assessment (RACA)	Chief Internal Auditor	31 January 2026	Complete. RACA updated where required and remaining items added to the potential areas for

						future audit spreadsheet and/or the Audit Universe

Domain III Governing the Internal Audit Function – Introduction
Appropriate governance arrangements are essential to enable the internal audit function to be effective. This domain outlines the requirements for chief audit executives to work closely with the board to establish the internal audit function, position it independently, and oversee its performance. This domain also outlines senior management's responsibilities that support the board's responsibilities and promote strong governance of the internal audit function.
While the chief audit executive is responsible for the requirements in this domain, activities of the board and senior management are essential to the internal audit function's ability to fulfil the Purpose of Internal Auditing. These activities are identified as "essential conditions" in each standard and establish a necessary foundation for an effective dialogue between the board, senior management, and the chief audit executive, ultimately enabling an effective internal audit function.
It is important for the chief audit executive to receive input from both the board and senior management. While the board may have the ultimate responsibility to approve the internal audit mandate, charter, and other requirements outlined in this domain, senior management typically has a key role in providing input to the board and the chief audit executive. Senior management's perspective is valuable and helps support the internal audit function's positioning and authority in the organization.
Definition of Board The glossary to the Global Internal Audit Standards defines the term "board" as the highest-level body charged with governance, such as: • A board of directors. • An audit committee. • A board of governors or trustees. • A group of elected officials or political appointees. • Another body that has authority over the relevant governance functions. In an organization that has more than one governing body, "board" refers to the body or bodies authorized to provide the internal audit function with the appropriate authority, role, and responsibilities. If none of the above exists, "board" should be read as referring to the group or person that acts as the organization's highest-level governing body. Examples include the head of the organization and senior management.
Application of this Domain The Standards apply to individuals and functions that provide internal audit services. Internal audit services may be provided by persons within or outside the organization for organizations that vary in purpose, size, complexity, and structure. The Standards apply whether an organization employs internal auditors directly, contracts them through an external service provider, or both. The chief audit executive's responsibilities are performed by one or more individuals designated by the board. The chief audit executive, whether employed directly by the organization or through an external service provider, is responsible for conformance with the Standards as demonstrated through the quality assurance and improvement program. In all cases, the board retains the responsibility to support and oversee the internal audit function.

UK Public Sector Application Note GIAS Domain III 'Governing the Internal Audit Function' explains that appropriate governance arrangements with boards and senior management are essential to fulfil the Purpose of Internal Audit. The individual standards within Domain III include baseline 'essential conditions' which need to be satisfied in order to achieve conformance. The GIAS allows that in some cases it may be appropriate to determine alternatives to the essential conditions that achieve the same results. The GIAS section Applying the Global Internal Audit Standards in the Public Sector includes non-exhaustive material explaining that public sector governance and organisational structures may require internal audit functions to adjust the application of some standards. This is the case in many UK public sector bodies and in these cases, it will be necessary to determine alternatives to the Domain III essential conditions that achieve the same results. These must be agreed with the board/audit committee and, if permanent, must be explained in the Audit Charter. The barriers to achievement of the baseline essential conditions vary in extent and effect across different parts of the UK public sector. The RIASS for individual sectors may choose to issue specific material for their sector, which internal auditors and quality assessors in the relevant sector must comply with. For this reason, no material on alternative conditions is provided in this Application Note. (Note: CIPFA - Code of Practice for the Governance of Internal Audit in the UK Local Government, provides additional support to Local Authorities in establishing their internal audit arrangements and providing oversight and support for internal audit)

Domain III Governing the Internal Audit Function – Introduction	**Global IIA Conformance Assessment Readiness Tool**	**Evidence of Conformance**	**In Place?**	**Reviewer assessment, referenced to evidence**	**Suggestions for further development**
Meeting with the Board and Senior Management The chief audit executive must discuss this domain with the board and senior management. The discussions should focus on: • The Purpose of Internal Auditing as articulated in Domain I: Purpose of Internal Auditing. • The essential conditions outlined under each of the standards in Domain III: Governing the Internal Audit Function. • The potential impact on the effectiveness of the internal audit function if the board or	New Requirement in Standard The CAE must discuss this domain with the board and senior management. The discussions are needed to inform the board and senior management	Additional Example: Documented agenda items, presentations, notes, and/or minutes from board and senior management discussions concerning Domain III.	Yes	Report was presented to AGP on 4 June 2025 explaining the changes from PSIAS to GIAS in the UK Public Sector - Members requested another briefing and it was agreed to provide this at the same time as they were completing their Audit Committee Self Assessment.	Briefing on the new standards and QAIP process provided to AGP 30 September 2025 - Briefing highlighted the essential conditions and their importance (IIA Presentation was used) Presentation was delivered to AGP

senior management does not provide the support outlined in the essential conditions.	about the importance of the essential conditions and to gain alignment among their respective responsibilities. If either the board or senior management disagrees with one or more of these essential conditions, the CAE must emphasize – with examples – how absence of the condition(s) may affect the internal audit function's ability to fulfil its purpose or conform with specific standards.				during Audit Committee Self Assessment exercise on 30 September 2025. **Members' input to this section of the Self Assessment Toolkit was requested -** Complete

The discussions are needed to inform the board and senior management about the importance of the essential conditions and to gain alignment among their respective responsibilities.	What this Change Means While the 2017 Standards often stated or implied an expectation or need for the board and senior management to take certain actions, such as approvals, the Standards did not frame such actions as essential to the internal audit function's ability to fulfil the Purpose of Internal Auditing. The introduction to Domain III requires the CAE to discuss with the board and senior management the roles and responsibilities of each party. The presentation of	AGP Reports and Presentation	Partly	Covered in the annual plan report to AGP (March 2025), the GIAS update to AGP (June 2025) and presentation on 30 September 2025	Briefing for Senior Managers. Institute of Internal Auditor's (IIA) presentation and guidance will be used for this.

	“essential conditions” in the new Standards brings new focus on the importance of the relationship between the CAE, the board, and senior management and sets forth new expectations for direct communication and collaboration between the parties.				
The nature and frequency of these discussions depend on the circumstances and changes in the organization. For example, the chief audit executive should discuss these essential conditions with the board and senior management if: • The Standards change significantly or a new internal audit function is created. • The chief audit executive is new to the role or organization. • There are significant changes in the relationship between the board and the chief audit executive, such as a new chairperson to whom the chief audit executive reports or a change in the	Considerations for Implementation The discussions with the board and senior management should focus on: • The Purpose of Internal Auditing as articulated in Domain I: Purpose of Internal	Internal Audit Charter, AGP Reports and Presentation	Yes	The presentation delivered to AGP in September 2025 (updated where required for changes in GIAS where required) will be included as part of new Members induction (at least every 4 years after local elections). Updates will be provided outwith the election periods	Briefing on GIAS will be delivered to new Members of the AGP and new Senior Managers as required

structure or composition of the board that affects this reporting relationship. • There are significant changes in the structure or composition of senior management that affect the chief audit executive's positioning within the organization.	Auditing. • The essential conditions outlined under each of the standards in Domain III: Governing the Internal Audit Function. • The potential impact on the effectiveness of the internal audit function if the board or senior management does not provide the support outlined in the essential conditions. The nature and frequency of these discussions depend on the circumstances and changes in the organization. Domain III tools, available from The IIA, may assist with the communications.			should there be a change in the membership of the AGP or the ELT or of Chief Internal Auditor. (presentations could be given to individual Members/Officers if required). Updates will also be provided should there be significant changes to the GIAS (usually reviewed every three years).	

Disagreements on Essential Conditions If either the board or senior management disagrees with one or more of these essential conditions, the chief audit executive must emphasize – with examples – how absence of the condition(s) may affect the internal audit function’s ability to fulfil its purpose or conform with specific standards. The chief audit executive should also discuss alternatives to the essential conditions that may provide the same results.			Yes	It is unlikely that there will be disagreements with the essential conditions. Senior Management may disagree with other requirements if they go against Council Policy, are cost prohibitive or cannot be complied with for operational reasons (e.g. limited staff resources in service to allow rotation of duties). Where this is the case, this will be highlighted within the quarterly update reports and the annual report to the AGP.	
The chief audit executive may reach agreement with the board and senior management that one or more of the essential conditions are not necessary to conform with the Standards. In such instances, the chief audit executive must document: • The reasons for agreeing that a particular condition is unnecessary. • Alternative conditions that compensate for the absent conditions, to support the judgments of the board and senior management.			Yes	As above.	

If the chief audit executive does not agree with the board's and/or senior management's reasons for not performing one or more of the conditions, the chief audit executive may conclude that the internal audit function cannot conform with the Standards. In such cases, the chief audit executive should document the reasons why the board and/or senior management will not perform the essential conditions. This documentation should be shared with the board and senior management to ensure clarity regarding their positions and made available to an external quality assessor.			Yes	Will be highlighted with quarterly update reports and annual report to the AGP if required.	
If the nature of the board varies from the definition provided in the glossary, the chief audit executive should document the governing structure to which the internal audit function reports and how this structure is consistent with the definition of board. This may include environments where multiple boards exist, sometimes found in multi-national organizations or the public sector, or where a multi-tiered structure is in place.			Yes	Complies with the LA interpretation of the board (audit committee) as per the application note and the CIPFA code of practice. IA reports to CE and AGP.	
Domain III – Principle 6 - Introduction		**Conformance Assessment**	Generally achieved		
		Performance Assessment	Generally achieved		

Domain III - Governing the Internal Audit Function Principle 6 - Authorized by the Board	**The board establishes, approves, and supports the mandate of the internal audit function.**	**Chartered IIA Code of Practice**	**Applicable GIAS Standards**

The internal audit function receives its mandate from the board (or applicable law in certain public sector environments). The mandate specifies the authority, role, and responsibilities of the internal audit function and is documented in the internal audit charter. The mandate empowers the internal audit function to provide the board and senior management with objective assurance, advice, insight, and foresight. The internal audit function carries out the mandate by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of governance, risk management, and control processes throughout the organization.	**A. Purpose and Mandate of Internal Audit** Outcome: Internal audit has a clear purpose and mandate. There is a strong tone at the top of the organisation, which enables internal audit to effectively discharge its mandate.	6.1 - Internal Audit Mandate 6.3 - Board and Senior Management Support
	B. Scope and Priorities of Internal Audit Outcome: Internal audit has an unrestricted scope and access to all areas of the organisation and information, including the scope areas outlined in principle 8. Internal audit has an effective process to determine internal audit coverage.	6.1 - Internal Audit Mandate 6.2 - Internal Audit Charter 6.3 - Board and Senior Management Support
	D. Interaction with risk management, compliance, finance and control functions Outcome: Internal audit has an organisation wide remit and mandate which includes assessing and interacting with risk management, compliance, finance and other control functions.	6.1 - Internal Audit Mandate 6.2 - Internal Audit Charter
	E. Independence and Authority of Internal Audit Outcome: Internal audit is independent and objective. Internal audit has the appropriate standing, stature and access.	6.2 - Internal Audit Charter

			F. Resources Outcome: Internal audit has the right skills, experience, resources and budget to fulfil its mandate.		6.3 - Board and Senior Management Support
Domain III Governing the Internal Audit Function – Principle 6 Authorised by the Board	**Global IIA Conformance Assessment Readiness Tool**	**Evidence of Conformance**	**In Place?**	**Reviewer assessment, referenced to evidence**	**Suggestions for further development**
Standard 6.1 Internal Audit Mandate	Not Applicable.	Minutes of board meetings where the mandate was discussed, which may be part of the broader approval of the internal audit charter.			
The chief audit executive must provide the board and senior management with the information necessary to establish the internal audit mandate. In those jurisdictions and industries where the internal audit function's mandate is prescribed wholly or partially in laws or regulations, the internal audit charter must include the legal requirements of the mandate. (See also Standard 6.2 Internal Audit Charter and "Applying the Global Internal Audit Standards in the Public Sector.")		Minutes of board meetings during which any changes to the internal audit charter are discussed and approved by the board.	Yes	Mandate is received from Local Authority Accounts (Scotland) Regulations 2014 Updated Mandate included in the 2025 Internal Audit Charter and was approved by AGP 26 March 2025.	
Essential Conditions					
Board · Discuss with the chief audit executive and		Report to AGP 26 March 2025	Yes	CIPFA Code on Governance of	

senior management the appropriate authority, role, and responsibilities of the internal audit function. · Approve the internal audit charter, which includes the internal audit mandate and the scope and types of internal audit services.		"Proposed Annual Internal Audit Plan 2025-26 and Internal Audit Charter"		Internal Audit and the Application note are the relevant documents for LAs. Internal Audit Charter is approved by the AGP together with the annual plan. Internal Audit's mandate is received from Local Authority Accounts (Scotland) Regulations 2014. The 2025 Charter was prepared in line with the GIAS in the UK Public Sector. Responsibility and Authority of Internal Audit is also included within the Council's Financial Regulations.	
Senior Management · Participate in discussions with the board and chief audit executive and provide input on expectations for the internal audit function that the board should consider when establishing the internal audit mandate. · Support the internal audit mandate throughout the organization and promote the authority granted		Financial Regulations (Section 17)	Yes		
Domain III – Principle 6 – Standard 6.1 Internal Audit Mandate		**Conformance Assessment**	Fully achieved		
		Performance Assessment	Fully achieved		
Chartered IIA Code of Practice Principle 4 The board/ audit committee report in the annual report and accounts should summarise the purpose and mandate of internal audit, the function's main activities and conclude on internal audit's impact and effectiveness.		The organisation's annual report and accounts include a report from the audit committee which describes internal audit's purpose, mandate, main activities and provides an assessment of	Partly	CIPFA Code on Governance of Internal Audit and the Application note are the relevant documents for LAs. Internal Audit inputs into the annual governance statement which is included in	Consider whether the IA section in the Governance Statement should be updated to include purpose of IA as per the Charter/Mandate.

		internal audit's impact and effectiveness.		the Councils annual accounts and refers to compliance with the standards, the work completed in the year and the assurance level.	
Principle 5 Internal audit's scope should be unrestricted There should be no aspect of the organisation which internal audit should be restricted from looking at as it delivers on its mandate. Whilst it is not the role of internal audit to second guess the decisions made by the board and its committees; its scope should include information presented to the board and its committees as discussed further below Principle 8).		Internal Audit Charter and Council's Financial Regulations. Panel, Council and Cabinet reports and minutes	Yes	IAs authority is included in the IA Charter and SAC Financial Regulations. Internal Audit has access to all reports to Panel's, Cabinet and Council's including private papers, the Chief Internal Auditor attends all AGPs and is invited to all Service, Planning and Performance Panels, Cabinets and Full Council meetings.	
Internal Audit Code of Practice Assessments		**Principle 4**	Generally achieved		
		Principle 5	Fully achieved		

Domain III Governing the Internal Audit Function – Principle 6 Authorised by the Board	**Global IIA Conformance Assessment Readiness Tool**	**Examples of Evidence of Conformance**	**In Place?**	**Reviewer assessment, referenced to evidence**	**Suggestions for further development**
Standard 6.2 Internal Audit Charter	Not Applicable.	Minutes of the board meetings during which the internal audit charter was discussed and approved.			
The chief audit executive must develop and maintain an internal audit charter that specifies, at a minimum, the internal audit function's: • Purpose of Internal Auditing. • Commitment to adhering to the Global Internal Audit Standards. • Mandate, including scope and types of services to be provided, and the board's responsibilities and expectations regarding management's support of the internal audit function. (See also Standard 6.1 Internal Audit Mandate.) • Organizational position and reporting relationships. (See also Standard 7.1 Organizational Independence.)		The approved charter and the date approved.	Yes	Updated IA Charter developed in 2025 to the reflect the changes required as detailed in the GIAS in the UK Public Sector. Charter approved by AGP on 26 March 2025	
		Minutes of board meetings that include evidence that the chief audit executive periodically reviews the internal audit charter with the board and senior management	Yes	IA charter is reviewed annually and presented to the AGP for approval together with the proposed audit plan.	
The chief audit executive must discuss the proposed charter with the board and senior management to confirm that it accurately reflects their understanding and expectations of the internal audit function.		Report to AGP 26 March 2026 "Proposed Annual Internal Audit Plan 2025-26 and Internal Audit Charter"	Yes	IA Charter approved by the AGP. Charter is also shared with CLT once approved.	

Essential Conditions					
Board • Discuss with the chief audit executive and senior management other topics that should be included in the internal audit charter to enable an effective internal audit function. • Approve the internal audit charter. • Review the internal audit charter with the chief audit executive to consider changes affecting the organization, such as the employment of a new chief audit executive or changes in the type, severity, and interdependencies of risks to the organization.					
			Yes	IA Charter is taken to AGP for approval on an annual basis.	
				Approved 26 March 2025	
				The Internal Audit Charter was completed in line with GIAS in the UK Public Sector. The AGP approves the Internal Audit Charter on an annual basis.	
Senior Management Communicate with the board and chief audit executive about management's expectations that should be considered for inclusion in the internal audit charter.			Yes	The Internal Audit Charter was completed in line with GIAS in the UK Public Sector. Senior Management have not had any input into the IA Charter, but receive a copy of the Charter and review and approve Financial Regulations which include Internal Audit's responsibility and authority	
Domain III – Principle 6 – Standard 6.2 Internal Audit Charter		**Conformance Assessment**	Fully achieved		

		Performance Assessment	Fully achieved		
<u>Chartered IIA Code of Practice</u> Principle 1 The purpose and mandate of internal audit should be articulated in an internal audit charter, which should be publicly available.		Internal Audit Charter is publicly available, e.g. with AGP papers published on the organisation's website and available to SAC staff and Members through the Internal Audit and Corporate Fraud SharePoint site.	Yes	Included with the annual plan report which goes to AGP for approval, AGP are public documents available through SACs website	Consider whether the Internal Audit Charter should be published separately on the SAC Website

Principle 8 The scope of internal audit's work should be regularly reviewed to take account of new and emerging risks. Where relevant, internal audit should assess not only the process followed by the organisation's first and second lines, but also the quality of their work. Internal audit should include within its scope the areas outlined below (documented on the Code of Practice Principle 8 tab of this workbook).		AGP report -Internal Audit Plan Mid Term Review	Yes	Internal Audit Plans are risk based and consider all risk relevant to SAC during the planning process. Each audit within the plan is linked to a strategic or directorate risk and operational risks are identified as part of the audit process to develop test programmes. The plan is continually reviewed to assess changes in the control environment/emerging risks and the annual plan amended accordingly. Proposed amendments to the plan, including reason for the amendment, are taken to the AGP as part of the formal mid-term review reporting schedule, but the AGP will be advised of any significant changes proposed through the quarterly updates if required. AGP approve annual plan,	Consider whether the areas in Principle 8 could/should be incorporated into the Audit process as part of Risk and Control Assessment

				note quarterly progress update provided to AGP and approve mid-term review of plan.	
Internal Audit Code of Practice Assessment		**Principle 1**	Generally achieved		
		Principle 8	Generally achieved		

Domain III Governing the Internal Audit Function – Principle 6 Authorised by the Board	**Global IIA Conformance Assessment Readiness Tool**	**Examples of Evidence of Conformance**	**In Place?**	**Reviewer assessment, referenced to evidence**	**Suggestions for further development**

Standard 6.3 Board and Senior Management Support	What this Change Means The 2017 Standards did not include details about the CAE facilitating communications between the board, senior management, and the internal audit function or about the importance of the board and senior management promoting the function's ability to achieve its purpose.	Minutes of board meetings indicating board review and approval of the internal audit plan, internal audit budget, and resource plan.			
The chief audit executive must provide the board and senior management with the information needed to support and promote recognition of the internal audit function throughout the organization.	Considerations for Implementation The CAE should inform senior management of board discussions as appropriate and confirm an	Minutes or other documentation of communication between the board and senior management in which the internal audit function's unrestricted access was discussed.	Yes	Audit Plan is approved annually by AGP and meeting minuted. Approval of financial budget and staff resource levels are not within the authority of the AGP. Responsibilities of Internal Audit are included in the Financial Regulations	

	understanding of reporting provided by both parties to establish clarity and a lack of redundancy.			and the Internal Audit Charter	
NEW - The chief audit executive must coordinate the internal audit function's board communications with senior management to support the board's ability to fulfil its requirements.		**NEW -** An agreed-upon matrix or similar documentation showing what information should be communicated by the chief audit executive to the board and senior management and the expected frequency.	Yes	AGP programme of work is developed and agreed/approved at every AGP. Reports have been updated to reflect requests made by the AGP. The Chief Internal Auditor reports directly to the Chief Executive and has four weekly update meetings where the work of Internal Audit is discussed. Significant issues identified outwith these four week periods will be brought to the Chief Executive's attention immediately. In addition, the Chief Internal Auditor will attend ELT meetings on a quarterly basis to highlight assurance concerns (the meeting	

				replace the Integrity Group meetings)	
Essential Conditions					

Board • **NEW -** Champion the internal audit function to enable it to fulfil the Purpose of Internal Auditing and pursue its strategy and objectives. • Work with senior management to enable the internal audit function's unrestricted access to the data, records, information, personnel, and physical properties necessary to fulfil the internal audit mandate. • Support the chief audit executive through regular, direct communications. Demonstrate support by: • Specifying that the chief audit executive reports to a level within the organization that allows the internal audit function to fulfil the internal audit mandate. • Approving the internal audit charter, internal audit plan, budget, and resource plan. • Making appropriate inquiries of senior management and the chief audit executive to determine whether any restrictions on the internal audit function's scope, access, authority, or resources limit the function's ability to carry out its responsibilities effectively. • Meeting periodically with the chief audit executive in sessions without senior management present.			Yes	Internal Audit's mandate is received from Local Authority Accounts (Scotland) Regulations 2014. IA authority is included in IA Charter and Fin Regs and includes unrestricted access to data, records, information, personnel, and physical properties. IA reports directly to the CE (as per organisation structure). IA plan is approved by AGP. Annual Report either confirms no restrictions/resource implications on audit work or highlights the restrictions. Pre Agenda is with Chair and Depute Chair of AGP without any other officers present.	

Senior Management • **NEW -** Support recognition of the internal audit function throughout the organization. • Work with the board and management throughout the organization to enable the internal audit function's unrestricted access to the data, records, information, personnel, and physical properties necessary to fulfil the internal audit mandate.			Yes	Responsibility and Authority of Internal Audit is included within the Council's Financial Regulations.	
		Conformance Assessment	Fully achieved		
		Performance Assessment	Fully achieved		
<u>Chartered IIA Code of Practice</u> Principle 2 The board, its committees and senior management should set the right 'tone at the top' to ensure support for, and acceptance of, internal audit at all levels of the organisation.		Financial Reg (Section 17)	Yes	All employees are required to comply with the Council's Financial Regulations which include the Responsibility and Authority of Internal Audit. Internal Audit Charter which includes the Internal Audit Mandate is approved by AGP and shared with CLT	
Principle 7 internal audit coverage and planning. Internal audit plans, including significant changes, should be approved by the board audit committee.		AGP Reports	Yes	AGP approve the annual plan and any significant amendments to the plan throughout the year (Mid-term review presented to AGP in November each year)	

Principle 16 16. Internal audit should have the right to attend and observe all or part of executive committee meetings and any other key management decision-making fora e.g. board risk committee. This enables internal audit to understand better the strategy of the business, key business issues and decisions, and to adjust internal audit priorities where appropriate.		Panel/Cabinet/Council Minutes. CIA calendar	Yes	The Chief Internal Auditor is invited to the SPPP/Cabinet and Council Meeting and has access to CLT Papers. Cabinet/Council and Panel meeting are recorded and can be accessed at any time,	
Principle 17 Internal audit should have unrestricted and timely access to key management information and a right of access to all of the organisation's data, records, information, personnel and physical properties necessary to discharge its responsibilities. This includes access to Board and Executive Committee papers.			Yes	Chief Internal Auditor has access to all Reports to SPPP/Cabinet and Council, including private papers and will not be excluded from meetings where private reports are being discussed.	
Principle 29 The board audit committee should be responsible for approving the internal audit budget and, as part of the board's overall governance responsibility, should disclose in the annual report and accounts whether it is satisfied that internal audit has the appropriate resources.			N/A	IA budget is set and monitored through the standard Council processes. This is not within the responsibility of the AGP, but the Chief Internal Auditor confirms annually in the annual report whether resources were sufficient/they have completed sufficient work to provide and opinion	

Internal Audit Code of Practice Assessment		**Principle 2**	Fully achieved		
		Principle 7	Fully achieved		
		Principle 16	Fully achieved		
		Principle 17	Fully achieved		
		Principle 29	Not applicable		
UK Public Sector Application Note Boards may not have authority over budgets, and this may prevent the chief audit executive from being able to seek or obtain additional funding due to other funding priorities within the organisation.			N/A	IA budget is set and monitored through the standard Council processes it is not within the responsibility of the AGP but the Chief Internal Auditor confirms annually in the annual report whether resources were sufficient/they have completed sufficient work to provide and opinion and the Audit Strategy, which is approved by the AGP as part of the annual plan, documents steps which can be taken should resources fall below a level which would enable an annual audit opinion to be	

				reached e.g. due to long term absences within the service or time required to complete a large scale investigation.	
Application Note Assessment - Resources		**Conformance Assessment**	Not applicable		

Domain III - Governing the Internal Audit Function **Principle 7 - Positioned Independently**	**The board establishes and protects the internal audit function's independence and qualifications.**	**Chartered IIA Code of Practice**	**Applicable GIAS Standards**
The board is responsible for enabling the independence of the internal audit function. Independence is defined as the freedom from conditions that impair the internal audit function's ability to carry out its responsibilities in an unbiased manner. The internal audit function is only able to fulfil the Purpose of Internal Auditing when the chief audit executive reports directly to the board, is qualified, and is positioned at a level within the organization that enables the internal audit function to discharge its services and responsibilities without interference.		**A. Purpose and Mandate of Internal Audit** Outcome: Internal audit has a clear purpose and mandate. There is a strong tone at the top of the organisation, which enables internal audit to effectively discharge its mandate.	7.1 - Organisational Independence

			E. Independence and Authority of Internal Audit Outcome: Internal audit is independent and objective. Internal audit has the appropriate standing, stature and access.		7.1 - Organisational Independence
Domain III Governing the Internal Audit Function – Principle 7 Positioned Independently	**Global IIA Conformance Assessment Readiness Tool**	**Examples of Evidence of Conformance**	**In Place?**	**Reviewer assessment, referenced to evidence**	**Suggestions for further development**
Standard 7.1 Organisational Independence	Not Applicable.	The internal audit charter, which documents the internal audit function's reporting relationships.	Yes	Internal Audit Charter approved by AGP 26 March 2025	
The chief audit executive must confirm to the board the organizational independence of the internal audit function at least annually. This includes communicating incidents where independence may have been impaired and the actions or safeguards employed to address the impairment.		Meeting minutes or other evidence of the chief audit executive's direct communication with the board and senior management regarding potential impairments to independence and planned safeguards.	Yes	Covered in annual report to AGP. The Chief Internal Auditor is responsible for the Internal Audit and Corporate Fraud service and has no other operational responsibilities. Internal Audit Reports directly to the Chief Executive	

The chief audit executive must document in the internal audit charter the reporting relationships and organizational positioning of the internal audit function, as determined by the board. (See also Standard 6.2 Internal Audit Charter.)		Board meeting minutes or other documentation showing that the chief audit executive confirmed with the board the ongoing independence of the internal audit function or discussed impairments affecting the internal audit function's ability to fulfil its mandate and the safeguards to manage the impairments.	Yes	Reporting structure included in IA Charter	
The chief audit executive must discuss with the board and senior management any current or proposed roles and responsibilities that have the potential to impair the internal audit function's independence, either in fact or appearance. The chief audit executive must advise the board and senior management of the types of safeguards to manage actual, potential, or perceived impairments.		The internal audit charter documenting board approval of long-term non-audit roles and responsibilities and corresponding safeguards to independence, including the expected duration of the roles, responsibilities, and safeguards and how the effectiveness of the safeguards will be evaluated periodically.	N/A	Role and responsibilities of the Chief Internal Auditor is Included in the Internal Audit Charter. The Chief Internal Auditor is responsible for the Internal Audit and Corporate Fraud service and, as documented in the Internal Audit Charter, has no other operational responsibilities. The AGP will be advised if this changes and	

When the chief audit executive has one or more ongoing roles beyond internal auditing, the responsibilities, nature of work, and established safeguards must be documented in the internal audit charter. If those areas of responsibility are subject to internal auditing, alternative processes to obtain assurance must be established, such as contracting with an objective, competent external assurance provider that reports independently to the board.		Documented methodologies to be followed when an impairment is suspected or identified.	No	arrangements will be put in place to audit are operational arrangements under the responsibility of the Chief Internal Auditor as required. Internal Audit will not be permitted to audit any activities for which they have previously been responsible within a period of one year and will not engage in any other activity that may impair judgment or independence	
When the chief audit executive's non-audit responsibilities are temporary, assurance for those areas must be provided by an independent third party during the temporary assignment and for the subsequent 12 months. Also, the chief audit executive must establish a plan to transition those responsibilities to management.		Formal action plans that outline specific safeguards to address independence concerns.	N/A	N/A	
If the governing structure does not support organizational independence, the chief audit executive must document the characteristics of the governing structure limiting independence and any safeguards that may be employed to achieve this principle.		Documentation of assurance services to be provided by other internal or external providers as a safeguard to independence.			

		Minutes or other documentation evidencing the board's approval of the appointment or removal of the chief audit executive.			
Essential Conditions					
Board • Establish a direct reporting relationship with the chief audit executive and the internal audit function to enable the internal audit function to fulfil its mandate. • Authorize the appointment and removal of the chief audit executive. • Provide input to senior management to support the performance evaluation and remuneration of the chief audit executive. • Provide the chief audit executive with opportunities to discuss significant and sensitive matters with the board, including meetings without senior management present. • Require that the chief audit executive be positioned at a level in the organization that enables internal audit services and responsibilities to be performed without interference from management. This positioning provides the organizational authority and status to bring matters directly to senior management and escalate matters to the board when necessary. • Acknowledge the actual or potential impairments to the internal audit function's			Yes (where part of their role)	Chief Internal Auditor is same level as Service Leads within the Council. Internal Audit has a direct reporting line to the Chief Executive and to the Council's Audit and Governance Panel in its role as the Council's audit committee. The CIA has unfettered access to the Chief Executive and the AGP. Chair of AGP is invited to input into CIA PDR process. The CIA meets with the Chair and Vice Chair of the AGP for pre agenda without any other officers. Impairments to Internal Audit's independence are included in the annual report if/where	

independence when approving roles or responsibilities for the chief audit executive that are beyond the scope of internal auditing. • Engage with senior management and the chief audit executive to establish appropriate safeguards if chief audit executive roles and responsibilities impair or appear to impair the internal audit function’s independence. • Engage with senior management to ensure that the internal audit function is free from interference when determining its scope, performing internal audit engagements, and communicating results.				required. The CIA reports to the AGP in their own name, Draft Internal Audit reports are issued to services for fact checking only. Contents of reports will only be amended where factually incorrect or where additional information is provided prior conclusion of the final report. (Audit Committees are not responsible for appointing/removing CIA in Local Government)	

Senior Management • Position the internal audit function at a level within the organization that enables it to perform its services and responsibilities without interference, as directed by the board. • Recognize the chief audit executive's direct reporting relationship with the board. • Engage with the board and the chief audit executive to understand any potential impairments to the internal audit function's independence caused by non-audit roles or other circumstances and support the implementation of appropriate safeguards to manage such impairments. • Provide input to the board on the appointment and removal of the chief audit executive. • Solicit input from the board on the performance evaluation and remuneration of the chief audit executive.			Yes	Internal Audit reports directly to the Chief Executive. Internal Audit has no operational responsibilities therefore there is no impairment to independence. Chair of AGP is invited to input into CIA PDR process completed by the Chief executive.	
Domain III – Principle 7 – Standard 7.1 Organisational Independence		**Conformance Assessment**	Fully achieved		
<u>Chartered IIA Code of Practice</u> Principle 12 12. *The following is applicable to organisations who operate in the financial services sector and is considered best practice for organisations who operate in the private and third sectors:* Effective risk management, compliance, finance, and other control functions are an essential part of an organisation's corporate governance structure. Internal audit should be independent of these			N/A	N/A	

functions and be neither responsible for, nor part of, them.					
The following is applicable to organisations who operate in the private and third sectors: In most organisations, there will be some functions (e.g. finance, HR, compliance, legal, health & safety and risk management) whose responsibilities include designing and/or operating controls over risks, which arise in other parts of the organisation. Functions with such control responsibilities have substantial potential to contribute to the effectiveness of governance, risk management and internal controls in an organisation. The objectivity of internal audit is strongest if it is neither responsible for, nor part of, the control functions and such separation is to be preferred. In cases where the chief audit executive has been assigned some responsibility for other control functions, the board audit committee should ensure that the additional responsibilities of the chief audit executive: a. Do not undermine their ability to give appropriate attention to their internal audit			N/A	N/A	

responsibilities. b. Do not impair their independence from management and appropriate safeguards are put in place. c. Are appropriately documented in the internal audit charter. The board should also recognise that the chief audit executive is not able to make an objective assessment of the effectiveness of the additional functions for which they have responsibility and that it may be desirable to commission an external assessment of those functions.					
Principle 15 The chief audit executive should be positioned at a senior management level (normally expected to be at executive committee or equivalent) within the organisation to give them the appropriate standing, status, access and authority to challenge senior management. Subsidiary, branch and divisional heads of internal audit should also be of a seniority comparable to the senior management			Yes	Chief Internal Auditor is same level as Service Leads within the Council. Internal Audit has a direct reporting line to the Chief Executive and to the Council's Audit and Governance Panel in its role as the Council's audit	

whose activities they are responsible for auditing.				committee. The Chief Internal Auditor has unfettered access to the Chief Executive and the AGP.	
Principle 18 The primary reporting line for the chief audit executive should be to the chair of the board audit committee.					
Principle 19 The chair of the board audit committee should be responsible for appointing the chief audit executive and for determining when they should be removed from post.			N/A	N/A	
Principle 21 The chair of the board audit committee should be accountable for setting the objectives of the chief audit executive and appraising their performance at least annually. It would be expected that the objectives and appraisal would take into account the views of the chief executive/administrative reporting line manager. This appraisal should consider the independence, objectivity and tenure of the chief audit executive. Where the tenure of the chief audit executive exceeds seven years, the board audit committee should explicitly discuss annually the chair's assessment of the chief audit executive's independence and objectivity.			N/A	N/A Although the Chair of the AGP is invited to input into the Chief Internal Auditor's annual appraisal completed by the Chief Executive	

Principle 22 The chair of the board audit committee should be responsible for recommending the remuneration of the chief audit executive to the remuneration committee. The remuneration of the chief audit executive and internal audit staff should be structured in a manner such that it avoids conflicts of interest, does not impair their independence and objectivity and should not be directly or exclusively linked to the short-term performance of the organisation.			N/A	N/A	
Principle 23 Subsidiary (including ring-fenced bank), branch and divisional heads of internal audit should report primarily to the group chief audit executive, while recognising local legislation or regulation as appropriate. This includes the responsibility for setting budgets and remuneration, conducting appraisals and reviewing the internal audit plan. The group chief audit executive should consider the independence, objectivity and tenure of the subsidiary, branch or divisional heads of internal audit when performing their appraisals.			N/A	N/A	
Principle 24 *The following is applicable to organisations who operate in the financial services sector and is considered best practice for organisations who operate in the private and third sector:* If internal audit has an administrative reporting line, this should be to the chief executive in order to preserve			N/A	N/A	

independence from any particular business area or function and to establish the standing of internal audit alongside the executive committee members.					
The following is applicable to organisations who operate in the private and third sector. In certain scenarios, the administrative reporting line can be to another member of senior management who promotes, supports and protects internal audit's independent and objective voice. This should be agreed with the chair of the board audit committee.			N/A	N/A	
Internal Audit Code of Practice Assessment		**Principle 12**	Not applicable		
		Principle 15	Fully achieved		
		Principle 18	Fully achieved		
		Principle 19	Not applicable		
		Principle 21	Not applicable		
		Principle 22	Not applicable		
		Principle 23	Not applicable		
		Principle 24	Not applicable		

Domain III Governing the Internal Audit Function – Principle 7 Positioned Independently	**Global IIA Conformance Assessment Readiness Tool**	**Examples of Evidence of Conformance**	**In Place?**	**Reviewer assessment, referenced to evidence**	**Suggestions for further development**
Standard 7.2 Chief Audit Executive Qualifications	What this Change Means The 2017 Standards did not mention CAE qualifications or a method for organizations to appoint a qualified CAE. The 2024 Standards introduce requirements and essential conditions aimed at helping the organization hire a CAE who is qualified to perform the responsibilities and fulfil the expected roles.	**NEW -** Documented approval by the board of the chief audit executive's job description and/or appointment or other evidence that the board evaluated the qualifications and competencies required for the chief audit executive's role.	N/A	N/A	

NEW - The chief audit executive must help the board understand the qualifications and competencies of a chief audit executive that are necessary to manage the internal audit function. The chief audit executive facilitates this understanding by providing information and examples of common and leading qualifications and competencies.	Considerations for Implementation Collaboration should occur between the board and senior management on a CAE job description which includes competencies and qualifications. Succession planning and professional education plans for the CAE should be a part of this discussion. The job description should be reassessed by the board and senior management periodically.	**NEW -** The chief audit executive's professional education plans and evidence of completion.	Yes	Whole audit team hold professional accountancy qualifications (essential criteria included within the Job Description). The Chief Internal Auditor holds professional qualification in both accountancy and Internal Audit. Professional bodies require members to undertake continued professional development and confirm achievement of specified hours on an annual basis	
NEW - The chief audit executive must maintain and enhance the qualifications and competencies necessary to fulfil the roles and responsibilities expected by the board. (See also Principle 3 Demonstrate Competency and its standards.)		**NEW -** Documented participation in professional associations.	Yes		
		NEW - Documented succession-planning conversations with the board, senior management, and/or the organization's	Yes	Internal Audit prepares workforce plan in line with Council procedures. Succession planning	

		human resources function		is considered within the Workforce Plan	
<u>Essential Conditions</u>					
Board • Review the requirements necessary for the chief audit executive to manage the internal audit function, as described in Domain IV: Managing the Internal Audit Function. • Approve the chief audit executive’s roles and responsibilities and identify the necessary qualifications, experience, and competencies to carry out these roles and responsibilities. • Engage with senior management to appoint a chief audit executive with the qualifications and competencies necessary to manage the internal audit function effectively and ensure the quality performance of internal audit services.			N/A	N/A	
Senior Management • Engage with the board to determine the chief audit executive’s qualifications, experience, and competencies. • Enable the appointment, development, and remuneration of the chief audit executive through the organization’s human resources processes			Yes (although N/A for first bullet point)	The Chief Internal Auditor's job description and grade developed in consultation with HR. Job evaluation procedures in place to ensure pay grade reflects the role	

Domain III – Principle 7 – Standard 7.2 – Chief Audit Executive Qualifications		Conformance Assessment	Fully achieved		
<u>UK Public Sector Application Note</u> GIAS 7.2 (Chief Audit Executive Qualifications) sets out expectations relevant to the global practice of internal audit. The RIASS seek to maintain an expectation that chief audit executives in the public sector hold appropriate professional qualifications alongside relevant experience. Therefore, in considering whether a chief audit executive is suitably qualified, an organisation must be looking for: • CMIIA, or a CCAB qualification, or an equivalent professional qualification which includes training on the practice of internal audit; and • suitable internal audit experience			Yes	The Chief Internal Auditor is Consultative Committee of Accountancy Bodies (CCAB) qualified (Association of Charter Certified Accountants (ACCA)) and this is an essential criteria within the job description. The Chief Internal Auditor is also a Chartered Internal Auditor (CMIIA).	
Application Note Assessment - Chief audit executive qualifications		**Conformance Assessment**	Fully achieved		

Domain III - Governing the Internal Audit Function Principle 8 - Overseen by the Board	The board oversees the internal audit function to ensure the function's effectiveness	Chartered IIA Code of Practice	Applicable GIAS Standards
Board oversight is essential to enable the overall effectiveness of the internal audit function. Achieving this principle requires collaborative and interactive communication between the board and the chief audit executive as well as the board's support in ensuring the internal audit function obtains sufficient resources to fulfil the internal audit mandate. Additionally, the board receives assurance about the quality of the performance of the chief audit executive and the internal audit function through the		**A. Purpose and Mandate of Internal Audit** Outcome: <u>Internal audit has a clear</u> purpose and <u>mandate</u>. <u>There is a strong tone at the top of the organisation, which enables</u>	8.1 Board Interaction 8.2 Resources 8.3 Quality 8.4 External Quality Assessment

quality assessment and improvement program, including the board’s direct review of the results of the external quality assessment.				internal audit to effectively discharge its mandate.	
				C. Reporting Results Outcome: Internal audit’s reporting to the board audit committee, and any other board committees as appropriate (such as the board risk committee), is impactful and relevant. Overall opinions are provided to the board audit committee on the scope areas identified as higher risk.	8.1 - Board Interaction
				F. Resources Outcome: Internal audit has the right skills, experience, resources and budget to fulfil its mandate.	8.2 - Resources
				G. Quality Assurance and Improvement Programme (QAIP) Outcome: The board audit committee and internal audit assess the quality, performance, impact and effectiveness of the function.	8.3 - Quality 8.4 - External Quality Assessment
Domain III Governing the Internal Audit Function – Principle 8 Overseen by the Board	**Global IIA Conformance Assessment Readiness Tool**	**Examples of Evidence of Conformance**	**In Place?**	**Reviewer assessment, referenced to evidence**	**Suggestions for further development**

<u>Standard 8.1 Board Interaction</u>		Board agendas and meeting minutes documenting the nature, topics, and frequency of discussions with the chief audit executive.			
The chief audit executive must provide the board with the information needed to conduct its oversight responsibilities. This information may be specifically requested by the board or may be, in the judgment of the chief audit executive, valuable for the board to exercise its oversight responsibilities.		Presentations made by the chief audit executive to the board.	Yes	Quarterly Progress reports which include performance measures, annual report and annual plan go to AGP. Additional briefings are also provided where requested (e.g. audit process and GIAS update)	
The chief audit executive must report to the board and senior management:		Internal audit communications to board members.	Yes	Internal Audit has a direct reporting line to the Chief Executive and to the Council's Audit and Governance Panel in its role as the Council's audit committee	
The internal audit plan and budget and subsequent significant revisions to them. (See also Standards 6.3 Board and Senior Management Support and 9.4 Internal Audit Plan.)		Documentation of the criteria for identifying issues to be brought to the attention of the board and a process for communicating or escalating such issues	Yes	Audit plan and revisions approved by the AGP - Assignment time budgets are included within the annual plan. Financial budgets are agreed through Councils standard	

				budget setting process	
Changes potentially affecting the mandate or charter. (See also Standards 6.1 Internal Audit Mandate and 6.2 Internal Audit Charter.)		AGP Minutes (latest IA Charter approved 26 March 2025)	Yes	The IA Charter is presented to AGP with Annual Plan for approval each year.	
Potential impairments to independence. (See also Standard 7.1 Organizational Independence.)		AGP Reports and Minutes (latest annual report presented to AGP 25 June 2025)	Yes	Included within the annual report present to the AGP for noting	
Results of internal audit services, including conclusions, themes, assurance, advice, insights, and monitoring results. (See also Standards 11.3 Communicating Results, 14.5 Engagement Conclusions, and 15.2 Confirming the Implementation of Recommendations or Action Plans.)		AGP Reports and Minutes	Yes	Included in quarterly progress reports and in annual plan	
Results from the quality assurance and improvement program. (See also Standards 8.3 Quality, 8.4 External Quality Assessment, 12.1 Internal Quality Assessment, and 12.2 Performance Measurement.)		AGP Reports and Minutes. Last External Assessment presented to AGP 29 May 2024	Yes	QIAP update is included in quarterly progress reports and separate reports on the results on EQA goes to AGP (issued to members directly from external assessor)	

There may be instances when the chief audit executive disagrees with senior management or other stakeholders on the scope, findings, or other aspects of an engagement that may affect the ability of the internal audit function to execute its responsibilities. In such cases, the chief audit executive must provide the board with the facts and circumstances to allow the board to consider whether, in its oversight role, it should intervene with senior management or other stakeholders.		AGP Reports and Minutes	Yes	AGP is advised, through quarterly update reports where services have not accepted recommendations. AGP may request further explanations from service management if they do not agree. (Internal Audit advises services that they may be requested to attend the AGP if they require further information on the conclusions of audit assignment, including where actions have not been recommended).	
<u>Essential Conditions</u>					

Board • Communicate with the chief audit executive to understand how the internal audit function is fulfilling its mandate. • Communicate the board's perspective on the organization's strategies, objectives, and risks to assist the chief audit executive with determining internal audit priorities. • Set expectations with the chief audit executive for: • The frequency with which the board wants to receive communications from the chief audit executive. • The criteria for determining which issues should be escalated to the board, such as significant risks that exceed the board's risk tolerance. • The process for escalating matters of importance to the board. • Gain an understanding of the effectiveness of the organization's governance, risk management, and control processes based on the results of internal audit engagements and discussions with senior management. • Discuss with the chief audit executive disagreements with senior management or other stakeholders and provide support as necessary to enable the chief audit executive to perform the responsibilities outlined in the internal audit mandate.		AGP Reports and Minutes	Yes	Covered in quarterly progress reports and annual reports to AGP. AGP workplan in place which specifies reports to be present at future Panel meetings.	Quarterly reports were updated following the last QAIP in 2024 to include performance information and a summary of concluded audits. Assess if the AGP require additional information to be included within the quarterly reports

Senior Management • Communicate senior management's perspective on the organization's strategies, objectives, and risks to assist the chief audit executive with determining internal audit priorities. • Assist the board in understanding the effectiveness of the organization's governance, risk management, and control processes. • Work with the board and the chief audit executive on the process for escalating matters of importance to the board.		Minutes of planning meeting	Yes	Planning meetings are held prior to the development of annual Internal Audit Plans between the Chief Internal Auditor and Directors and Assistant Directors. The meetings are used to discuss risks within the directors, changes in/new processes/procedures or services, new funds/grants, new ICT systems, and changes in legislation impacting their service. All final audit reports are shared with the Chief executive, the Chief Monitoring Officer and the Chief Financial Officer are well as the relevant senior managers in the service subject to the audit.	
Domain III – Principle 8 – Standard 8.1 Board Interaction		**Conformance Assessment**	Generally achieved		
		Performance Assessment	Fully achieved		

Domain III Governing the Internal Audit Function – Principle 8 Overseen by the Board	Global IIA Conformance Assessment Readiness Tool	Examples of Evidence of Conformance	In Place?	Reviewer assessment, referenced to evidence	Suggestions for further development
Standard 8.2 Resources		Agendas, meeting minutes, and communications between the chief audit executive and the board and/or senior management, documenting discussions of the sufficiency of internal audit resources.			
The chief audit executive must evaluate whether internal audit resources are sufficient to fulfil the internal audit mandate and achieve the internal audit plan. If not, the chief audit executive must develop a strategy to obtain sufficient resources and inform the board about the impact of insufficient resources and how any resource shortfalls will be addressed.		Internal audit resource plans indicating the sufficiency of resources needed to achieve the internal audit plan.	Yes	Available resources are calculated prior to developing the annual plan i.e. plan is developed to fit available staff resources. The current staffing resource are sufficient to enable an annual opinion to be provided, but this could change should there be a long-term absence/vacancy or large scale	
Essential Conditions		Budget requests pertaining to internal audit resources.			

Board • Collaborate with senior management to provide the internal audit function with sufficient resources to fulfil the internal audit mandate and achieve the internal audit plan. • Discuss with the chief audit executive, at least annually, the sufficiency, both in numbers and capabilities, of internal audit resources to fulfil the internal audit mandate and achieve the internal audit plan. • Consider the impact of insufficient resources on the internal audit mandate and plan. • Engage with senior management and the chief audit executive on remedying the situation if the resources are determined to be insufficient.		Documentation of gap analyses between the internal audit plan and available resources.		investigations. Ways of engaging additional staff resources is detailed in the Audit Strategy, which was approved by the AGP together with the annual plan. The CIA will inform Senior Management and the AGP if staff resources fall below the minimum required to complete the audit plan and provide an audit opinion. Approval to engage additional resources will be requested from the Chief Executive/Chief Financial Officer in line with Council budget and/or procurement procedures. The annual internal audit report will document whether resources were sufficient to complete the plan. Lack of resources will also be documented within the AGP quarterly reports and	

				mid-year review where required.	
Senior Management • Engage with the board to provide the internal audit function with sufficient resources to fulfil the internal audit mandate and achieve the internal audit plan. • Engage with the board and the chief audit executive on any issues of insufficient resources and how to remedy the situation.		Documentation of a cost-benefit analysis.	N/A	Completed during the annual budgeting exercise	
		Documentation of the chief audit executive's resourcing strategy.			
Domain III – Principle 8 – Standard 8.2 Resources		**Conformance Assessment**	Generally achieved	There is a risk that the audit plan will not be delivered, and an annual opinion delivered if the current staff resources fall due to long term absence or if additional resources are required to be allocated to unplanned work. However, there are arrangements documented	

				within the Audit Strategy which detail how additional resources may be obtained should this occur. The Audit Strategy was approved by the AGP 26 March 2025	
UK Public Sector Application Note Boards may not have authority over budgets, and this may prevent the chief audit executive from being able to seek or obtain additional funding due to other funding priorities within the organisation. In such circumstances to fulfil GIAS 8.2 (Resources)the chief audit executive must develop a resource strategy which suggests practical approaches for consideration by the board.		AGP Report and Minutes 26 March 2025	Yes	Included in audit strategy	
The chief audit executive must inform the board of the impact of insufficient resources and any options available to mitigate that impact.		AGP Reports and minutes	Yes	Covered in quarterly reports, annual plan, mid-term review and annual report	
The chief audit executive must also inform the board of any resource management arrangements at the organisation that may put at risk the ability of the internal audit service to fulfil its mandate.		AGP Reports and minutes	Yes		
Application Note Assessment - Resources		**Conformance Assessment**	Fully achieved		

Domain III Governing the Internal Audit Function – Principle 8 Overseen by the Board	**Global IIA Conformance Assessment Readiness Tool**	**Examples of Evidence of Conformance**	**In Place?**	**Reviewer assessment, referenced to evidence**	**Suggestions for further development**

<u>Standard 8.3 Quality</u>	What this Change Means The 2017 Standards required the CAE to develop and maintain a quality assurance and improvement program (QAIP) that includes assessment of the efficiency and effectiveness of the internal audit activity. Additionally, Standard 1311 required ongoing monitoring of the performance of the internal audit activity. Thus, such requirements in Standard 8.3 are not new. However, the essential conditions ask for more	Agendas and minutes from board meetings documenting discussions with the chief audit executive about the internal audit function's quality assurance and improvement program.			
The chief audit executive must develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program includes two types of assessments: • External assessments. (See also Standard 8.4 External Quality Assessment.) • Internal assessments. (See also Standard 12.1 Internal Quality Assessment.)		Chief audit executive presentations and other communications covering the results of the quality assessments and status of action plans to address any opportunities for improvement.			

	specific actions from the board and senior management, especially regarding advance input on performance objectives.				
At least annually, the chief audit executive must communicate the results of the internal quality assessment to the board and senior management. The results of the external quality assessments must be reported when completed. In both cases, such communications include: • The internal audit function’s conformance with the Standards and achievement of performance objectives. • If applicable, compliance with laws and/or regulations relevant to internal auditing. • If applicable, plans to address the internal audit function’s deficiencies and opportunities for improvement.	Considerations for Implementation The CAE should engage senior management in a discussion on the internal audit function’s objectives and the annual assessment of the internal audit function’s performance against these objectives.	Quality assurance and improvement program workpapers or other evidence demonstrating the completion of related activities			

	NEW - Additional Example: Evidence of senior management inclusion in the internal audit function's objectives discussions and the annual performance assessment of the internal audit function through meeting attendance records and minutes.	Yes	An allocation of time to complete the QAIP included in annual audit plans, approved by AGP. Self assessments are completed on an annual basis and SAC is included within the EQA reciprocal arrangement (SLACIAG) for external review once every 5 years. The results of the QAIP self-assessment (and action plan if applicable) is included in quarterly progress reports to AGP. The results of the EQA are reported to AGP as a separate report once completed. Progress against any resultant action plans is reported through the quarterly update reports to the AGP. Supporting documentation is linked to the SA toolkit. Results will also be reported to the CE as line manager of CIA.	

<u>Essential Conditions</u>				
Board • Discuss with the chief audit executive the quality assurance and improvement program, as outlined in Domain IV: Managing the Internal Audit Function. • **NEW -** Approve the internal audit function’s performance objectives at least annually. (See also Standard 12.2 Performance Management.) • Assess the effectiveness and efficiency of the internal audit function. Such an assessment includes: • Reviewing the internal audit function’s performance objectives, including its conformance with the Standards, laws and regulations; ability to meet the internal audit mandate; and progress towards completion of the internal audit plan. • Considering the results of the internal audit function’s quality assurance and improvement program. • Determining the extent to which the internal audit function’s performance objectives are being met.	Annual Internal Audit Plan and AGP Reports and minutes	Yes	Time to complete the QAIP is included in plan approved by AGP on an annual basis. Results of self assessments are included in progress reports once completed. Progress against self-assessment and EQA action plans in reported in AGP quarterly progress reports. Performance Indicators (PIs) were developed in 2024 and agreed with the AGP. PIs are included in AGP quarterly progress reports and within the Internal Audit Annual Report and Assurance Statement. The Annual report confirms compliance with the relevant internal audit standard (GIAS in the UK Public Sector from April 2025). Individual assignment's Terms of Reference and	Request Chair of AGP input into CIA's PDR from 2026.

				Audit Reports confirm conformance the relevant internal audit standard (GIAS in the UK Public Sector from April 2025). The Chief Executive is the line manager of Chief Internal Auditor and carries out their performance review which includes delivery of the Internal Audit function. The Chair of AGP has in put into the PDR in past (not completed in 2025 because interim CE in place and detailed PDR not completed. A new PDR process is being introduced in 2026 which should include input for the AGP Chair)	

Senior Management • **NEW -** Provide input on the internal audit function's performance objectives. • **NEW -** Participate with the board in an annual assessment of the chief audit executive and internal audit function.		AGP Reports and minutes Returned Post Audit and Stakeholder Questionnaires	Yes	Post Audit questionnaires are issued after all audit assignments and Stakeholders (Senior Managers) questionnaires completed on an annual basis. The results of the questionnaires are included in the quarterly and annual reports to AGP	
Domain III – Principle 8 – Standard 8.3 Quality		**Conformance Assessment**	Generally achieved		
		Performance Assessment	Fully achieved		
<u>Chartered IIA Code of Practice</u> Principle 30 The board audit committee is responsible for approving internal audit's performance objectives and evaluating the performance of the internal audit function on a regular basis. In doing so, it will need to identify appropriate criteria for defining the success of internal audit. This should include assessing internal audit's value, impact, effectiveness and efficiency. Delivery of the internal audit plan should not be the sole criteria in this evaluation.		AGP Reports and minutes	Yes	Performance indicators were agreed with the AGP in 2024 and have been included in the quarterly and annual reports to AGP since then	Performance information to be revisited following conclusion of the 2025 QAIP process
Internal Audit Code of Practice Assessment		**Principle 30**	Fully achieved		

Domain III Governing the Internal Audit Function – Principle 8 Overseen by the Board	Global IIA Conformance Assessment Readiness Tool	Examples of Evidence of Conformance	In Place?	Reviewer assessment, referenced to evidence	Suggestions for further development
Standard 8.4 External Quality Assessment	What this Change Means The assessor or assessment team that performs the internal audit function's external quality assessment now must possess a specific credential: The IIA's Certified Internal Auditor®.	Board meeting minutes where the chief audit executive's external quality assessment plan is discussed and approved by the board.			
The chief audit executive must develop a plan for an external quality assessment and discuss the plan with the board. The external assessment must be performed at least once every five years by a qualified, independent assessor or assessment team. The requirement for an external quality assessment may also be met through a self-assessment with independent validation.	Considerations for Implementation Unless otherwise mandated by laws and/or regulations (see Standard 1.3 Legal and Ethical Behaviour), one member of an	Formal external quality assessment report prepared and validated by a qualified, independent assessor.	Yes	An allocation of time to complete the QAIP included in annual audit plans, approved by AGP. Self assessments are completed on an annual basis and SAC is included within the EQA reciprocal arrangement (SLACIAG) for external review once	

	external quality assessment team must hold an active Certified Internal Auditor® designation.			every 5 years. Assessment schedule is prepared by SLACIAG. The results of the QAIP self-assessment (and action plan if applicable) is included in quarterly progress reports to AGP. The result of the EQA is reported to AGP as a separate report once completed. Progress against any resultant action plans is reported through the quarterly update reports to the AGP. A copy of the external assessor's report is also sent directly by the external assessor to the Chair of the AGP and the Chief Executive once	
NEW - When selecting the independent assessor or assessment team, the chief audit executive must ensure at least one person holds an active Certified Internal Auditor® designation.		Presentations to the board by external assessors covering the results of the external quality assessment.	Yes		
Essential Conditions		Chief audit executive presentations to the board covering external assessment results and action plans, as appropriate	Yes		

Board
• Discuss with the chief audit executive the plans to have an external quality assessment of the internal audit function conducted by an independent, qualified assessor or assessment team.
• Collaborate with senior management and the chief audit executive to determine the scope and frequency of the external quality assessment.
• Consider the responsibilities and regulatory requirements of the internal audit function and the chief audit executive, as described in the internal audit charter, when defining the scope of the external quality assessment.
• Review and approve the chief audit executive's plan for the performance of an external quality assessment. Such approval should cover, at a minimum:
    • The scope and frequency of assessments.
    • The competencies and independence of the external assessor or assessment team.
    • The rationale for choosing to conduct a self-assessment with independent validation instead of an external quality assessment.
• Require receipt of the complete results of the external quality assessment or self-assessment with independent validation directly from the assessor.
• Review and approve the chief audit executive's action plans to address identified deficiencies and opportunities for
		NEW - Additional Example Documentation of assessor's Certified Internal Auditor® credential.	Yes	completed. (As per the Application note there is no requirement for the external assessor to be a Certified Internal Auditor but must be CCAB).	

improvement, if applicable. • Approve a timeline for completion of the action plans and monitor the chief audit executive's progress.					
Senior Management • Collaborate with the board and the chief audit executive to determine the scope and frequency of the external quality assessment. • Review the results of the external quality assessment, collaborate with the chief audit executive and board to agree on action plans that address identified deficiencies and opportunities for			Yes		

improvement, if applicable, and agree on a timeline for completion of the action plans.					
Domain III – Principle 8 – Standard 8.4 External Quality Assessment		**Conformance Assessment**	Fully achieved		
<u>Chartered IIA Code of Practice</u> Principle 34 The board audit committee should obtain an independent and objective external quality assessment at appropriate intervals, irrespective of the size of the organisation. This could take the form of periodic reviews of elements of the function, or a single review of the overall function. In any event, the internal audit function as a whole should as a minimum be subject to a review at least every five years, as set out in the Global Internal Audit Standards. The conformity of internal audit with this Code and the Global Internal Audit Standards should be explicitly included in this evaluation. The chair of the board audit committee should oversee and approve the appointment process for the independent assessor.		AGP Reports and Minutes. Last External Assessment presented to AGP 29 May 2024	Yes	A copy of the external assessor's report is also sent directly by the external assessor to the Chair of the AGP and the Chief Executive once completed. A separate report including the resultant action plan is presented to the AGP for approval and progress against the actions plan included in the quarterly update reports until fully implemented. The external assessor is appointed through the SLACIAG reciprocal arrangement.	

Principle 37 The Chartered Institute of Internal Auditors should commission further independent reviews of this guidance at least every five years, in the light of further experience, with a view to deciding whether any further changes are required.			N/A	N/A	Any updates will be reflected in Internal Audit report, policies and procedures as required
Internal Audit Code of Practice Assessment:		**Principle 34:**	Fully achieved		
		Principle 37:	Not applicable		
UK Public Sector Application Note The RIASS have determined that the qualification requirement in GIAS 8.4 (External Quality Assessment) should be replaced by a different qualification requirement. GIAS 8.4 sets out a requirement that when selecting the independent assessor or assessment team, the chief audit executive must ensure at least one person holds an active Certified Internal Auditor designation. The RIASS have determined that this requirement is replaced by a requirement that at least one person have the characteristics outlined for chief audit executive qualification. The RIASS consider that such a person would normally have an understanding of the GIAS commensurate with the Certified Internal Auditor designation, including internal audit relevant continuing professional development and an understanding of how the GIAS are applied in the UK public			Yes	South Ayrshire Council's Chief Internal Auditor holds CCAB qualification - FCCA and CMIIA (from the Association of Chartered Certified Accountants and the Institute of Internal Auditors). All other Council Chief Internal Auditors included in SLACIAGs reciprocal arrangement hold professional accountancy or internal audit qualifications	

sector. These matters must be considered as part of the selection process.					
Application Note Assessment - Selecting independent assessors		**Conformance Assessment**	Fully achieved		

Note: Board is taken to be Audit and Governance Panel in South Ayrshire Council

Text highlighted in peach were included as part of the IIA Toolkit, all other text was added as part of the Internal Audit Self Assessment

Agenda Item No. 8

South Ayrshire Council

Report by Chief Financial Officer to Audit and Governance Panel of 25 February 2026

Subject: Local Government in Scotland: Financial Bulletin 2024/25

---

1. Purpose

1.1 The purpose of this report is to present the findings and recommendations included in the Audit Scotland report 'Local Government in Scotland: Financial Bulletin 2024/25), published in January 2026.

2. Recommendation

2.1 It is recommended that the Panel:

2.1.1 notes the findings and recommendations from the Audit Scotland report (attached as Appendix 1); and

2.1.2 notes the local arrangements in place at paragraph 4.2.

3. Background

3.1 In January 2026, Audit Scotland published a report entitled 'Local Government in Scotland: Financial Bulletin 2024/25'. The key messages as summarised in the report are as follows:

3.1.1 In 2024/25, councils' total revenue funding and income increased by 1.3 per cent. Despite this, councils faced a £542 million budget gap and remained reliant on reserves and savings to balance their budgets. Councils identified around £200 million of predominantly recurring savings to help manage overall financial pressures.

3.1.2 Despite being largely successful in implementing the actions agreed to manage budgets, with around 90 per cent of savings targets delivered, the sector reported a collective overspend against their agreed revenue budgets for the first time in six years. Around a third of councils reported that they overspent against their agreed revenue budgets and many struggled to deliver recurring savings, instead taking one-off measures to manage their in-year spending.

3.1.3 In 2024/25, most councils spent less than planned on capital projects but invested around £3.5 billion in both existing and new public assets. Reduced capital funding meant councils continued to rely on borrowing to finance increasingly expensive projects and, alongside changes to how they account for leases, have seen their total debt increase by over £2.5 billion in a year. Councils now spend around £1.2 billion a year servicing these debts, with future borrowing requirements also increasing.

3.1.4 There are increasing indications that councils are struggling financially, with a collective budget gap of £647 million identified when budgets were set for 2025/26. Costs continue to outpace funding increases, and there remain significant commitments on funding to fulfil both statutory duties and national policy commitments. There is also continued reliance on non-recurring measures, such as using reserves, to address budget gaps which is simply not sustainable. Technical changes have contributed to rising debt, but there is also a need to recognise that borrowing is forecast to increase, and this comes with associated costs. Councils need to take urgent action to address the sustained and recurring cost pressures associated with delivering services. This will mean carefully considering where services need to be reduced; how service delivery can be fundamentally reconfigured; who is eligible to receive services; and policies on fees and charges.

4. Detail

4.1 It is proposed that Members consider and note the terms of the Audit Scotland report (Appendix 1) and the following recommendations:

4.1.1 In 2026, councils should take action to progress significant outstanding recommendations from previous years around the transparency of financial reporting:

- councils must continue to improve the clarity and comprehensiveness of their reporting on savings performance within their management commentaries, including the provision of comparisons to targets agreed during budget-setting, and whether savings made were recurring or non-recurring (paragraph 35);

- councils should clearly explain within their management commentaries, and within reports to elected members, how future revenue budgets will be impacted by investment decisions and capital underspends (paragraph 39).

4.1.2 In addition, Councils should:

- ensure that their longer-term capital investment plan, and the impact that capital underspending, programme slippage and changes to overall indebtedness arising from accounting changes have had on their overall financial position, is reported clearly and in a timely manner to elected members (paragraph 44);

- ensure that reserves policies are current and remain fit for purpose, and that where agreed minimum reserves levels are breached, or forecast to be breached, there is a clear and time-bound plan for recovery (paragraph 53);

- continue to work with their appointed auditors to ensure that they produce annual financial statements in a timely manner, as the sector continues its recovery to meet statutory reporting deadlines (paragraph 59)

- ensure that long-term financial plans (over five years), that adequately consider risks to financial sustainability and include detailed scenario planning, are in place (paragraph 66)

- ensure that assessments of medium- and longer-term financial sustainability, including reference to specific indicators, are a central focus of reporting to elected members (paragraphs 80–83).

4.2 In terms of South Ayrshire Council's own response and arrangements in relation to the above recommendations, it should be noted that:

4.2.1 ***In terms of savings performance*****:** The Council includes progress information against agreed savings targets within the appendix sections of every Budget Management Report considered on a regular basis by Cabinet. Whilst no adverse comments have been received from External Audit up to this point regarding the information contained in the management commentary section of the Councils annual accounts, the inclusion of a section on the achievement against savings targets will be progressed in the 2025/26 annual accounts management commentary for added clarity.

4.2.2 ***In terms of Capital investment implications:*** Several reports have been considered by Council during 2025/26 in relation to the Capital Investment Programme and the financial impact changes to the program have on debt charge and the impact on future budgets.

4.2.3 ***In terms of reserve policies***: The Councils reserve policy is considered as part of the Medium-Term Financial Plan which is updated and approved by Council annually.

4.2.4 ***In terms of statutory reporting deadlines:*** The Council continues to work closely with the appointed auditors, Audit Scotland, and has never failed to meet the required annual financial reporting timescales.

4.2.5 ***In terms of longer-term financial planning:*** A Medium-Term Financial Plan covering a five-year timeframe is updated annual and considered and approved by Council each year.

4.2.6 ***In terms of financial sustainability indicators:*** Performance indicator information is regularly reported to the Service and Partnerships Performance Panel, Cabinet and Council. Information is also contained in the Management Commentary section of the annual accounts.

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 impact on the reputation of the Council.

9. Integrated Impact Assessment (incorporating Equalities)

9.1 The proposals in this report do not require to be assessed through an Integrated Impact Assessment.

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. Link to Shaping Our Future Council **Yes ☐** **No ☑**

13.1 Not applicable.

14. Results of Consultation

14.1 There has been no public consultation on the contents of this report.

14.2 Consultation has taken place with Councillor Ian Davis, Policy Lead for Finance and Corporate Services, and the contents of this report reflect any feedback provided.

Background Papers	**None**
Person to Contact	**Tim Baulk, Chief Financial Officer** **County Buildings, Wellington Square, Ayr, KA7 1DR** **Phone 01292 612620**

Background Papers **None**

E-mail tim.baulk@south-ayrshire.gov.uk

Date: 30 January 2026

Appendix 1

Local government in Scotland

Financial bulletin 2024/25

ACCOUNTS COMMISSION

Prepared by Audit Scotland
January 2026

Contents

Key facts	**3**
Key messages	**4**
Recommendations	**6**
Introduction	**7**
1. Council funding and financial performance	**9**
2. Financial position and outlook	**24**
Appendix	**37**

Accessibility

You can find out more and read this report using assistive technology on our website www.audit.scot/accessibility.

Key facts

	Funding and budgets
1%	Annual real-terms increase in funding from the Scottish Government to all 32 councils in 2024/25
24%	Proportion of Scottish Government revenue funding that was ring-fenced or directed towards national policy commitments in 2024/25, up from 21 per cent in 2023/24
£542m	Budget gap identified by our sample of 28 councils at the start of 2024/25. The 2023/24 comparator for those councils was £744 million
£647m	2025/26 budget gap forecast by all 32 of Scotland's councils
	Financial performance
1%	Real-terms increase in 29 councils' total revenue funding and income in 2024/25 compared to 2023/24
12 out of 29	Councils that reported overspends against their agreed General Fund revenue budgets
28 out of 30	Councils that reported underspends against their agreed General Fund capital budgets
23 out of 25	Councils that reported underspends against their agreed HRA capital budgets
	Financial position
£21.9bn	Councils' net debt in 2024/25, a 13.5 per cent increase since 2023/24. Councils' long-term external debt includes £14.9 billion borrowed directly from the Public Works Loan Board
7%	Annual decrease in usable reserves between 2023/24 and 2024/25
16 out of 30	Councils that made unplanned use of reserves in 2024/25
85%	Proportion of the General Fund that is committed, a two percentage point increase from 2023/24

Key messages

Despite increased funding in 2024/25, the financial outlook for Scotland's councils presents substantial challenges. The costs of delivering services continues to rise, debt is increasing, reserve levels are falling and there is continued reliance on non-recurring measures to close significant budget gaps. This all raises concerns around councils' medium-term financial sustainability.

1 In 2024/25, councils' total revenue funding and income increased by 1.3 per cent. Despite this, councils faced a £542 million budget gap and remained reliant on reserves and savings to balance their budgets. Councils identified around £200 million of predominantly recurring savings to help manage overall financial pressures.

2 Despite being largely successful in implementing the actions agreed to manage budgets, with around 90 per cent of savings targets delivered, the sector reported a collective overspend against their agreed revenue budgets for the first time in six years. Around a third of councils reported that they overspent against their agreed revenue budgets and many struggled to deliver recurring savings, instead taking one-off measures to manage their in-year spending.

3 In 2024/25, most councils spent less than planned on capital projects but invested around £3.5 billion in both existing and new public assets. Reduced capital funding meant councils continued to rely on borrowing to finance increasingly expensive projects and, alongside changes to how they account for leases, have seen their total debt increase by over £2.5 billion in a year. Councils now spend around £1.2 billion a year servicing these debts, with future borrowing requirements also increasing.

4 There are increasing indications that councils are struggling financially, with a collective budget gap of £647 million identified when budgets were set for 2025/26. Costs continue to outpace funding increases, and there remain significant commitments on funding to fulfil both statutory duties and national policy commitments. There is also continued reliance on non-recurring measures, such as using reserves, to address budget gaps which is simply not sustainable. Technical changes have contributed to rising debt, but there is also a need to recognise that borrowing is forecast to increase, and this comes with associated costs. Councils need to take urgent action to address the sustained and recurring cost pressures associated with delivering services. This will mean carefully considering where services need to be reduced; how service delivery can be fundamentally reconfigured; who is eligible to receive services; and policies on fees and charges.

Recommendations

In 2026, councils should take action to progress significant outstanding recommendations from previous years around the transparency of financial reporting:

- councils must continue to improve the clarity and comprehensiveness of their reporting on savings performance within their management commentaries, including the provision of comparisons to targets agreed during budget-setting, and whether savings made were recurring or non-recurring (paragraph 35)
- councils should clearly explain within their management commentaries, and within reports to elected members, how future revenue budgets will be impacted by investment decisions and capital underspends (paragraph 39).

In addition, councils should:

- ensure that their longer-term capital investment plan, and the impact that capital underspending, programme slippage and changes to overall indebtedness arising from accounting changes have had on their overall financial position, is reported clearly and in a timely manner to elected members (paragraph 44)
- ensure that reserves policies are current and remain fit for purpose, and that where agreed minimum reserves levels are breached, or forecast to be breached, there is a clear and time-bound plan for recovery (paragraph 53)
- continue to work with their appointed auditors to ensure that they produce annual financial statements in a timely manner, as the sector continues its recovery to meet statutory reporting deadlines (paragraph 59)
- ensure that long-term financial plans (over five years), that adequately consider risks to financial sustainability and include detailed scenario planning, are in place (paragraph 66)
- ensure that assessments of medium- and longer-term financial sustainability, including reference to specific indicators, are a central focus of reporting to elected members (paragraphs 80–83).

We note progress against all the recommendations from our Financial bulletin 2023/24 in the Appendix.

Introduction

1. This report is part of a series of overview outputs produced by the Accounts Commission which together provide an independent overview of financial and operational performance of Scotland's local government sector.

2. The report examines council's financial performance in 2024/25. The bulletin sets out:

- councils' funding, income and budget-setting
- councils' financial management and performance
- councils' financial position at the end of 2024/25 and the financial outlook.

3. We will shortly publish a brief supplement analysing the recently published 2026/27 Scottish Budget and levels of funding to councils. In spring 2026, we will publish our annual detailed briefing examining the 2026/27 budgets set by councils, including analysis of anticipated budget gaps, actions to address these, and the decisions made by councils when setting their budgets.

4. We are also reintroducing checklists for elected members to our regular annual financial reports. It is increasingly important that elected members understand the financial pressures facing their own councils, and the impact these may have on future priorities and service delivery. The checklist includes a range of questions to consider that are linked to the content of this report and is designed to support councillors in both decision-making and the scrutiny of decision-making.

Methodology

5. The primary sources of information for this report are councils' 2024/25 accounts and annual audit reports, a data request issued to councils in October 2025 and Scottish budget documents.

6. Our findings are based primarily on:

- The 2024/25 annual accounts for 29 councils (15 audited and 14 unaudited). At our December deadline, 2024/25 accounts were unavailable for three councils (Clackmannanshire, East Dunbartonshire and Stirling). These councils are not included in our 2024/25 analysis (or comparisons to previous years for analysis based primarily on accounts).

- Supplementary information from 30 councils collected via a data return issued to council directors of finance and reviewed by appointed auditors. At our November deadline, a data return was unavailable for Inverclyde and Stirling councils. We also utilised elements of data returns previously submitted to us in support of our Local government budgets 2024/25 briefing and other more recent reports. Where we use these previous returns, we have adjusted our sample to reflect the 28 councils that we have comparable data for across both 2023/24 and 2024/25.
- Our analysis of Scottish Government funding sets out the position for all 32 of Scotland's councils. Within this report, we analyse Scottish Government budget documents up to and including the 2025/26 Autumn Budget Revision (published in October 2025). Due to the timing of the 2026/27 Scottish Budget, this analysis will be updated and extended to include the 2026/27 Budget information within a complementary supplement to this report.
- This year we have also worked to develop our use of balance sheet information, wider intelligence and indicators developed by CIPFA directors of finance to better analyse the financial sustainability of the sector and highlighted specific areas that councillors may wish to consider when setting their own council's budget for 2026/27.

7. When looking at trends, we convert some figures to real terms. This adjusts financial information from past and future years to prices for the year under review (ie, 2024/25). This is to take account of inflation so that trend information is comparable. To adjust for inflation, we use gross domestic product (GDP) deflators, which are published quarterly by HM Treasury. GDP deflators are the standard approach adopted by both the UK Government and Scottish Government when analysing public expenditure.

8. Financial trend data (both capital and revenue) relating to funding, income or expenditure will generally be shown in real terms. Financial information from the councils' accounts' balance sheets remains unadjusted. This includes trend analysis on reserves, sources of capital finance, borrowing and debt. These are not adjusted to real terms as they are already subject to revaluations within councils' accounts to reflect current prices.

9. Throughout the report we refer to timescales in the short term as 1–2 years, medium term as 3–5 years and long term as over five years.

1. Council funding and financial performance

Total funding and income increased in 2024/25, but councils again had to apply a series of measures to bridge budget gaps.

The Scottish Government increased funding to councils in 2024/25 and 2025/26

10. Councils are reliant on direct funding from the Scottish Government which represents around two-thirds of their overall income. Typically, councils receive a draft single-year funding allocation announced alongside the **Scottish budget**, normally in December each year. An initial settlement is then agreed once the Scottish budget has been formally approved by the Scottish Parliament. Throughout the year, this initial settlement is subject to revision, with substantial in-year transfers provided during the autumn and spring budget revisions.

The Scottish budget

The Scottish Government normally publishes its draft budget in December, outlining provisional allocations to local government. For 2026/27, this was delayed to January 2026 due to the timing of the UK Government's Budget.

The Accounts Commission will publish a supplement to this report in February 2026 analysing the initial 2026/27 funding allocation to local government.

Within the Scottish Government budget, funding for councils is shown as part of the Finance and Local Government portfolio. Councils, however, also receive funding from other portfolios, for example the Health and Social Care and Education and Lifelong Learning portfolios. The local government settlement shows the totality of this funding.

Transfers from other portfolios are then formally accounted for at a Scottish Government level during the autumn and spring budget revisions.

Initial funding is also subject to changes as additional funding may become available to the Scottish Government throughout the year, which may be allocated to councils. Scottish Ministers may also reprioritise funding from other portfolios to councils during the year.

11. In 2024/25, the Scottish Government initially provided councils with £12.5 billion of revenue and capital funding at the draft budget stage within its Finance and Local Government portfolio. Councils received £1.5 billion of additional funding and internal transfers (as outlined within the original local government settlement) at the 2024/25 autumn budget revision. This included funding to support agreed pay deals for teachers and social care staff and for councils that agreed to freeze council tax rates. A further £0.3 billion was then provided to councils as part of the spring budget revision. The 2024/25 final outturn allocation meant that funding ultimately increased by one per cent in real terms compared to the total year-end funding provided in 2023/24.

12. The 2025/26 draft budget saw a further increase within the local government budget, taking funding to councils to £13.6 billion in cash terms (£13.2 billion in 2024/25 prices). The 2025/26 autumn budget revision provided councils with £1.5 billion in additional funding and planned in-year transfers, meaning total 2025/26 Scottish Government funding to councils increased by five per cent in real terms from the same point in the prior year (Exhibit 1, page 11).

13. The Scottish Government published its 2026/27 draft budget in January 2026, estimating that there is a two per cent real terms increase in the total funding it is providing to councils. We intend to report on a further analysis of the draft 2026/27 budget within a supplement to this report which will publish in February 2026.

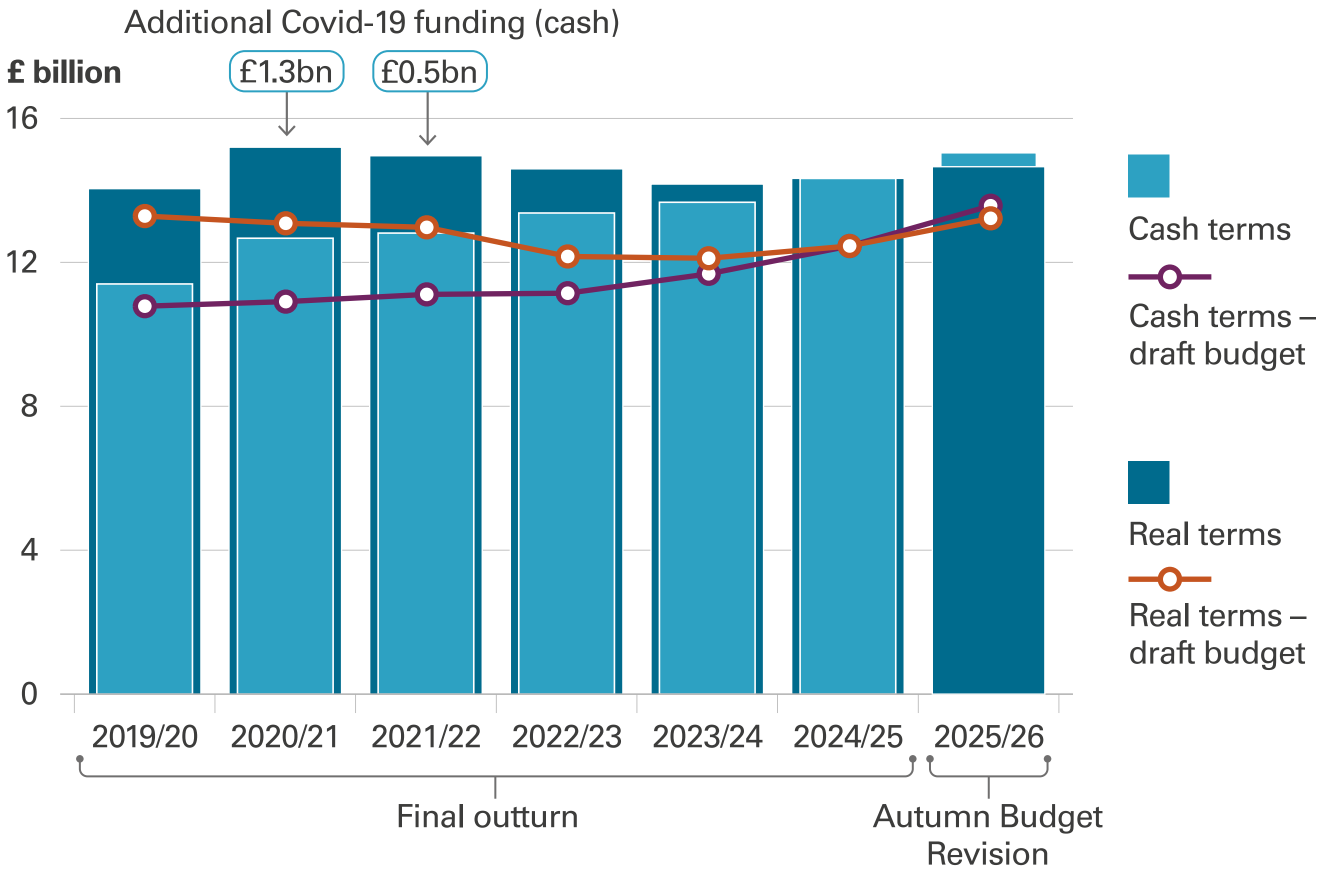
The 2026/27 budget process will reflect the recently agreed Draft Fiscal Framework for Local Government

14. The Verity House Agreement included a commitment to reduce the level of ring-fenced funding, with the aim to provide councils more flexibility in how to allocate resources. Councils also receive funding from the Scottish Government that, although not formally ring-fenced, is provided with the expectation that it is directed for specific purposes.

15. In 2024/25, the Scottish Government 'baselined' several ring-fenced specific grants into the general revenue grant, including the full £522 million of the specific revenue grant for early learning and childcare expansion. While the Scottish Government has fulfilled its commitment under the Verity House Agreement to reducing ring-fenced funding, councils still need to direct spending towards specific national policies and statutory duties, and this limits the discretion councils have over how to use elements of the GRG. Ring-fenced and directed funding amounted to £3.2 billion in 2024/25 (24 per cent of the total revenue funding to councils). This is higher than the 21 per cent of funding that was directed in 2023/24.

Exhibit 1.
Scottish Government funding to councils since 2019/20 in real and cash terms

The Scottish Government has increased funding to councils by four per cent in real terms between 2019/20 and 2025/26, although funding was higher during the pandemic due to specific additional funding allocations.



Notes:
1. Real-terms analysis, with financial information adjusted to 2024/25 prices. The draft budget allocations above do not include transfers from other portfolios outlined within the local government settlement as they are formally accounted for in the autumn and spring budget revisions.
2. Data for 2025/26 remains provisional and will be subject to further adjustment to show final outturn.

Source: Scottish Government budget documents

16. The Scottish Government and COSLA published the draft Fiscal Framework between Scottish Government and Local Government in October 2025. This reflects a commitment within the Verity House Agreement to establish a new funding relationship between the Scottish Government and councils. Key principles underlining the framework include:

- **Simplified funding settlement** – Streamline the funding relationship between the Scottish Government and councils, with earlier engagement in the budget process to support better planning.

- **Baselining of specific grants** – Further incorporation of ring-fenced revenue grants into the General Revenue Grant, providing councils with greater flexibility over local spending priorities.
- **Exploration of greater revenue-raising powers** – Encourage further consideration of new ways that councils can generate additional income to help address financial challenges.
- **Multi-year funding settlements** – When possible, councils will receive multi-year funding settlements to support wider strategic planning.

17. The fiscal framework will formally apply to the 2026/27 Scottish Government Budget, and we intend to report on how these commitments have been met within our upcoming supplementary work on the Scottish budget that will accompany this report.

Total revenue funding and income increased by 1.3 per cent in 2024/25, but income generated from both council tax and business rates fell in real terms

18. In addition to direct revenue funding from the Scottish Government, councils receive funding and generate income to support their day-to-day spending from a variety of other sources. These include council tax and non-domestic rates (NDR, commonly referred to as business rates), but also fees and charges for using services and council house rents.

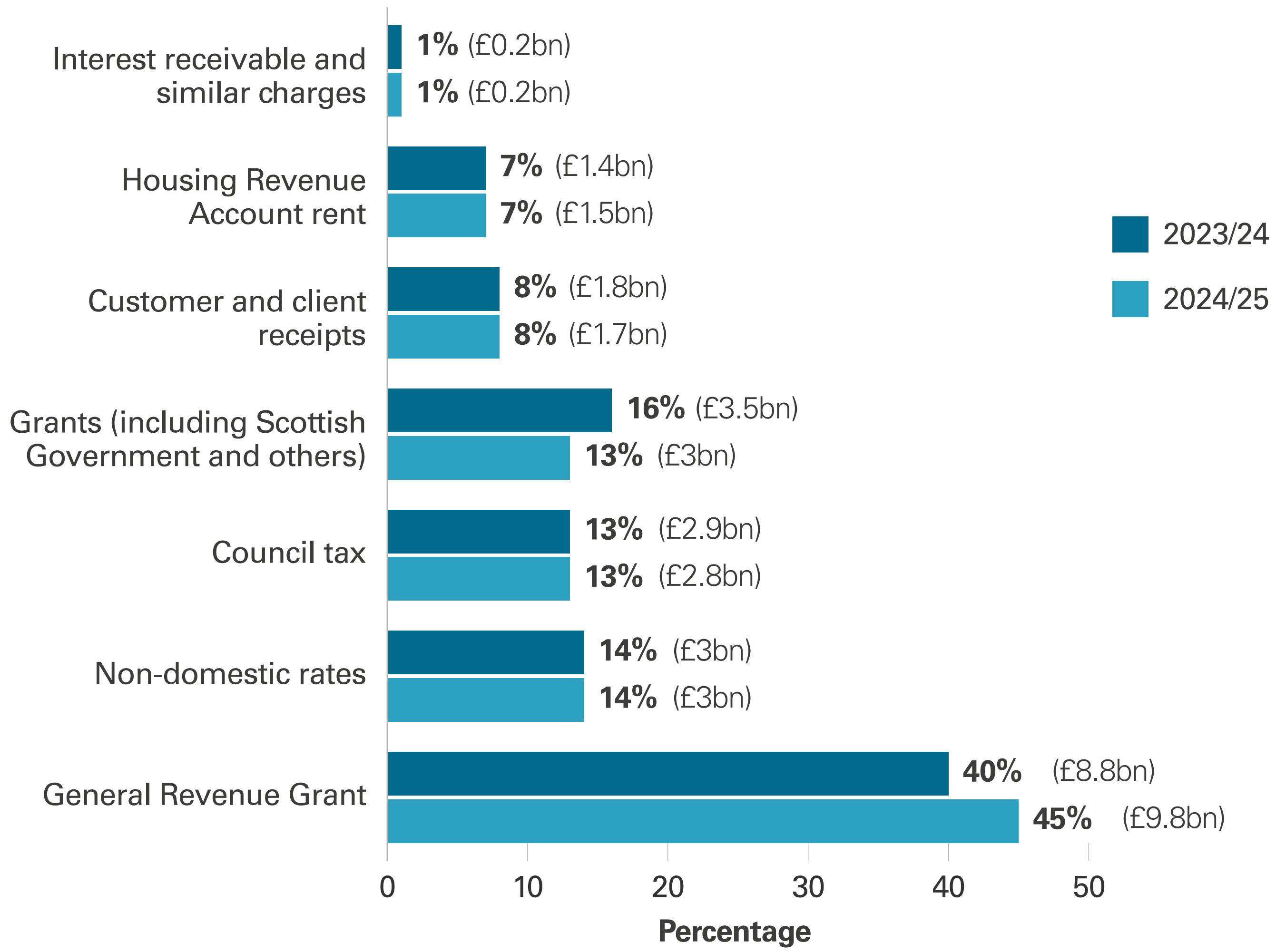
19. Overall, our analysis of 29 councils where 2023/24 and 2024/25 accounts were available shows that revenue funding and income increased by £0.3 billion in real terms (1.3 per cent). Due to the 'baselining' of specific funding into the GRG (paragraph 15), there was a large annual increase in this funding of around £1 billion (12 per cent), but this was partially offset by a commensurate reduction in other grants of around £0.6 billion (16 per cent) (Exhibit 2, page 13).

20. The Scottish Government elected not to make changes to NDR rates or reliefs in 2024/25. Alongside this, councils agreed to freeze council tax rates in return for funding from the Scottish Government, with the Scottish Government estimating this additional funding was equivalent to a five per cent increase in council tax. These decisions contributed to the income directly generated from both council tax and NDR failing to keep pace with inflation and falling in real terms by one per cent and three per cent respectively.

21. Similarly, despite increasing fees and charges in recent years, as outlined in Local government budgets 2024/25, Local government budgets 2025/26 and our recent Spotlight on culture and leisure services, the associated income generated has failed to keep pace with inflation and fell by over three per cent in real terms.

Exhibit 2.
Sources of council revenue funding and income in 2023/24 and 2024/25, in real terms

There was a large increase in GRG and a reduction in other grants in 2024/25, related to baselining of funding, but overall, the proportion of funding from different sources was similar to recent years.



Note: Figures subject to rounding

Source: Councils' annual accounts 2023/24 and 2024/25

Councils identified £542 million of budget gaps at the start of 2024/25, and agreed plans to close them

22. Councils set budgets in February and March for the financial year ahead, based on the initial settlement from the Scottish Government. At the time of setting their 2024/25 budgets, our sample of 28 councils identified a cumulative budget gap of around £542 million (£744 million in 2023/24). This gap represented approximately 3.1 per cent of the total net cost of services, which was a reduction from 2023/24 (4.6 per cent). Glasgow's 2024/25 budget gap was outlier. However, this is due to a multi-year approach to addressing and reporting on their budget gap. The council is focused on addressing their three-year cumulative budget gap to 2026/27 and, as part of their 2024/25 budget, approved savings of £94 million over the three years to 2026/27, of which £34.7 million relates to 2024/25 as part of this longer-term plan.

23. A range of actions were identified by these councils to close the budget gap totalling £553 million (£755 million in 2023/24). Approved bridging actions were higher than the budget gap due to some councils identifying actions not only to address gaps, but also to enable specific spending. Exhibit 3 explains how around three-quarters of bridging actions included identifying recurring/non-recurring savings, using reserves and making use of **financial flexibilities**. Exhibit 4 (page 15) shows the decisions taken by individual councils to address their budget gaps.

24. In 2023/24, councils indicated they would close 19 per cent of their collective budget gap by raising council tax. In 2024/25, no councils raised council tax, reflecting the additional funding made available by the Scottish Government to support a council tax freeze (paragraph 20).

25. Despite increasing funding and measures taken locally to generate additional income, councils continue to face increasing costs and continuing financial pressures. As outlined within Local government budgets 2025/26, at the start of the current financial year, Scotland's 32 councils identified budget gaps totalling £647 million. We consider the financial sustainability of the sector in greater detail within Part 2.

Between 2020 and 2024, the Scottish Government permitted councils to make use of a range of **financial flexibilities** to manage financial pressures. One of these related to service concessions, including Public Private Partnerships (PPPs), and allowed councils to reprofile debt repayments. This offered an immediate benefit of significant one-off increases to reserves but these are not cash backed, and debt payments will need to be made for longer, deferring costs to later years which has implications for future revenue budgets.

Exhibit 3.
The bridging actions 28 councils identified in their 2024/25 budgets
Over half of councils' planned bridging actions were recurring savings and the use of reserves.

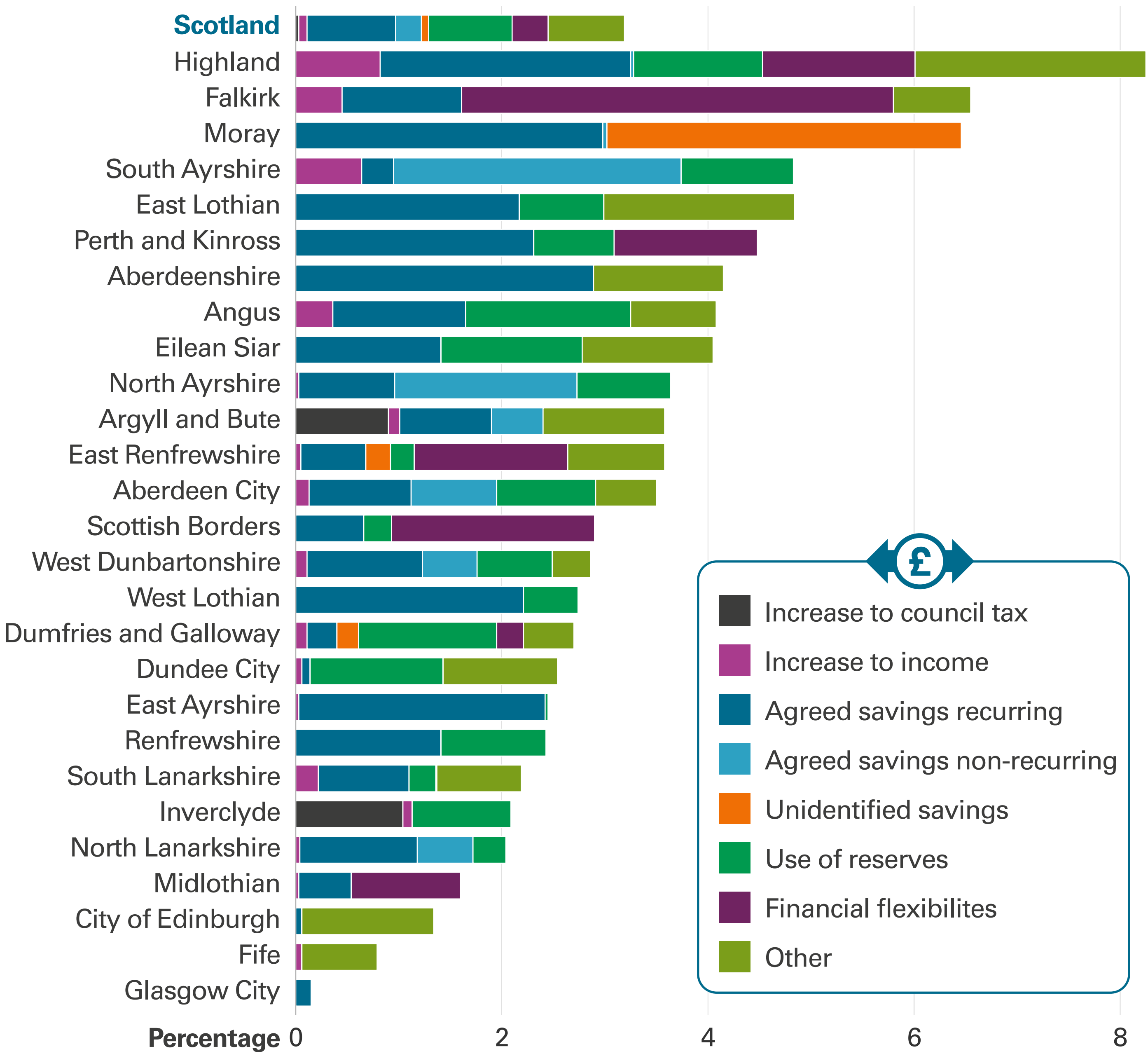
Bridging action	2023/24 £755 million, of which:	2024/25 £553 million, of which:
Recurring savings	**£261 million** (35%)	**£172 million** (31%)
Using reserves	**£211 million** (28%)	**£141 million** (25%)
Non-recurring savings	**£25 million** (3%)	**£43 million** (8%)
Financial flexibilities	**£69 million** (9%)	**£60 million** (11%)
Other measures	**£189 million** (25%)	**£137 million** (25%)

Source: Council data returns for budget bulletins (2024 and 2025) and councils' annual accounts 2024/25 (audited and unaudited)

Exhibit 4.

The bridging actions councils identified within their 2024/25 budgets as a proportion of net cost of services

Over half of all bridging actions were made up of recurring savings and use of reserves across Scotland.



Note: In addition to three councils whose 2024/25 annual accounts or 2023/24 data return were unavailable, Shetland and Orkney are also excluded; both are outliers due to their high use of reserves to set their budgets, reflecting the councils' regular use of returns from significant investments and harbour income. Shetland's bridging actions made up 39 per cent of their net cost of services (79 per cent of which related to reserves use). Orkney's bridging actions made up 15 per cent of their net cost of services (all of which was use of reserves). Bridging actions were identified as councils set their 2024/25 budgets and plans, so may have been reduced to reflect previously approved decisions and can also be subject to in-year changes.

Source: Council data returns for budget bulletins (2024 and 2025) and councils' annual accounts 2024/25 (audited and unaudited)

Councils did not remain within their agreed revenue budgets in 2024/25, with more than a third of councils spending more than was planned

26. Councils set revenue budgets for General Fund services, which represent most council spending and include major services such as education and social care. The councils that own and maintain council housing also set a budget for their Housing Revenue Account (HRA). Councils generally set balanced HRA revenue budgets, with spending plans financed largely by rental income.

27. Based on information provided to us via supplementary data returns (detailed revenue data for 29 councils), councils managed net revenue budgets of around £16.1 billion in 2024/25, compared to £15.6 billion in 2023/24.

28. Eleven councils reported an overspend against their total revenue budgets, and overall, councils reported a revenue budget overspend of £16.8 million in 2024/25 (0.1 per cent):

- 12 councils overspent against their General Fund revenue budgets and, collectively, councils reported a £19.4 million (0.1 per cent) overspend against General Fund revenue budgets totalling £16.1 billion.
- Councils planned to spend £1.6 billion on housing services, including transfers to fund capital investment, and reported an overall overspend of £24.8 million (1.6 per cent). HRA income, however, was £27.4 million higher than budgeted, resulting in a net HRA revenue underspend of £2.6 million.

29. Of the 30 councils where there was available data, 15 reported an overspend on the social care services they deliver on behalf of Integration Joint Boards (IJBs) totalling around £49 million. This was due to increased demand for care packages, both home and residential, alongside an increasing cost for these services. At the same time, several councils reported service level underspends across a range of services (Exhibit 5, page 17). We will publish our annual IJB Financial bulletin 2024/25 in February 2026 which will set out in more detail the financial status of, and outlook for, IJBs.

30. This is the first time an overall overspend for the sector has been reported in the last six years. Between 2019/20 and 2023/24, councils reported an overall underspend; however, the size of the underspend had been decreasing in recent years, and was only 0.2 per cent in 2023/24.

Exhibit 5.
Councils’ overspends and underspends at a service level and reasons for them

Almost all councils reported overspends in 2024/25, with less reporting underspends.

	Service area	Reasons for
Overspends	• Overspends were reported across a wide range of services, particularly within adult social care services, education, children and families, housing and properties and facilities.	• Service area overspends were mostly attributed to increased costs of providing services including inflationary pressures, and increasing demand for services. • For education services, staffing for teacher cover and an increase in additional support needs were identified by several councils as a reason for overspend.
Underspends	• Corporate support areas were the most prevalent areas of underspend. • Education also showed many areas of underspends including workforce vacancies and specific funding.	• Workforce issues, such as recruitment freezes, staff vacancies due to difficulty in recruiting, particularly in education. • Delays and slippages in projects were also a prevalent reason for underspends this year (which will have costs in future years).

Source: Council data returns

Councils achieved significant savings, with a third meeting their full savings target; but some councils continue to rely on one-off measures to make savings

31. From a sample of 30 councils, 29 set a savings target in 2024/25, totalling £376.2 million, and achieved £338.2 million of this (89.9 per cent). Similar to 2023/24, of those councils that set a savings target, ten met their full target and 17 achieved 70 per cent or more. Two councils (Aberdeenshire and Midlothian) achieved less than 70 per cent of their savings target in 2024/25; both reported a revenue budget overspend, but only one (Aberdeenshire) would have broken even if its savings target had been achieved.

32. There is, however, variation in both the scale and ambition of savings targets across individual councils. Based on the 28 councils in our sample that set savings targets and provided revenue budget data, savings achieved were equivalent to 2.2 per cent of total revenue budgets. Shetland Islands, however, achieved savings equivalent to 4.7 per cent of their revenue budget while Dumfries and Galloway achieved savings equivalent to only 0.6 per cent of their revenue budget.

33. Twenty-eight of the 29 councils that set saving targets split these targets into recurring and non-recurring savings. Where we have a breakdown of how savings were achieved, 86.3 per cent (£270 million) were achieved on a recurring basis and 13.7 per cent (£42.9 million) were non-recurring. This compares to 85.5 per cent recurring savings in 2023/24. The split of recurring and non-recurring saving, however, varied widely among councils, with seven councils relying heavily on one-off measures to make in-year savings (Exhibit 6, page 19). Using non-recurring savings to balance council budgets is not sustainable over the longer term.

34. In our 2023/24 Financial bulletin we recommended that councils should report on savings made within their management commentaries more comprehensively, including provision of comparisons to savings targets agreed during budget-setting, and whether they were recurring or non-recurring.

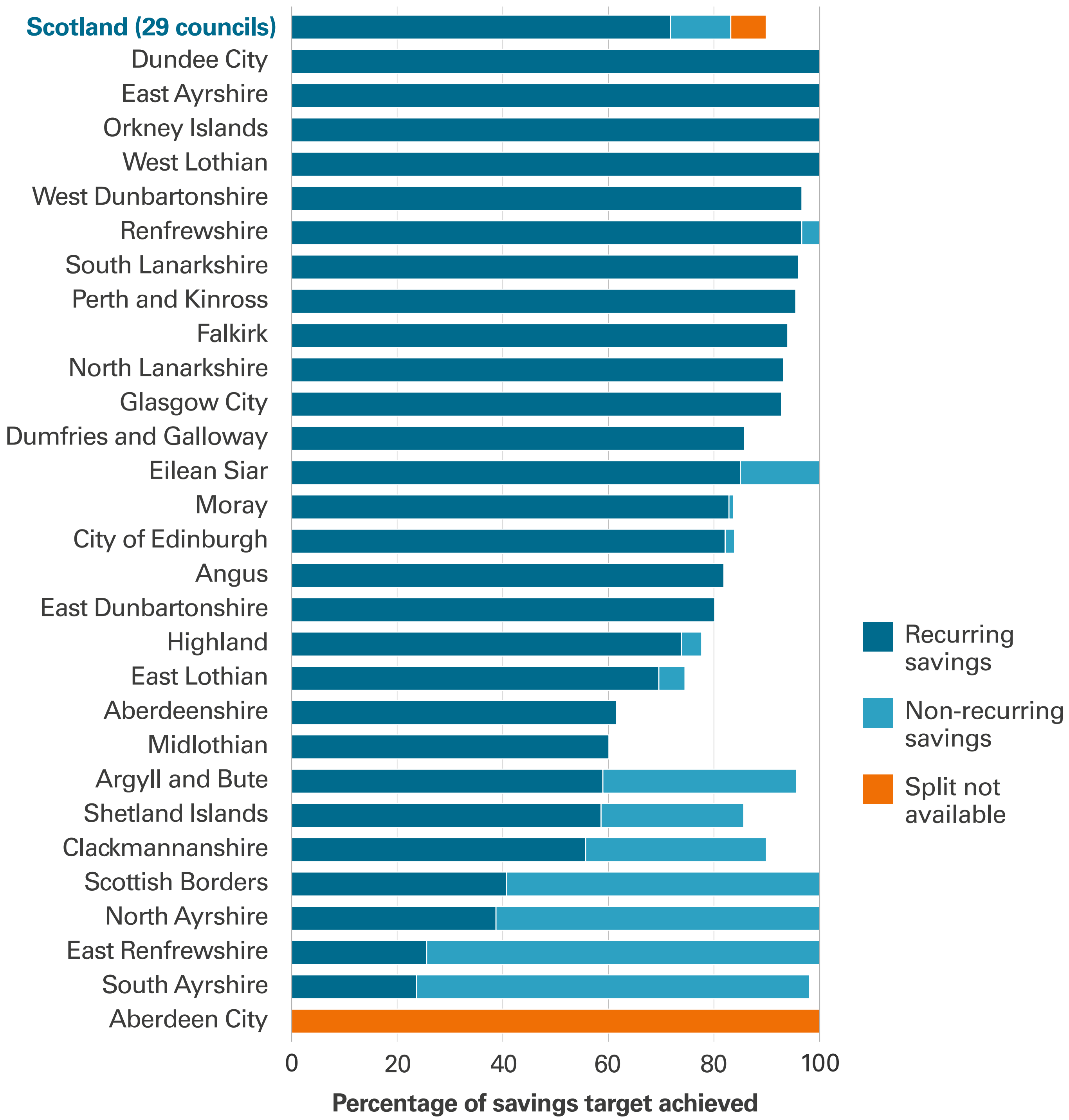
35. Councils are still not adequately reporting on savings within their management commentaries, and only two councils disclosed whether savings were of a recurring or non-recurring nature. While some councils report on progress against savings targets, the level of detail provided can be limited.

Councils spent almost £3.5 billion on capital investment in 2024/25, with increased spending supported largely by borrowing

36. The value of councils' physical assets increased in 2024/25, with property, plant and equipment increasing by around £3.5 billion (to £53.7 billion). This increase in value reflects both ongoing investment and changes to how councils account for leased assets (International Financial Reporting Standard 16 (IFRS 16): Leases, page 23).

37. Councils remain reliant upon borrowing to finance their investment in new assets as capital grants reduce, with increased reliance also being placed upon using internal funds and transfers from revenue budgets. According to our sample of 30 councils providing information via the data return, overall capital expenditure was £3.4 billion in 2024/25, a 7.9 per cent annual increase. Of this, £2.2 billion was related to General Fund projects and £1.2 billion was spent on HRA housing projects.

Exhibit 6.
Percentage of revenue savings targets achieved in 2024/25, split by recurring and non-recurring savings
Some councils relied heavily on non-recurring, one-off measures to make in-year savings in 2024/25.



Note: Inverclyde and Stirling councils did not provide a data return and have been excluded from this exhibit. Ahead of setting its budget for 2024/25, Fife Council took steps to close its budget gap and therefore did not set an additional savings target for 2024/25.

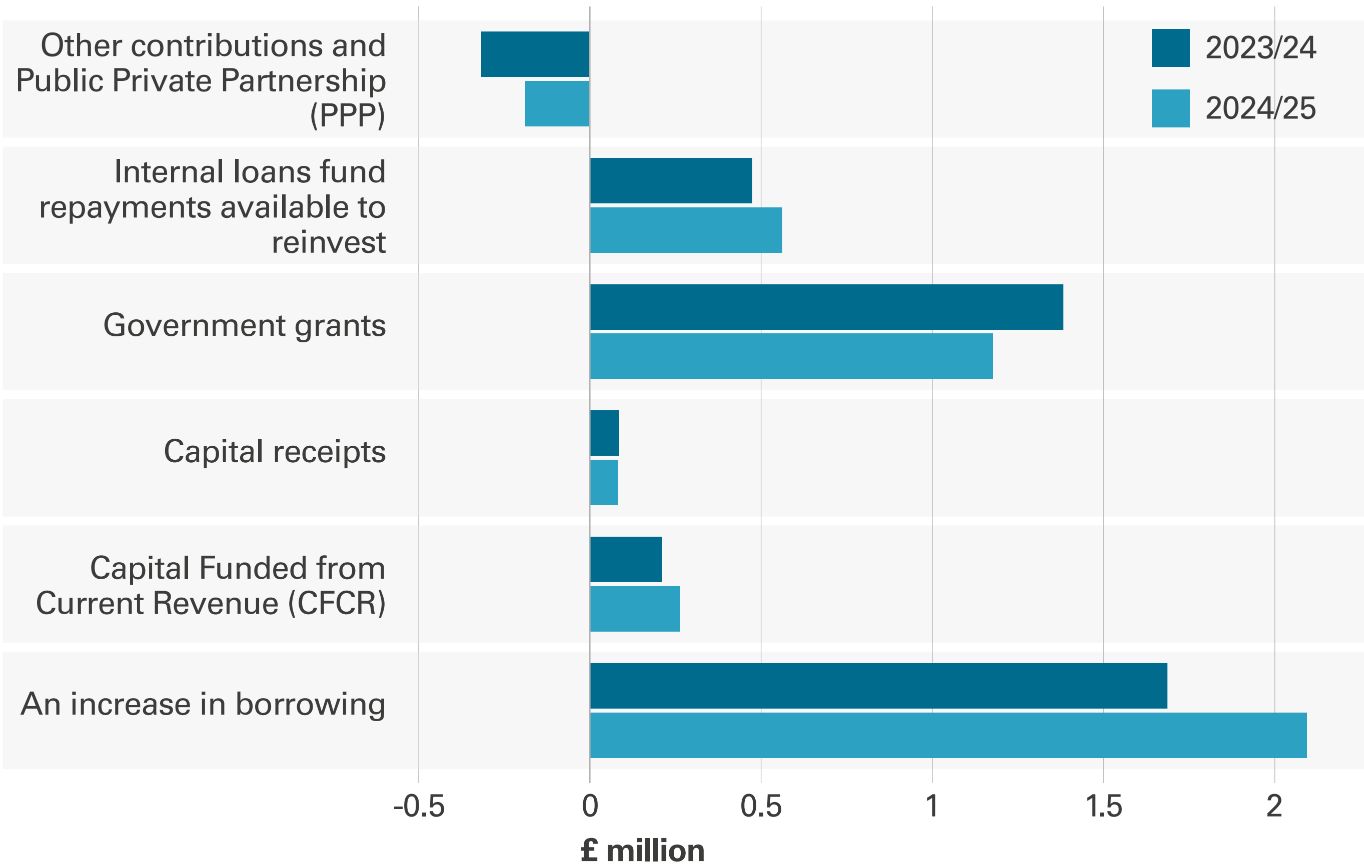
Source: Council data returns

38. There is also continued reliance upon funding released from the use of financial flexibilities relating to accounting for Public Private Partnerships (PPPs). By extending repayment periods for these contracts, councils reduced immediate debt costs and eased annual budget pressures. Recognising prior year overpayments further helped councils manage contract costs more flexibly in their financial planning. In turn, this meant councils increased their usable reserves, allowing these to be used to finance other investment, and reducing the annual impact of PPP payments on capital budgets (Exhibit 7).

Exhibit 7.

Capital expenditure split by sources of finance in cash terms, 2023/24 and 2024/25

Borrowing and grants remain the most significant sources of capital finance but borrowing again increased to offset further reductions in capital grants.



Note: Internal loans fund repayments are an annual charge that recognise capital costs in the revenue budget. Once repaid, they allow borrowed funds to be used elsewhere. Capital receipts are income councils generate from selling existing assets. Revenue transfers are capital expenditure funded from service revenue budgets.

Source: Councils' annual accounts 2023/24 and 2024/25

Despite this increased investment, councils again underspent on their capital budgets

39. Overall, councils reported a budget underspend of £704.4 million or 17.2 per cent of the capital budget in 2024/25. This is less than the underspend reported in 2023/24 (21.3 per cent) and in any of the previous three years. Underspends were reported for both General Fund (21.7 per cent) and HRA capital programmes (7.9 per cent).

40. Twenty-eight out of 30 councils underspent against their General Fund capital budgets in 2024/25 (Eilean Siar reported a balanced position, while Glasgow City reported a small overspend). Not all councils build, own and maintain council housing due to having previously transferred housing stock to housing associations. Of those councils that do have housing stock, and therefore operate an HRA, 23 out of 25 reported underspends against their HRA capital budgets in 2024/25 (City of Edinburgh and East Lothian were the only councils that reported overspends due to accelerated programmes of works).

41. The main reasons for these underspends were slippage in projects, due to capacity and supply chain issues, with capital spend reprofiled into future years. Time taken for procurement of projects was also a prevalent reason for underspends. A large number of the capital projects that slipped this year were within HRA and housing programmes, but school and large infrastructure projects also showed underspends largely due to delays.

42. The main challenges councils reported through the data return in delivering capital programmes over the next five years were:

- affordability – managing the rising costs due to inflation contributing to high and growing material and labour costs
- the risk of higher interest rates on borrowing for capital projects
- the reliance on funding which can come with limitations and uncertainty for the future
- a lack of workforce capacity to manage and run several capital projects.

43. Each year, we ask auditors to consider a specific Best Value theme as part of their annual audit work and then report nationally on the findings of this. For 2025/26 audits, which are scheduled to conclude and report later in 2026, we have asked auditors to consider councils' approaches to asset management and will report nationally on this in spring 2027.

44. All councils who provided a data return reported having a multi-year capital plan in place, with most plans spanning five or more years (25 out of 30 councils). Most councils include information on their capital plans within their management commentaries but, as with information on savings, the level of detail varies. Few provide comprehensive insights into anticipated expenditure, key projects and future challenges. This could hinder the ability of decision-makers to make informed choices on how best to manage finances. It is important that councils are open and transparent in their reporting to the public and wider stakeholders.

45. Further use of external borrowing, capital underspends and the impact of IFRS 16 implementation on councils' financial position underlines the importance of considering the impact of current decision-making on longer-term capital investment strategies and plans (International Financial Reporting Standard 16 (IFRS 16): Leases, page 23).

An update on the Learning Estate Improvement Programme (LEIP) and Public Private Partnership (PPP) contract management

46. Councils continue to progress investment in their school estates, via participation in the Scottish Government's Learning Estate Investment Programme (LEIP). The launch of Phase 3 of the programme confirmed that 47 schools will be eligible for funding under the programme, with construction or refurbishment costs being part funded by the Scottish Government using an outcomes-based 25-year funding model.

47. Fourteen projects have been completed and are now operational, with a further 16 under construction and 17 at the design stage. Procurement processes and construction times associated with such projects means that it is increasingly unlikely that the programme will be completed by the original planned date of 2027.

48. These delays also mean that there is a lack of certainty around overall construction costs, which councils must fund, as well as the allocation of ongoing Scottish Government outcomes-based funding for individual projects (which are not yet fully finalised as they are based upon project costs).

49. Alongside management of the LEIP programme, councils continue to manage the operational aspects of a variety of PPP contacts, including Public Finance Initiative (PFI) contracts. Earlier PFI contracts are now nearing their end, with eight set to expire by the end of 2030. Councils are actively preparing for, or managing, complex exit arrangements.

50. In the 2024/25 Annual Audit Reports we have reviewed (sample of 15), auditors did not raise any concerns around PFI contract expirations that are in process. However, all reports highlighted the application of IFRS 16 as a significant audit risk. Additional audit procedures were undertaken to mitigate this risk, and while some issues were identified, none were considered material.

International Financial Reporting Standard 16 (IFRS 16): Leases

Councils prepare their accounts under the Code of Practice on Local Authority Accounting, published annually by CIPFA/LASAAC. The Code is prepared under International Financial Reporting Standards (IFRS).

Implementation of IFRS 16 became mandatory for councils under the Code in 2024/25, changing how councils need to account for existing and new leases. Notably this includes Public Private Partnership (PPP) contracts.

For some leases (finance leases), including PPP contracts, councils already recognised an asset and corresponding lease liability on their balance sheets.

The main impact of the new requirements therefore is that, for arrangements previously accounted for as operating leases, a right-of-use asset and a lease liability must now be recognised on council's balance sheets.

What IFRS 16 means for councils

In a small number of cases, the application of IFRS 16 resulted in delays to draft accounts, or drafts accounts being issued where elements of the changes had yet to be applied.

As IFRS 16 has not been retrospectively applied, from our sample of 15 audited sets of accounts and 14 unaudited sets of accounts, 2024/25 has seen:

- the value of councils' assets increasing by £3.5 billion, with £0.4 billion of this due to recognising 'right of use assets' under IFRS 16
- an increase in total debt of £2.5 billion (£0.5 billion increase in long-term liabilities), with £0.8 billion of this overall movement due to recognising remeasured PPP liabilities under IFRS 16
- this recognition of both assets and liabilities impacting councils' Capital Financing Requirements (CFRs), with £0.9 billion of the annual increase of £2.1 billion attributable to IFRS 16 implementation.

2024/25 audit work on IFRS 16 implementation

In 2024/25, all appointed auditors recognised the implementation of IFRS 16 as a significant risk for councils and carried out additional audit testing and procedures as part of their work.

Auditors identified a range of issues in how IFRS 16 related changes were reflected within draft accounts. In all cases, however, corrections were either made by councils, or any uncorrected misstatements were not material to the accounts.

No auditors modified their audit opinions due to IFRS 16 implementation.

Overall, the conclusion from 2024/25 audit work reported to date is that councils appropriately reflected the impact of IFRS 16 in their final accounts.

It has, however, directly impacted debt levels which councils must consider alongside other key factors within both their capital and borrowing and treasury management strategies. It is therefore important that all councils consider the continued affordability of their longer-term capital investment strategies and plans.

2. Financial position and outlook

Councils face substantial challenges in maintaining their financial sustainability over the medium term. A decrease in usable reserves in 2024/25, most of which are committed for specific purposes, limits councils' flexibility in dealing with emerging pressures and increases overall financial risk.

Councils' usable reserves have decreased since 2023/24

51. Councils often use reserves as a way of managing their finances, for example helping to support service transformation to support future savings. Because reserves are a one-off resource, councils must plan their use carefully. As budgets come under greater pressure from cost pressures and increasing demand, it is critical that councils understand the risks of using reserves to manage short-term budget pressures.

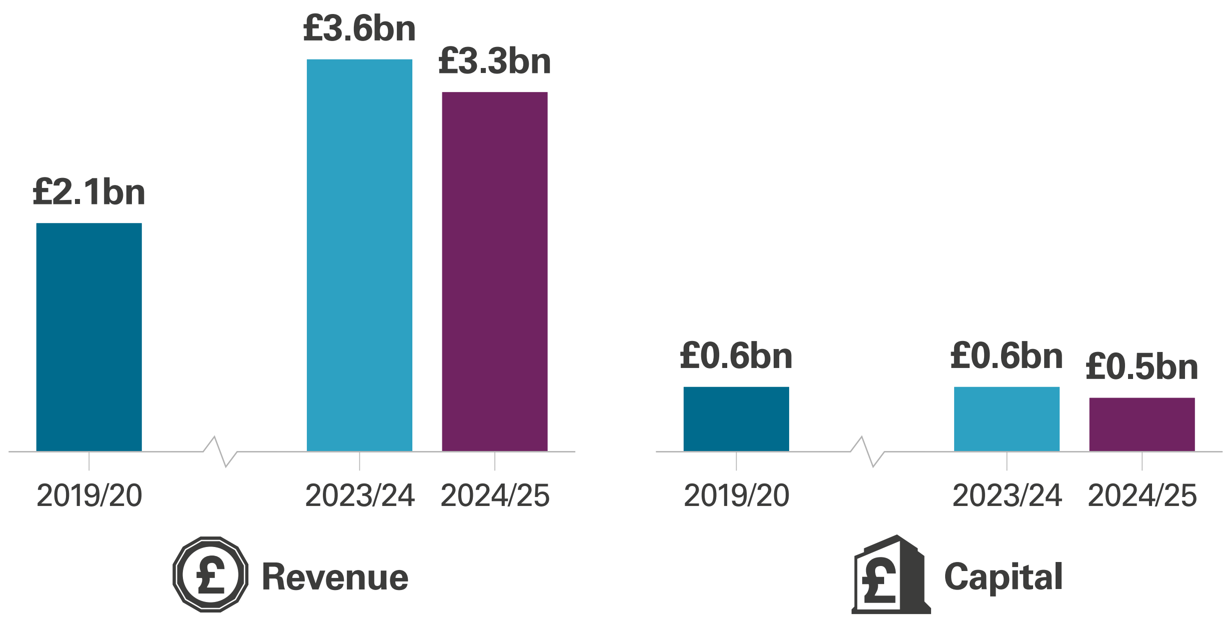
52. In 2024/25, usable reserves decreased from £4.1 billion in 2023/24 to £3.8 billion (Exhibit 8, page 25). This follows a period where usable reserves have been increasing, from £2.7 billion in 2019/20, that was attributable largely to increased funding and the use of financial flexibilities that were introduced in response to the Covid-19 pandemic. The annual decrease in usable reserves is due to a slight decrease in capital reserves and a larger (ten per cent) decrease in usable revenue reserves. The £3.8 billion of usable reserves held by councils at the end of 2024/25 equates to 22 per cent of their net cost of services.

53. Supplementary information provided to us via data returns shows that 25 out of 30 councils made planned use of their reserves in 2024/25 (around £325 million) to balance their budgets, meet statutory obligations and to fund one-off pressures. Sixteen councils also made unplanned use of reserves (around £78 million). This compares to 12 out of 30 councils in 2023/24. This unplanned use of reserves was mainly to mitigate service overspends or to address specific financial pressures.

Exhibit 8.

Councils' usable reserves, 2019/20, 2023/24 and 2024/25

Usable reserves remain higher than pre-pandemic but have seen a decline in the last year.



Note: Figures subject to rounding.

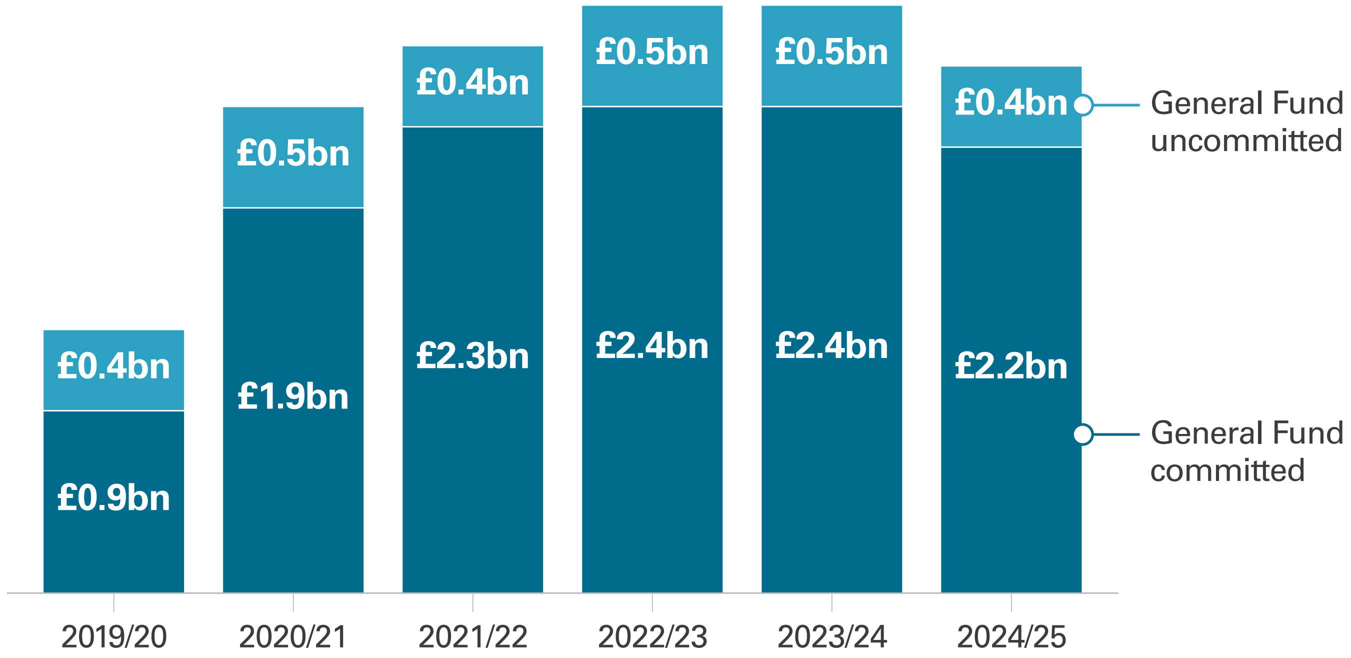
Source: Councils' annual accounts 2019/20 to 2024/25 (audited and unaudited)

Eighty-six per cent of General Fund reserves are committed for specific purposes, impacting the level of contingency funding available to manage emerging pressures

54. The General Fund is the principal usable revenue reserve held by councils. It can be used for a wide range of purposes, including bridging budget gaps by supporting both day-to-day service spending and elements of capital spending. It therefore represents the most readily available reserve for managing financial pressures.

55. Councils, however, also commit or earmark elements of the General Fund, identifying where it will be used for a specific purpose. Notably, the recent trend in General Fund increases since 2019/20 was driven almost exclusively by committed funds. This means that while, overall, the General Fund was increasing, uncommitted usable reserves have been decreasing as a proportion of spending (Exhibit 9, page 26).

Exhibit 9.
Councils' General Fund balance between 2019/20 and 2024/25, split by committed and uncommitted
General Fund reserves have declined with 86 per cent committed in 2024/25.



Source: Councils' annual accounts 2019/20 to 2024/25 (audited and unaudited)

Annual overspends, and a reliance on reserves, means that a number of councils are now in breach of their own reserves policies and are taking action to address this

56. Based on information provided to us via supplementary data returns, 28 out of 30 councils have reserve policies in place, with the majority (27) setting out a minimum level of uncommitted reserves ranging between 0.4 and three per cent of budgeted net revenue expenditure. Some councils base their minimum level on a set monetary value, rather than a percentage of expenditure; this includes three councils where the minimum level is less than two per cent of budgeted net revenue expenditure. Shetland Islands and Eilean Siar are the only councils in the sample that do not have a formally agreed reserves policy in place.

57. Five councils had uncommitted reserves below their locally agreed minimum in 2024/25 (Dundee City, City of Edinburgh, Glasgow City, South Ayrshire and West Dunbartonshire). These councils explained the reasons for this as in-year overspends, with City of Edinburgh, South Ayrshire and West Dunbartonshire indicating that they intend to bring the levels of uncommitted reserves back to target levels for 2025/26.

Minimum reserve levels are put in place to not only meet statutory duties but to ensure financial stability, ie ensuring that there is a buffer for unplanned spends. If councils breach their minimum reserves levels this could be a sign that they are reliant on using one-off reserves for recurring needs.

58. A review of councils' management commentaries shows that all councils clearly identify key reserve areas and explain their purpose. Most councils also specify their minimum reserve level, with those who do not set a minimum level providing justification for their approach.

Councils must improve the transparency of their financial reporting

59. As part of good financial management and governance, councils should report on their finances in a clear and timely manner. At the time of publishing this report, not all 2023/24 council audits are complete, with two (Clackmannanshire and East Dunbartonshire) remaining outstanding. This year, 15 councils met the statutory deadline of 30 September for preparing audited 2024/25 accounts. At this point, no 2024/25 annual accounts have been qualified or modified by appointed auditors. Four councils (Aberdeenshire, Clackmannanshire, East Dunbartonshire and Stirling), however, failed to meet the 1 July deadline to have their unaudited accounts available for public inspection.

60. Within the sample of 2024/25 Annual Audit Reports, most councils were judged to be open and transparent in their financial reporting. The auditor of one council identified that its financial reports did not support effective scrutiny, as they were highly technical and not sufficiently tailored for members without a financial background. A recommendation was subsequently made that the council should improve reporting to present key financial information such as budget reports, savings measures and borrowing in an understandable and consistent way, including summary information, to better inform decision-making and allow for scrutiny from elected members. The council agreed to take action to address this recommendation, with the underlying principle applicable to all councils.

61. Our review of management commentaries found these were generally clear and understandable, and consistent with the annual accounts. However, there was a general lack of clarity about who was involved in making judgements on financial sustainability. This is important to demonstrate good governance, transparency and accountability.

Councils are forecasting continuing financial pressures over the medium term which present risks to financial sustainability

62. Councils face significant risks to their financial sustainability which can be influenced by external pressures. These include demographic changes and rising demand for services (particularly within social care), ongoing workforce challenges (the subject of our August 2025 report Delivering for the future: Responding to the workforce challenge), and current immediate pressures such as homelessness. Additionally, the implementation of new and existing Scottish Government policies without sufficient further funding can add to existing challenges.

63. Within the supplementary data returns we issued, and publicly, councils reported a range of specific financial risks as possible challenges for their financial sustainability over the next five years. Common issues highlighted include:

- **Future funding:** all councils have highlighted single-year settlements, any potential reductions in government grant funding and ring-fencing of funds as major challenges. The draft 'Fiscal Framework between Scottish Government and Local Government' has a stated aim of addressing the uncertainty arising from single-year settlements (paragraph 16).
- Additionally, **future reductions in capital grants** could mean that already constrained capital programmes would need to be scaled back or redesigned, impacting the availability of assets essential for service delivery. This comes at a time when demand for services continues to rise.
- **Inflationary pressures:** councils are reporting existing inflation pressures as well as economic uncertainty over future inflation and interest levels as a main challenge. They are also facing pressures with increased service demand and the associated rising costs of goods and services, as well as a risk of rising borrowing and capital financing costs related to increased borrowing being needed to finance projects due to increasing costs and construction inflation.
- **Pay settlements/awards:** councils expressed concern about uncertainty of how future pay awards might be financed. They reported that a lack of certainty as they negotiate future pay awards creates a challenge for financial planning. This includes financial pressures arising from increased employer's National Insurance contributions from 2025/26 onwards.
- **Council tax:** a council tax freeze was implemented in 2024/25, and while there was no council tax freeze in 2025/26, councils have highlighted the uncertainty around future council tax rates as a significant challenge for medium-term financial planning. Councils also identified that this risk is heightened by their limited capacity to introduce new local taxes, leaving them reliant on council tax income.

- **Savings:** identifying and achieving additional recurring savings after implementing substantial savings in recent years was identified as a challenge by some councils.
- **Reserve levels:** two councils reported that low reserve levels and reliance on reserves to fund recurring expenditure, potentially reflecting difficulties in controlling their base costs.

64. In Local government budgets 2025/26, we reported that Scotland's 32 councils identified a budget gap of around £647 million at the time of setting their 2025/26 budgets, with a projected cumulative budget gap to 2027/28 of £997 million. With financial pressures forecast to continue, it is important that councils proactively seek to manage these financial pressures to maintain delivery of services.

Councils have medium-term financial plans in place, but must continue to prioritise service transformation to achieve financial sustainability

65. Having robust medium- and long-term financial plans in place is essential in order for councils to maintain a clear understanding of financial risks, implement robust risk management processes to monitor them, and develop indicative forecasts supported by detailed scenario planning.

66. All 30 councils that provided a data return reported having medium-term financial plans in place, with the majority spanning 3–5 years (a small number cover a similar period but are due to be refreshed). Most councils reported that these plans link to their approach to using reserves over the medium term. Eleven councils also reported having a long-term financial plan in place spanning over five years. All councils should consider putting in place longer-term plans to help mitigate financial sustainability risks.

67. All councils present their medium-term financial plans within their management commentaries although few councils provide insights into their longer-term financial outlook. This lack of transparency has the potential to undermine wider understanding of the challenges councils are now facing in terms of their financial sustainability. The majority of councils that did report significant risks to financial sustainability highlighted uncertainties regarding future funding, pay settlements, inflation, cost pressures and rising service demand.

68. Given their financial challenges, councils must focus on service transformation and allocate adequate resources to ensure sustainability. Within our data return sample, 24 councils identified they hold committed/earmarked reserves for transformation work. Glasgow City, Orkney Islands, Shetland Islands, South Lanarkshire and West Dunbartonshire did not separately identify transformation funds within their reserves but councils may have other funds to progress transformation. The total value held is around £269 million, which is around 12 per cent of the total General Fund committed balance and 1.5 per cent of the total net cost of services. The value held varies across councils, ranging from 0.4 per cent (Aberdeen City) to 9.7 per cent (Argyll and Bute) as a percentage of their net cost of services.

69. Most councils report on transformational change programmes in their management commentaries although the level of detail is varied. Some councils provide detail on specific projects within their programme plans and the progress against these. As part of their 2024/25 audit work, we asked auditors to consider the specific Best Value theme of Transformation as part of their annual audit work, following up on our October 2024 report Transformation in councils. We will report nationally on the findings of this work in spring 2026.

Councils' net debt has increased significantly, with an annual increase of £2.5 billion, partly driven by changes in how they account for leases, but also reflecting ongoing investment

70. In 2024/25, within the 29 sets of council accounts available, total debt increased to £23 billion (an annual increase of £2.5 billion). Accounting for investments, this means that councils' net debt now stands at £21.9 billion (2023/24: £19.3 billion). The changes associated with IFRS 16 implementation, with a need to recognise lease liabilities, has contributed to this increased indebtedness (International Financial Reporting Standard 16 (IFRS 16): Leases, page 23). Councils again, however, increased the amount of money they borrowed to invest in new assets. Long-term external borrowing now sits at £15.5 billion (an annual increase of £1.2 billion).

71. Councils' external debt comprises borrowing from a variety of sources. Temporary borrowing is often undertaken to manage cash flow, but longer-term borrowing and debt is associated largely with capital investment and the main sources of this are:

- The Public Works Loan Board (PWLB) – a UK Government agency that provides long-term borrowing with relatively stable interest rates, linked to UK Government bonds.
- Market loans – borrowing directly from the banks or other financial institutions, often undertaken at historical points where they were cheaper than PWLB loans.
- Lender options/borrower options loans (LOBOs) – historic loans where the lender can periodically adjust the interest rates (lender option), providing councils with the choice to accept the new rate or repay the loan early (borrowing option).

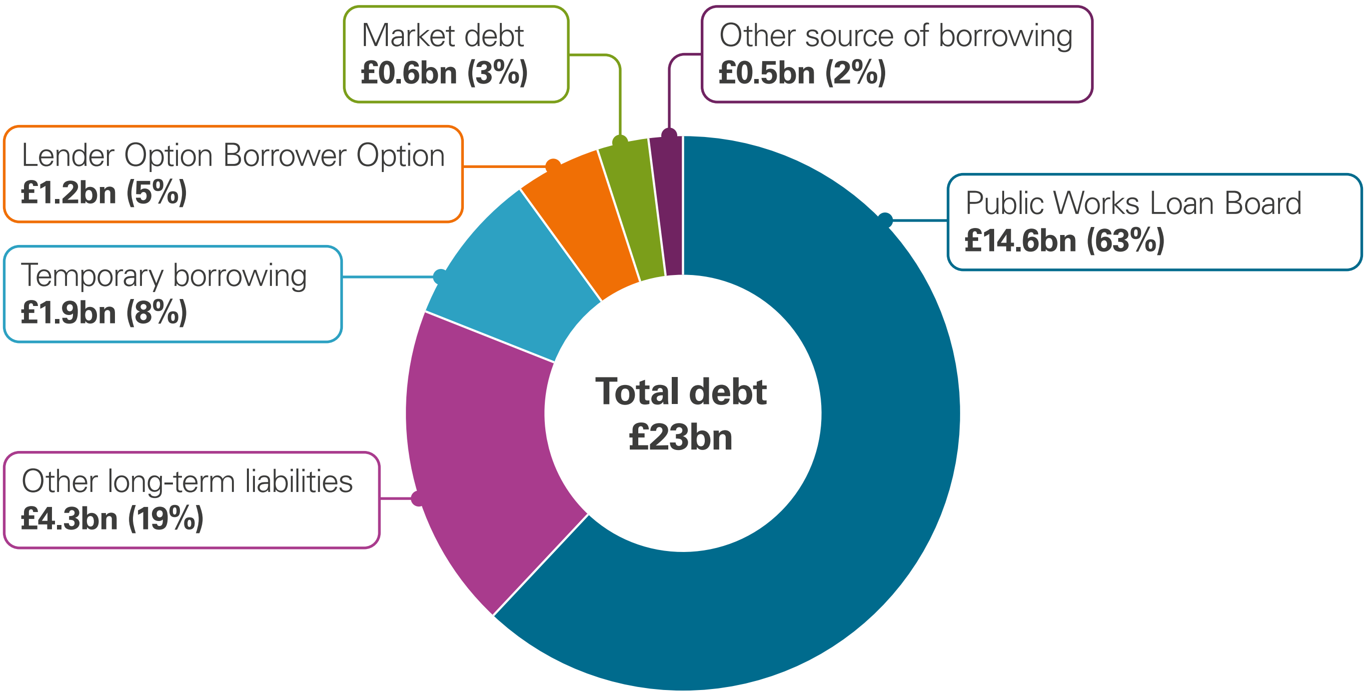
72. As well as direct borrowing, councils also recognise a range of long-term liabilities associated with PPPs and other longer-term investment contracts which represent committed future repayments, with 2024/25 figures also now including adjustments related to changes in how leases, including PPPs, are accounted for.

73. Council debt is reported on their balance sheets at a carrying value equivalent to the outstanding principal plus any accrued interest. This means that the amounts reported can vary from the actual amount borrowed. We asked councils to provide supplementary information about the value of funds borrowed, as well as the sources of this funding. Alongside their reported long-term liabilities which are presented to show the discounted values of future payments (including outstanding payments under PPP contracts), this has allowed us to present the sources of debt for 30 councils (Exhibit 10).

Exhibit 10.

The types of debt held by councils in 2024/25

The vast majority of council debt related to PWLB loans undertaken to invest in physical assets and infrastructure.



Note: This exhibit is based upon 30 council data returns (excluding Inverclyde and Stirling councils). The gross and net debt figures in paragraph 70 are based on 29 sets of accounts (excluding East Dunbartonshire, Clackmannanshire and Stirling Councils).

Source: Council data returns

Most council debt relates to loans from the PWLB that will need to be repaid when they end

74. In 2024/25, Scotland's 32 councils had outstanding PWLB loans with a principal value of £14.9 billion, an increase of £1.9 billion in the amount they had borrowed from the previous year. The vast majority of outstanding PWLB loans, around £12.8 billion, were taken out on fixed-rate maturity terms. This means that over the length of the loan, councils pay defined interest payments every six months but, at the end of the loan, must then repay the principal amount they borrowed (Exhibit 11, page 33).

75. In practice this means that councils often borrow from the PWLB to repay earlier loans. Councils are scheduled to repay around £760 million of PWLB maturity loans in 2025/26, with a further £2.6 billion expected to be repaid over the next five years. At the same time, the interest rates on PWLB borrowing have been increasing, reaching the highest point in a decade. Alongside forecast increases in total borrowing, this is likely to result in increased interest and debt servicing costs, even if the current interest rates available are lower than the rates on loans that are maturing.

Increased borrowing and interest rates mean that councils are now spending more to service their debt

76. Changing interest rates are having an impact on financing costs and councils' financial position more widely. Councils paid £1.2 billion in interest in 2024/25, an increase from £1 billion the previous year.

77. Councils use Local Government Benchmarking Framework (LGBF) data to assess their financial sustainability (paragraph 80). Data for 2024/25 shows there has been an increase in the proportion of councils' revenue budgets allocated to servicing debt in the General Fund, rising from 5.4 per cent to six per cent in the last three years. For the HRA, the proportion of the budget servicing debts cost is currently at 21 per cent, an increase of one percentage point over the last year.

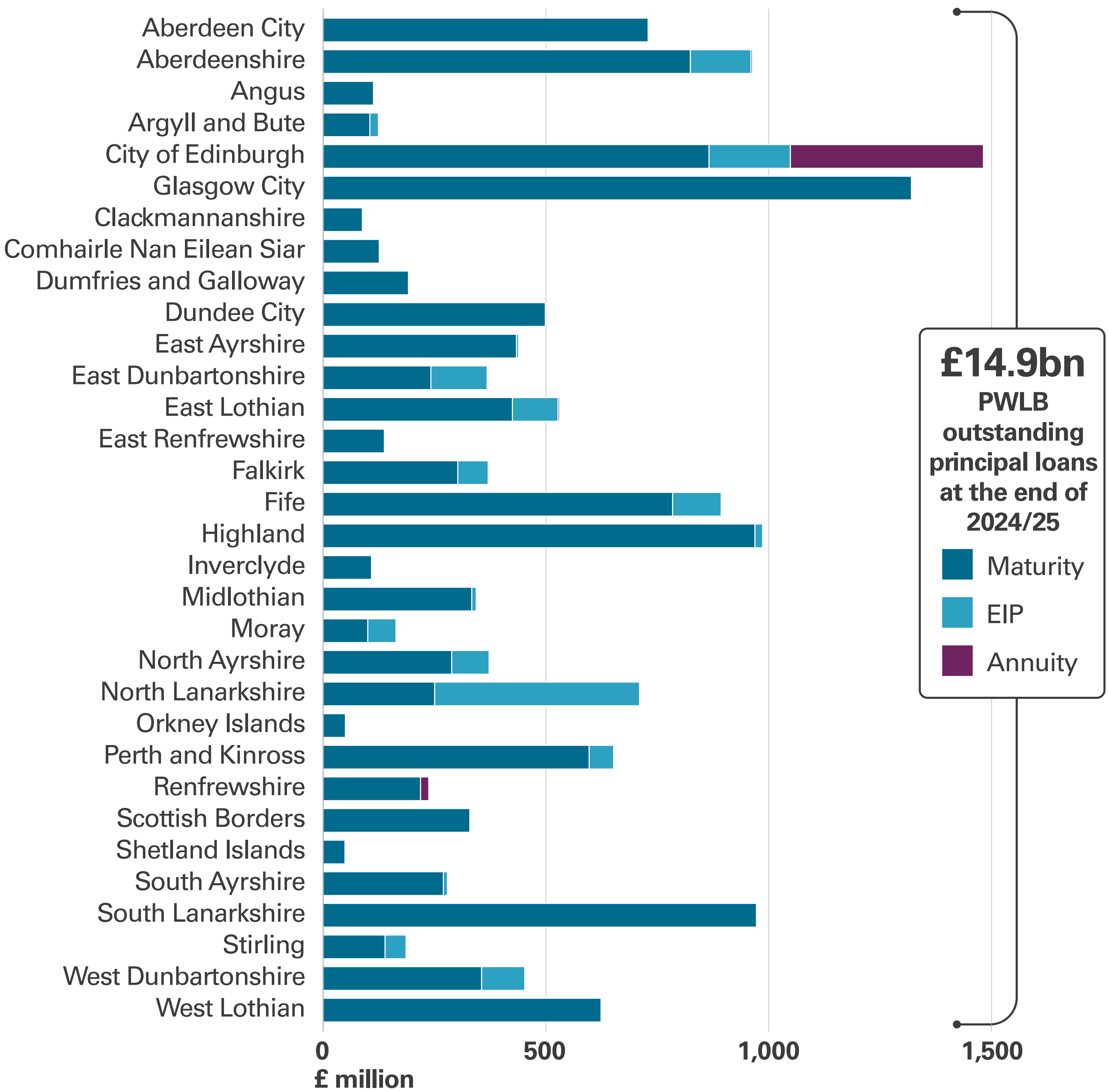
Significant borrowing is still required to finance past capital investment and to deliver planned capital investment

78. The capital finance requirement (CFR) is a measure of the cumulative amount of money a council needs to borrow to finance its capital expenditure. This means it usefully expresses the maximum potential amount of borrowing that a council may still have to undertake. In 2024/25 the cumulative CFR stood at £25.9 billion, an increase of £2.3 billion from 2023/24.

Exhibit 11.

Scotland's 32 councils had outstanding PWLB loans of £14.9 billion at the end of 2024/25

Loans of over £12.8 billion, around 86 per cent, were taken out on a maturity basis, meaning the amount borrowed will need repaid at the end of each loan.



Note: This exhibit presents the PWLB principal outstanding balance for each council. EIP means the borrower makes fixed repayments towards the principal each period, while the interest element changes over the duration of the loan, reducing the overall repayments each period. Annuity means the borrower makes fixed total repayments on both the principal and interest element of the loan over the loan period. The level of regular repayment towards the principal element of the loan will increase over the duration of the loan as the interest element decreases.

Source: Analysis of PWLB annual data as at 31 March 2025

79. Around £19.6 billion (76 per cent) of councils' combined CFR at the end of 2024/25 related to the General Fund, with the remaining £6.3 billion attributable to HRAs. This means there was a slight annual increase in the proportion of the overall CFR relating to the HRA in comparison to the General Fund of 0.6 percentage points.

Councils are assessing their own financial sustainability, and benchmarking against others to inform financial planning

80. Regular monitoring of their own financial sustainability allows councils to plan more effectively and manage their resources responsibly. To do this, councils make use of a range of indicators to assess their own financial sustainability. Based on data returns provided by 30 councils, the extent to which councils make use of both external and internal indicators varies, as they have discretion in how they monitor and assess their own financial sustainability:

- All 32 councils submit data to the **Local Government Benchmarking Framework (LGBF)** and 25 councils actively make use of the LGBF financial sustainability indicators to some extent. Data for 2024/25 shows that both usable reserves and those uncommitted reserves available for immediate use have decreased over the last year.
- Twenty-one councils use the CIPFA level of reserves measure. This compares the current level of reserves to the council's net revenue expenditure.
- Six use the CIPFA reserves sustainability measure. This assesses how long it will take for a council to use all their reserves if they continue to allocate as they have.
- Eight use the CIPFA change in reserves sustainability measure. This monitors the change in a council's reserves over a three-year period.

81. Most councils are reporting on their use of financial sustainability indicators within management commentaries. There is clear evidence that councils are actively assessing and monitoring their financial sustainability through practices such as budget monitoring and managing debt and borrowing.

82. All councils that submitted a data return confirmed that elected members were provided with a summary of medium- to long-term financial sustainability during 2024/25, with most presenting this within budget papers. Some councils also provide updates, varying between quarterly and annual reporting. Our review of management commentaries further shows that elected members are sighted on financial sustainability through budget papers, financial plans, and review of strategic risk registers, though the level of detail on what is included can be limited.

The **Local Government Benchmarking Framework (LGBF)** includes six financial sustainability indicators:

- The level of usable reserves as a percentage of the initially approved annual revenue budget.
- The uncommitted General Fund balance as a proportion of the initially approved net revenue budget.
- The share of a council's General Fund **net revenue stream** (GRG, NDR and council tax income) budget spent on debt and financing costs.
- The share of a council's Housing Revenue Account rental income spent on debt and financing costs.
- Revenue outturn compared to final budgeted revenue budget (General Fund and HRA, where applicable).
- Approved use of reserves to address budget gaps as a percentage of net expenditure (new for December 2025).

83. All councils provided details to us via supplementary returns about who is responsible for assessing financial sustainability. The chief finance officer (or equivalent) is responsible for monitoring the council's financial position and regularly reporting back to elected members, strategic leadership teams, and finance officers. But this is not always clearly reported within management commentaries (paragraph 61).

There are increasing signs that sustained pressures have impacted the financial position of councils, and there are risks to financial sustainability in the medium term

84. Councils' **net revenue streams** have generally increased in line with their net costs of services. Councils, however, have been making significant savings to reduce costs, and funding changes largely reflect increased baselining of funding into the GRG. Our analysis of 2024/25 accounts and related information suggests that, over a range of measures, the financial position of Scotland's councils is worsening:

- General funding has been increasing but more of it is directed, reducing the flexibility councils need to address cost pressures (paragraphs 11–12).
- Councils have not generated other income at a rate that has kept pace with inflation (paragraphs 18–21).
- Identifying recurring savings can become progressively more difficult over time and, while councils have largely been successful in delivering savings, many are reliant on non-recurring savings which do not address underlying issues (paragraph 31).
- Usable reserves are now decreasing and, notably, uncommitted General Fund reserves are decreasing (Exhibit 8, page 25 and Exhibit 9, page 26).

85. At the same time, capital projects are becoming increasingly expensive. Councils have been borrowing more, and the financing of ongoing investment is increasingly expensive. External debt is increasing (paragraph 70) and a number of councils are spending more servicing their debt, across both their General Fund and services and HRA (paragraph 77). Projected borrowing as measured by the CFR is also increasing (paragraph 79).

86. Against this backdrop, councils again forecast significant budget gaps when setting their 2025/26 budgets, with further savings required to address them, alongside the continued planned use of reserves, despite ongoing transformation programmes. Without sustained and recurring financial pressures being addressed, across a range of indicators there are signs that councils will become financially unsustainable over the medium term, despite ongoing transformation and identification of efficiencies.

Upcoming work

87. How councils plan to use their reserves, make savings and transform their services needs to become more transparent as financial sustainability issues are addressed. In our next budget briefing, Local government budgets 2026/27, we will examine the decisions that Scotland's councils take as they set their budgets (including setting council tax), the finalised funding settlement from the Scottish Government, decisions and the steps they intend to take to fund and transform their services.

Appendix

Progress against the recommendations in Local government in Scotland: Financial bulletin 2023/24

In 2025, councils should:	Progress/status
Report on the savings made within their management commentaries more comprehensively, including provision of comparisons to savings targets agreed during budget-setting, and whether they were recurring or non-recurring.	**Limited progress** • Councils are still not adequately reporting on the delivery of savings in their management commentaries, including whether savings are recurring or non-recurring (paragraph 35). • The report includes an updated recommendation on how councils must adequately report information on the delivery of savings within their management commentaries.
Ensure that the impact of capital underspends, future borrowing projections and of using financial flexibilities on their indebtedness are reported clearly alongside the impact of these of future revenue budgets.	**Limited progress** • Our review of council management commentaries found limited references to the impact of current financial decisions, such as capital underspends, new borrowing and utilising financial flexibilities, will have on future revenue budgets. • This report includes a recommendation on how councils should clearly explain within their management commentaries how future revenue budgets will be impacted by current financial decisions.
Ensure reserve policies indicate explicitly and clearly the impact of financial flexibilities on reserves held; the nature, level of and intended timing of the deployment of committed usable reserves held; and the level of uncommitted and contingency funding held within General Funds.	**In progress** • Most councils have a reserve policy which sets out the minimum level of reserves to be held, including those uncommitted. Five councils breached their minimum level for uncommitted reserves in 2024/25 (paragraphs 56–57).

Cont.

In 2025, councils should:	Progress/status
Prioritise service transformation, considering the impact of current service delivery models on longer-term financial sustainability, including the medium-term impact on reserve levels.	**In progress** • Most councils use their management commentaries to report on transformation activities, but the level of details varies. Not all councils hold committed reserves for transformation activities (paragraphs 68–69). • Councils need to continue to prioritise transformation activities to address financial challenges. • The report includes an updated recommendation for councils to clearly report on the level of committed reserves held for on transformation activities.
Ensure that financial sustainability becomes a central focus of financial monitoring and reporting, making greater use of financial sustainability indicators within reports to elected members and within their regular public reporting and financial strategies and plans.	**In progress** • Most councils regularly report financial sustainability indicators to elected members. There is discretion on how councils do this with not all councils fully using the LGBF financial sustainability indicators or CIPFA's level of reserves indicators (paragraphs 80–83). • An updated recommendation on the use of financial indicators in monitoring and reporting is included in this report.

Local government in Scotland

Financial bulletin 2024/25

Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500
www.audit.scot

ISBN 978 1 915839 99 2

Agenda Item no 9.

South Ayrshire Council

Report by Chief Financial Officer to
Audit and Governance Panel of
25 February 2026

Subject: Treasury Management and Investment Strategy
Quarter 3 Update Report 2025/26

---

1. Purpose

1.1 The purpose of this report is to provide Members with an update on the 2025/26 treasury prudential indicators for the period October-December 2025 (Quarter 3) and provide an update on the latest wider economic position.

2. Recommendation

2.1 It is recommended that the Panel:

Scrutinises the contents of this report.

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.

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.

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 £1.930m in 2025/26, based on an estimate of the average revenue balances held during the year. Budgeted at achieving an assumed interest rate return of 4.00% on these balances.

At December 2025 (Qtr. 3) the full year budgeted income is projected at £1.730m, a shortfall of £0.1877m.

6.1.2 Capital Financing Costs –

The budget for loan charges in 2025/26 is £20.133m, comprising £6.408m for loan principal, £13.552m for interest costs and £0.173m for loans fund expenses.

The current projection for loans charges to the General Fund is an underspend of £0.225m in interest and expenses. This is offset by the projected shortfall of income of £0.187m bringing an overall underspend of £0.038m, as represented in the table below.

General Services	Budget	Actuals	Underspend/ (Overspend)
Principal	6,408,000	6,408,000	0
Interest	13,552,024	13,105,828	446,196
Expenses	172,823	394,139	(221,316)
	20,132,847	**19,907,967**	**224,880**
Int on Revenue Balances	(1,930,000)	(1,742,668)	(187,332)
	18,202,847	**18,165,299**	**37,548**

6.2 *Housing Revenue Account (HRA)*

6.2.1 Interest on Revenue Balances –

The HRA budgeted for investment income of £0.400m in 2025/26, based on an estimate of the average revenue balances held during the year. Budgeted at an assumed interest rate return of 4.00% on these balances.

At December 2025 (Qtr3) the full year estimate for investment income earned is £0.399m resulting in a shortfall of £0.002m.

6.2.2 **Capital Financing Costs** –

The budget for HRA loan charges in 2025/26 is £9.016m, comprising £3.361m for loan principal, £5.584m for interest costs and £0.071m for loans fund expenses.

The current projection for loans charges to the HRA is an overspend of £0.041m in interest and expenses. This is in addition to the projected shortfall of income of £0.012m bringing an overall underspend of £0.041m as represented in the table below.

HRA	Budget	Actuals	Underspend/ (Overspend)
Principal	3,361,000	3,361,000	0
Interest	5,584,160	5,529,804	54,356
Expenses	71,212	166,301	(95,089)
	9,016,372	**9,057,105**	**(40,733)**
Int on Revenue Balances	(400,000)	(399,868)	(132)
	8,616,372	**8,657,237**	**(40,865)**

6.2.3 General Services & HRA, Interest on Revenue Balances and Capital Financing Costs – Implications

The projected shortfall in investment income for both General Services (GS) and HRA has arisen due to lower than projected level of surplus income, therefore a lower return is being achieved. The expenses for both HRA and GS are higher than forecast due to the cost of borrowing, higher bank charges and brokerage fees.

PWLB borrowing rates remain higher than previously projected which has impacted cost of borrowing, partly due to the various market forces that have kept longer term gilt yields high. This is discussed in more depth in Economic Activity in Appendix 1. The projections for both expenditure and investment income will be monitored for the remainder of the year and borrowing will only be taken if required.

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 If the recommendations are rejected, then the Council will be non-compliant with the requirements contained in both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

9. **Integrated Impact Assessment (incorporating Equalities)**

9.1 The proposals in this report do not require to be assessed through an Integrated Impact Assessment.

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 Commitment 1 of the Council Plan: Fair and Effective Leadership/ Leadership that promotes fairness.

13. **Link to Shaping Our Future Council** **Yes ☐No ☑**

13.1 Not applicable.

14. 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 5 March 2025 – Treasury Management and Investment Strategy 25/26**

Person to Contact **Tim Baulk, Chief Financial Officer**
County Buildings, Wellington Square, Ayr, KA7 1DR
Phone 01292 612620
E-mail: tim.baulk@south-ayrshire.gov.uk

Date: 04 February 2026

Appendix 1

1. Economic Activity

- The third quarter of 2025/26 saw:

- A -0.1% m/m change in real Gross Domestic Product (GDP) in October, leaving the economy no bigger than at the start of April.
- The 3myy rate of average earnings growth excluding bonuses fell to 4.6% in October, having been as high as 5.5% earlier in the financial year.
- Consumer Price Index (CPI) inflation fell sharply from 3.6% to 3.2% in November, with core CPI inflation easing to 3.2%.
- The Bank of England cut interest rates from 4.00% to 3.75% in December, after holding in November.
- The 10-year gilt yield fluctuate between 4.4% and 4.7%, ending the quarter at 4.5%.

- From a GDP perspective, the financial year got off to a rough start with the 0.3% m/m fall in real GDP in April as front-running of United States (US) tariffs in Q1 (when GDP grew 0.7% on the quarter) weighed on activity. Despite the underlying reasons for the drop, it was still the first fall since October 2024 and the largest fall since October 2023. However, the economy results were more positive in May and June so that quarterly growth ended up 0.3% q/q (subsequently revised down to 0.2% q/q). Nonetheless, the 0.0% m/m change in real GDP in July, followed by a 0.1% m/m increase in August and a 0.1% decrease in September will have caused some concern (0.1% q/q). October's disappointing -0.1% m/m change in real GDP suggests that growth slowed to around 1.4% in 2025 as a whole.
- Continuing to look at future economic sentiment, the composite Purchasing Manager Index (PMI) for the UK rose from 51.2 in November to 52.1 in December, suggesting the economy may be benefitting somewhat from pre-Budget uncertainty fading. This may also reflect less effect from weak overseas demand. While the services PMI rose from 51.3 to 52.1, the improvement in the manufacturing output balance from 50.3 to 51.8 was larger. Indeed, the manufacturing sector has been more exposed to the recent weakness of external demand and has lagged the services sector since the end of last year.
- Turning to retail sales volumes, and the 1.5% year-on-year rise in September, accelerating from a 0.7% increase in August, marked the highest gain since April. Nonetheless, the 0.1% m/m fall in retail sales volumes in November built on the 0.9% m/m drop in October, suggesting the longer-lasting effects of weak employment and slowing wage growth are impacting.

- Prior to the November Budget, the public finances position looked weak. The £20.2 billion borrowed in September was slightly above the £20.1 billion forecast by the Office for Budget Responsibility (OBR). For the year to date, the £99.8 billion borrowed is the second highest for the April to September period since records began in 1993, surpassed only by borrowing during the COVID-19 pandemic. The main drivers of the increased borrowing were higher debt interest costs, rising government running costs, and increased inflation-linked benefit payments, which outweighed the rise in tax and National Insurance contributions.

- Following the 26 November Budget, the OBR calculated the net tightening in fiscal policy as £11.7bn (0.3% of GDP) in 2029/30, smaller than the consensus forecast of £25bn. It did downgrade productivity growth by 0.3%, from 1.3% to 1.0%, but a lot of that influence was offset by upgrades to its near-term wage and inflation forecasts. Accordingly, the OBR judged the Chancellor was going to achieve her objectives with

£4.2bn to spare. The Chancellor then chose to expand that headroom to £21.7bn, up from £9.9bn previously.

- Moreover, the Chancellor also chose to raise spending by a net £11.3bn in 2029/30. To pay for that and the increase in her headroom, she raised taxes by £26.1bn in 2029/30. The biggest revenue-raisers were the freeze in income tax thresholds from 2028/29 (+£7.8bn) and the rise in NICs on salary-sacrifice pension contributions (+£4.8bn). The increase in council tax for properties worth more than £2.0m will generate £0.4bn.
- After the Budget, public net sector borrowing of £11.7bn in November was comfortably below last November's figure of £13.6bn and was the lowest November borrowing figure since 2021, mainly due to tax receipts being £5.4bn higher, largely because of the hike in employer NICs in April 2025. Cumulative borrowing in the first eight months of 2025/26 was still £10bn above last year's total. However, lower inflation and a disposal of assets ahead of the Budget should mean borrowing in 2025/26 comes in below last year's total.
- The weakening in the jobs market looked clear in the spring. May's 109,000 m/m fall in the PAYE measure of employment was the largest decline (apart from the pandemic) since the data began and the seventh in as many months. The monthly change was revised lower in five of the previous seven months too, with April's 33,000 fall revised down to a 55,000 drop. More recently, the 38,000 fall in payroll employment in November was the tenth monthly decline in the past 13 months, causing the annual growth rate to slow further, from -0.5% to -0.6%. The number of job vacancies in the three months to November 2025 stood at 729,000 (the peak was 1.3 million in spring 2022) but the less reliable Labour Force Survey data showed that employment fell by 16,000 in the three months to October, with the unemployment rate rising further, from 5.0% to 5.1%. All this suggests the labour market continues to loosen, albeit at a slow pace.
- A looser labour market means there is less pressure for wage increases. The 3myy growth rate of average earnings including bonuses eased from 4.9% in September to 4.7% in October. And excluding bonuses, the 3myy rate slowed from 4.7% to 4.6%. Regular private sector pay growth continued to slow from 4.2% to 3.9%. That left it broadly on track to meet the Bank's end of December prediction of 3.5%.
- CPI inflation fell sharply in November, easing from 3.6% in October to 3.2%. This was the third consecutive softer-than-expected inflation outturn and suggests that disinflation is well underway. There was a widespread easing in price pressures with inflation slowing in 10 of the 12 main categories. Core inflation fell from 3.4% to 3.2% and services inflation dipped from 4.5% to 4.4%. However, CPI increased in December 2025 to 3.6% driven by increases in tobacco duty and air fares but is seen as a temporary increase. A great deal will depend on the adjustments to regulated and indexed prices scheduled for next April.
- An ever-present issue throughout recent months has been the pressure being exerted on medium and longer dated gilt yields. The yield on the 10-year gilt moved sideways in the second quarter of 2025, rising from 4.4% in early April to a high of c4.8%, before ending June at 4.50%.
- More recently, the yield on the 10-year gilt rose from 4.46% to 4.60% in early July as rolled-back spending cuts and uncertainty over Chancellor Reeves' future raised fiscal concerns. Although the spike proved short lived, it highlighted the UK's fragile fiscal position. In an era of high debt, high interest rates and low GDP growth, the markets are now more sensitive to fiscal risks than before the pandemic. During August, long-dated gilts underwent a particularly pronounced sell-off, climbing 22

basis points and reaching a 27-year high of 5.6% by the end of the month. While yields have since eased back, the market sell-off was driven by investor concerns over growing supply-demand imbalances, stemming from unease over the lack of fiscal consolidation and reduced demand from traditional long-dated bond purchasers like pension funds. For 10-year gilts, by late September, inflation remaining higher, resilient activity data and a combative Bank of England kept yields elevated over 4.70% although, subsequently, gilt yields fell back after the Budget, supported by a tighter fiscal plan, fewer tax hikes required following a smaller-than-expected downgrade to the OBR's fiscal forecast, and a favourable shift in bond issuance away from long-dated debt. Gilt yields hovered around 4.5% at the end of the quarter.

- The FTSE 100 fell sharply following the "Liberation Day" tariff announcement, dropping by more than 10% in the first week of April - from 8,634 on 1 April to 7,702 on 7 April. However, the de-escalation of the trade war coupled with strong corporate earnings led to a rapid rebound starting in late April. As a result, the FTSE 100 ended June at 8,761, around 2% higher than its value at the end of March and more than 7% above its level at the start of 2025. Since then, the FTSE 100 has enjoyed a further significant jump in value. The stock market hit new record highs above 9,900 in Mid-November, driven by a global rebound on hopes of a US government-shutdown resolution, expectations of a December rate-cut, and strong corporate earnings. Despite some apprehension around Budget time, the FTSE 100 closed Q4 at 9,931, 5% higher than at the end of September and 22% higher since the start of 2025.
- **MPC meetings: 8 May, 19 June, 7 August, 18 September, 6 November, 18 December 2025**
- There were six Monetary Policy Committee (MPC) meetings held between April and December. In May, the Committee cut Bank Rate from 4.50% to 4.25%, while in June policy was left unchanged. In June's vote, three MPC members (Dhingra, Ramsden and Taylor) voted for an immediate cut to 4.00%, citing loosening labour market conditions. The other six members were more cautious, as they highlighted the need to monitor the economy. The MPC has continued to suggest that rates would be reduced further in a gradual way.
- In August, a further rate cut was implemented. However, a 5-4 split vote for a rate cut to 4% laid bare the different views within the Monetary Policy Committee, with the accompanying commentary noting the decision was "finely balanced" and reiterating that future rate cuts would be undertaken "gradually and carefully". Ultimately, Governor Bailey was the casting vote for a rate cut but with the CPI measure of inflation expected to reach at least 4% later this year, the MPC was wary of making any further rate cuts until inflation begins its slow downwards trajectory back towards 2%.
- With wages still rising by just below 5%, it was no surprise that the September meeting saw the MPC vote 7-2 for keeping rates at 4% (Dhingra and Taylor voted for a further 25bps reduction). Moreover, the Bank also took the opportunity to announce that they would only shrink its balance sheet by £70bn over the next 12 months, rather than £100bn. The repetition of the phrase that "a gradual and careful" approach to rate cuts is appropriate suggested the Bank still thought interest rates will fall further.
- At the 6 November meeting, Governor Bailey was once again the deciding vote, keeping Bank Rate at 4% but hinting strongly that a further rate cut was imminent if data supported such a move. By 18 December, with November CPI inflation having fallen to 3.2%, and with Q2 GDP revised down from 0.3% q/q to only 0.2% q/q, and Q3 GDP stalling at 0.1%, the MPC voted by 5-4 to cut rates further to 3.75%. However, Governor Bailey made it clear that any further reductions would require strong supporting data, and the pace of any further decreases would be slow compared to recent months. The markets expect Bank Rate to next be cut in April.

2. Interest rate forecasts

The Council has appointed MUFG Corporate Markets as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The Public Works Loan Board (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. For Housing Revenue Account authorities, the lower Housing Revenue Account (HRA) PWLB rate has also been available since 15 June 2023 (standard rate minus 60 bps) but is available for HRA borrowing only.

MUFG provided the following forecasts and commentary on 22 December 2025. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

MUFG Corporate Markets Interest Rate View 22.12.25													
	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28	Mar-29
BANK RATE	3.75	3.50	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	3.80	3.50	3.50	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	3.80	3.50	3.50	3.40	3.30	3.30	3.30	3.40	3.40	3.40	3.40	3.40	3.40
12 month ave earnings	3.90	3.60	3.60	3.50	3.40	3.50	3.50	3.50	3.50	3.50	3.60	3.60	3.60
5 yr PWLB	4.60	4.50	4.30	4.20	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10
10 yr PWLB	5.20	5.00	4.90	4.80	4.80	4.70	4.70	4.70	4.70	4.60	4.60	4.60	4.70
25 yr PWLB	5.80	5.70	5.60	5.50	5.50	5.40	5.30	5.30	5.30	5.20	5.20	5.20	5.20
50 yr PWLB	5.60	5.50	5.40	5.30	5.30	5.20	5.10	5.10	5.10	5.00	5.10	5.00	5.00

MUFG's last interest rate forecast update was undertaken on 11 August. Since then, a combination of tepid growth (0.2% q/q GDP for Q2 and 0.1% q/q GDP for Q3), falling inflation (currently CPI is 3.2%), and a November Budget that will place more pressure on the majority of households' income, has provided an opportunity for the Bank of England's Monetary Policy Committee to further reduce Bank Rate from 4% to 3.75% on 18 December.

Given the very small majority for a rate cut it was not unexpected to hear that although rates would continue on a "gradual downward path," suggesting a further rate cut or cuts in the offing, MPC members want to assess incoming evidence on labour market activity and wage growth. Indeed, with annual wage growth still over 4.5%, the MPC reiterated that the case for further rate cuts would be "a closer call", and Governor Bailey observed there is "limited space as Bank Rate approaches a neutral level".

Accordingly, the MUFG Corporate Markets forecast has been revised to price in a rate cut in Q2 2026 to 3.5%, likely to take place in the wake of a significant fall in the CPI inflation reading from 3% in March to 2% in April (as forecast by Capital Economics), followed by a short lull through the summer whilst more data is garnered, and then a further rate cut to 3.25% in Q4.

As in August, there are several threats that might prevent further rate cuts. Wage increases may remain stubbornly high since there are several sectors of the domestic economy, including social care provision and the building/construction industries, where staff shortages remain severe. Moreover, by May 2026, following the local elections, markets will have a better handle on whether or not the Starmer/Reeves team is going to see out the current Parliament or whether they face a Leadership challenge from within their own party If so, how will gilt markets react to these variables…and will there be additional geo-political factors to also bake in, particularly the Fed's monetary policy decisions in 2026 and the ongoing battle to lower rates whilst inflation remains close to 3%.

Money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.

1.1 ***The Council's Capital Expenditure and Prudential Indicators***

(1) The following section provides the information relating to the 2025/26 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

	2025/26 Original Estimate £'000	***2025/26 Latest Estimate £'000***
Prudential Indicator – General Services		
Capital Expenditure	**86,237**	**37,173**
General Services - Financed By		
General and Specific Grant	10,535	11,876
Capital Receipts/Other	2,646	15,565
Borrowing	73,056	9,732
	86,237	**37,173**

Prudential Indicator – HRA		
Capital Expenditure	**58,056**	**25,051**
HRA - Financed By		
CFCR, Draw on surplus	3,226	3,226
Other Receipts/ Grants	7,260	1,841
Borrowing	47,570	19,984
	58,056	**25,051**

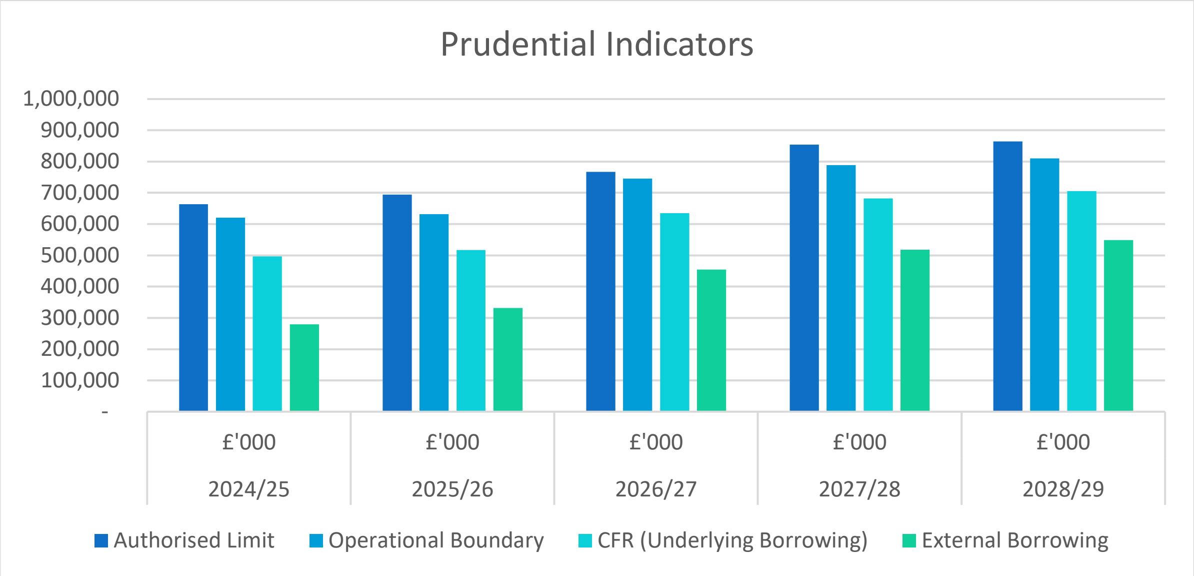
1.2 ***Capital Financing Requirement, Debt Position and Operational Boundary Indicators***

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

Table 2

Prudential Indicator – CFR	***2025/26 Original Estimate £'000***	***2025/26 Updated Estimate £'000***
Capital Financing Requirement – GS	507,453	487,208
Capital Financing Requirement – HRA	168,229	151,150
Total Capital Financing Requirement	**675,682**	**638,357**

(2) Prudential Indicators Chart



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

1. **External Borrowing –** shows significant increase in the next two years as the Council utilises borrowing to fund capital investment

2. **Capital Financing Requirement –** shows increases in CFR in line with external debt. The Council ended 2024/25 in an under borrowed position (CFR compared with external debt) of £62.568m. The current strategy will be to reflect an under-borrowed position in the short/medium term as reflected in the chart.

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

Prudential Indicators – Debt	*2025/26 Original £'000*	*2025/26 Updated £'000*
Authorised Limit	745,000	695,000
Operational Limit	690,000	630,000
External Debt	537,039	460,339

1.3 **Liability Benchmark**

(1) The third prudential indicator for 2025/26 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 in 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."

(2) There are four components to the Liability Benchmark:

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.

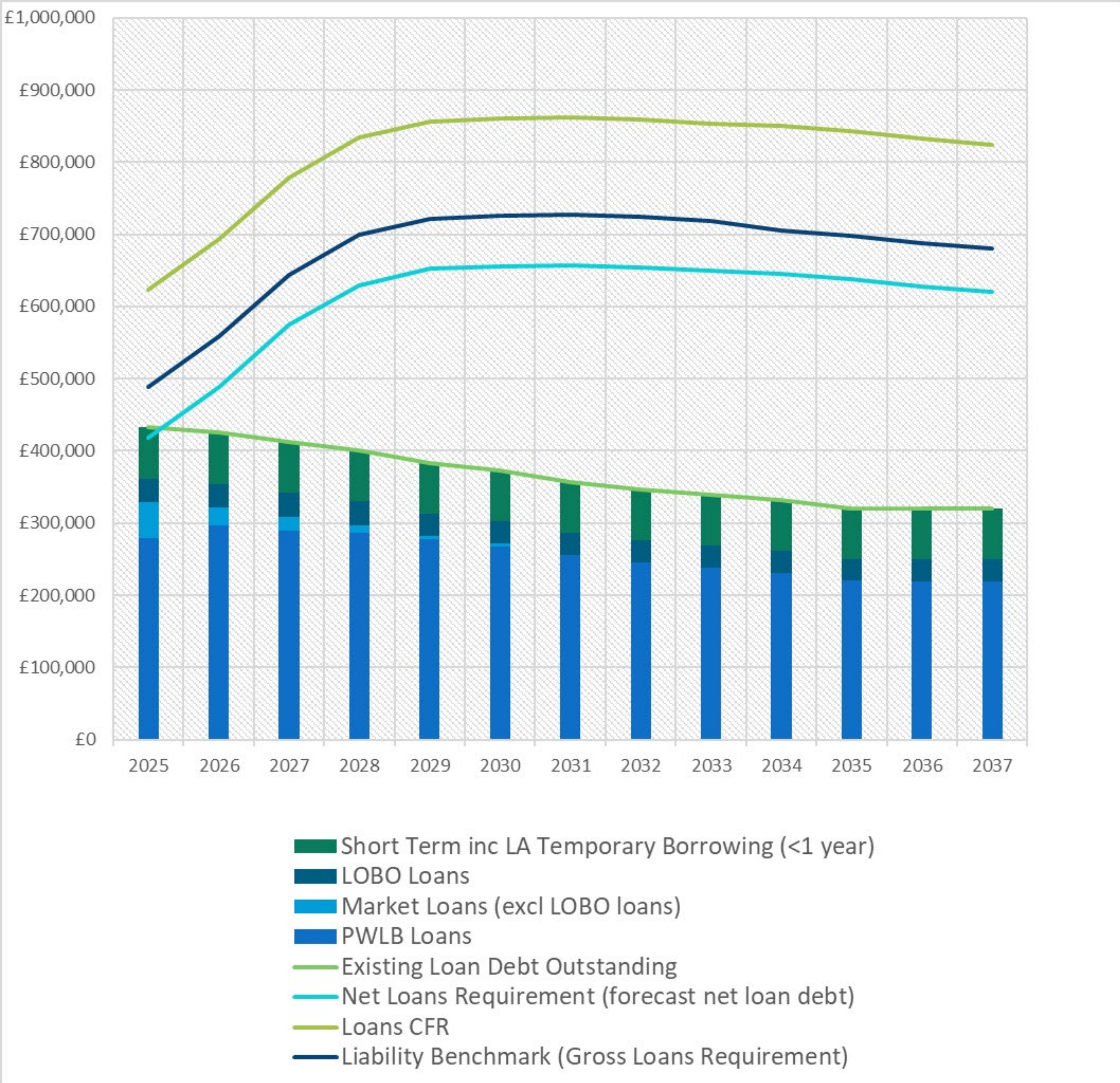
4. **Liability benchmark (or gross loans requirement)**: this equals net loans requirement plus short-term liquidity allowance.

(2) The graph below shows each of the 4 components, Existing Loan Debt Outstanding as shown in the bar chart of graph with overarching pale blue line, Loans CFR as shown by the green line, Net loans requirement as shown in the grey line and finally the liability benchmark as shown in the dark blue line.

This liability benchmark indicator is relevant for all authorities, including those with a net cash surplus. For such authorities, it becomes a measure of the forecast net investment requirement and guides the appropriate size and maturity of investments needed.

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.

From chart below you can see SAC loans are less than the benchmark for at least the next 13 years which as stated indicates a future borrowing requirement. This is in line with SAC future capital plans and to replace existing borrowing which is due to mature in the coming years.


£1,000,000
£900,000
£800,000
£700,000
£600,000
£500,000
£400,000
£300,000
£200,000
£100,000
£0
2025
2026
2027
2028
2029
2030
2031
2032
2033
2034
2035
2036
2037
Short Term inc LA Temporary Borrowing (<1 year)
LOBO Loans
Market Loans (excl LOBO loans)
PWLB Loans
Existing Loan Debt Outstanding
Net Loans Requirement (forecast net loan debt)
Loans CFR
Liability Benchmark (Gross Loans Requirement)

south
AYRSHIRE
COUNCIL
Comhairle Siorrachd Àir a Deas

Making a Difference Every Day

Appendix 2

Treasury Management And Investment Strategy 2026/27

March 2026

RESPECTFUL • POSITIVE • SUPPORTIVE

THE SOUTH AYRSHIRE WAY

Index

		Page
Introduction		**1**
Section 1	**Capital Plans and Prudential Indicators 2024/25 to 2028/29**	**4**
1.1	Capital Expenditure	4
1.2	Borrowing and Capital Financing Requirement	5
1.3	Liability Benchmark	7
1.4	Capital Affordability Indicators	8
Section 2	**Treasury Management**	**10**
2.1	Current Portfolio Position	10
2.2	Treasury Indicators: Limits to Borrowing Activity	11
2.3	Economic Commentary	13
2.4	Prospects for Interest Rates	16
2.5	Borrowing Strategy	19
2.6	Statutory Repayment of Loans Fund Advances	20
2.7	Policy on Borrowing in Advance of Need	22
2.8	Debt Rescheduling	22
Section 3	**Annual Investment Strategy**	**24**
3.1	Investment Policy	24
3.2	Credit Worthiness Policy	25
3.3	Country Limits – Credit Worthiness	27
3.4	Investment Strategy	29
3.5	Investment – Cash Liquidity	30
3.6	End of Year Investment Report	30
Section 4	**Governance Arrangements**	**31**
4.1	Financial Regulations	31
4.2	Role of the Section 95 Officer – Chief Financial Officer	31
4.3	Policy on the Use of External Service Providers	32
4.4	Training	33
Annex A	**Permitted Investments**	**34**
Annex B	**Treasury Management Practice – Credit and Counterparty Risk Management**	**42**

Introduction

2021 revised CIPFA (Chartered Institute of Public Finance and Accountancy) Treasury Management Code and Prudential Code – changes which will impact on future TMSS/AIS reports and the risk management framework

CIPFA published the revised Codes on 20th December 2021 and has stated that revisions needed to be included in the reporting framework from the 2023/24 financial year onwards. This Authority, therefore, has to have regard to these Codes of Practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and related reports during the financial year, which are taken to Full Council for approval.

The revised Treasury Management Code requires all investments and investment income to be attributed to one of the following three purposes: -

Treasury management

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

Service delivery

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

Commercial return

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

The revised Treasury Management Code requires the following: -

1. **A liability benchmark treasury indicator** to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained.

2. **Long-term treasury investments**, (including pooled funds), are to be classed as commercial investments unless justified by a cash flow business case.

3. **Pooled funds** are to be included in the indicator for principal sums maturing in years beyond the initial budget year.

4. A **knowledge and skills register** for officers and members involved in the treasury management function - to be proportionate to the size and complexity of the treasury management.

5. **Reporting to members is to be undertaken quarterly**. Specifically, the Chief Finance Officer (CFO) is required to establish procedures to monitor and report performance against

all forward-looking prudential indicators at least quarterly. The CFO is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to Full Council and should be reported to Audit and Governance Panel.

6. **Environmental, social and governance (ESG)** issues to be addressed within the authority's treasury management policies and practices (TMP1).

The main requirements of the Prudential Code relating to service and commercial investments are: -

1. The risks associated with service and commercial investments should be proportionate to their financial capacity – i.e. that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services.

2. An authority must not borrow to invest for the primary purpose of commercial return.

3. It is not prudent for local authorities to make any investment or spending decision that will increase the CFR, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority, and where any commercial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.

4. An annual review should be conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt.

5. A prudential indicator is required for the net income from commercial and service investments as a proportion of the net revenue stream.

6. Create new Investment Management Practices to manage risks associated with non-treasury investments, (like the current Treasury Management Practices).

The Annual Investment Strategy should include: -

1. The authority's approach to investments for service or commercial purposes (together referred to as non-treasury investments), including defining the authority's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence.

2. An assessment of affordability, prudence, and proportionality in respect of the authority's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services);

3. Details of financial and other risks of undertaking investments for service or commercial purposes and how these are managed.

4. Limits on total investments for service purposes and for commercial purposes respectively (consistent with any limits required by other statutory guidance on investments);

5. Requirements for independent and expert advice and scrutiny arrangements (while business cases may provide some of this material, the information contained in them will need to be periodically re-evaluated to inform the authority's overall strategy);

6. State compliance with paragraph 51 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest primarily for financial return.

As this Treasury Management Strategy Statement and Annual Investment Strategy deals solely with treasury management investments, the categories of service delivery and commercial investments will be dealt with as part of the Capital Strategy report. South Ayrshire Council do not now have any commercial investments and do not plan to do so within the next 3 years of this report.

CIPFA defines treasury management as:

'The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. '

The background for the requirements strategy is set out in the in the undernoted legislation:

All treasury management reports written during the financial year of 2026/27 will need to consider the under-noted:

1. CIPFA (Chartered Institute of Public Finance and Accountancy) Treasury Management Codes of Practice and Guidance notes 2025/26;
2. 2021 revised CIPFA Treasury Management Code and Prudential Code
3. CIPFA Prudential Code for Capital Finance in Local Authorities revised 2017;
4. CIPFA Prudential Code for Capital Finance in Local Authorities - Guidance Notes for practitioners 2018 and CIPFA bulletin 22;
5. Finance Circular 7/2024, which covered Loans Fund Accounting and the revised requirements around loans fund repayments;
6. Statutory investment regulations; and
7. Statutory guidance for annual loan repayments.

South Ayrshire Council's Treasury Management and Investment Strategy for 2026/27 is set out in the following Sections 1 to 4 plus Annex A and B.

Treasury Management and Investment Strategy 2026/27

Section 1 - Capital Plans and Prudential Indicators 2024/25 to 2028/29

The Council's capital expenditure plans and delivery are the key drivers of treasury management activity. The capital expenditure plans are reflected in prudential indicators, which are designed to assist in providing Members with an overview of the Council's capital plans.

1.1 ***Capital Expenditure*** - This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of the budget cycle.

Members are asked to approve the capital expenditure forecasts:

Capital Expenditure	***2024/25 Actual £'000***	***2025/26 Estimate £'000***	***2026/27 Estimate £'000***	***2027/28 Estimate £'000***	***2028/29 Estimate £'000***
General Services	39,475	37,173	97,302	82,016	46,938
HRA	48,369	25,051	65,322	36,544	24,644
Total	**87,844**	**62,224**	**162,624**	**118,560**	**71,582**
Financed by:					
Government Grant/Other	(21,280)	(13,717)	(14,682)	(9,200)	(9,000)
Capital Receipts/Other	(11,161)	(18,791)	(19,920)	(50,805)	(27,106)
Net financing need for the year – (Borrowing)	**55,403**	**29,716**	**128,022**	**58,555**	**35,476**

The table above takes in to account the 2024/25 actual and 2025/26 projections for spend and any programme decisions that impact on future years. The table also summarises the capital expenditure plans and how these plans are being financed by capital or revenue resources.

Any shortfall of resources results in a funding requirement (borrowing).

Other Long-Term Liabilities **(OLTL)** - The above summarised capital plan excludes other long-term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

This template has now been altered to deal with bringing Right of Use leased assets onto the balance sheet to comply with the requirement for closing of the accounts from 2024/25 onwards.

1.2 *Borrowing and Capital Financing Requirement*

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the Authority's indebtedness and so its underlying borrowing need.

Any capital expenditure, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as prudent annual repayments from revenue need to be made which reflect the useful life of capital assets that are financed by borrowing.

The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases and Right of Use (ROU) assets). Whilst these schemes increase the CFR and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council does not require borrowing separately for these schemes.

The table below shows the projected and estimated movement in the CFR based on current capital expenditure plans.

Capital Financing Requirement	*2024/25 Actual £'000*	*2025/26 Estimate £'000*	*2026/27 Estimate £'000*	*2027/28 Estimate £'000*	*2028/29 Estimate £'000*
General Services	**488,913**	**502,933**	**563,778**	**590,495**	**594,366**
HRA	**134,528**	**151,150**	**203,668**	**219,704**	**234,931**
CFR	**623,441**	**654,083**	**767,446**	**810,199**	**829,297**
Other Long-Term Liabilities	**(126,609)**	**(136,042)**	**(130,215)**	**(124,469)**	**(119,389)**
Underlying Borrowing Need	**496,832**	**518,041**	**637,231**	**685,730**	**709,908**
Movement in underlying borrowing need	**50,450**	**21,209**	**119,190**	**48,499**	**24,178**
Movement in underlying borrowing need represented by					
Net financing need for the year	**57,954**	**29,716**	**128,022**	**58,555**	**35,476**
PPP Adjustment	**1,336**	**1,263**	**1,124**	**1,042**	**590**
In Year Slippage	**0**	**0**	**0**	**0**	**0**
Less scheduled debt amortisation	**(8,840)**	**(9,770)**	**(9,956)**	**(11,098)**	**(11,888)**
Movement in underlying borrowing need.	**50,450**	**21,209**	**119,190**	**48,499**	**24,178**

A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures shown in 1.1 and the details above demonstrate the scope of this activity and, by approving these figures; consider the scale proportionate to the Authority's remaining activity.

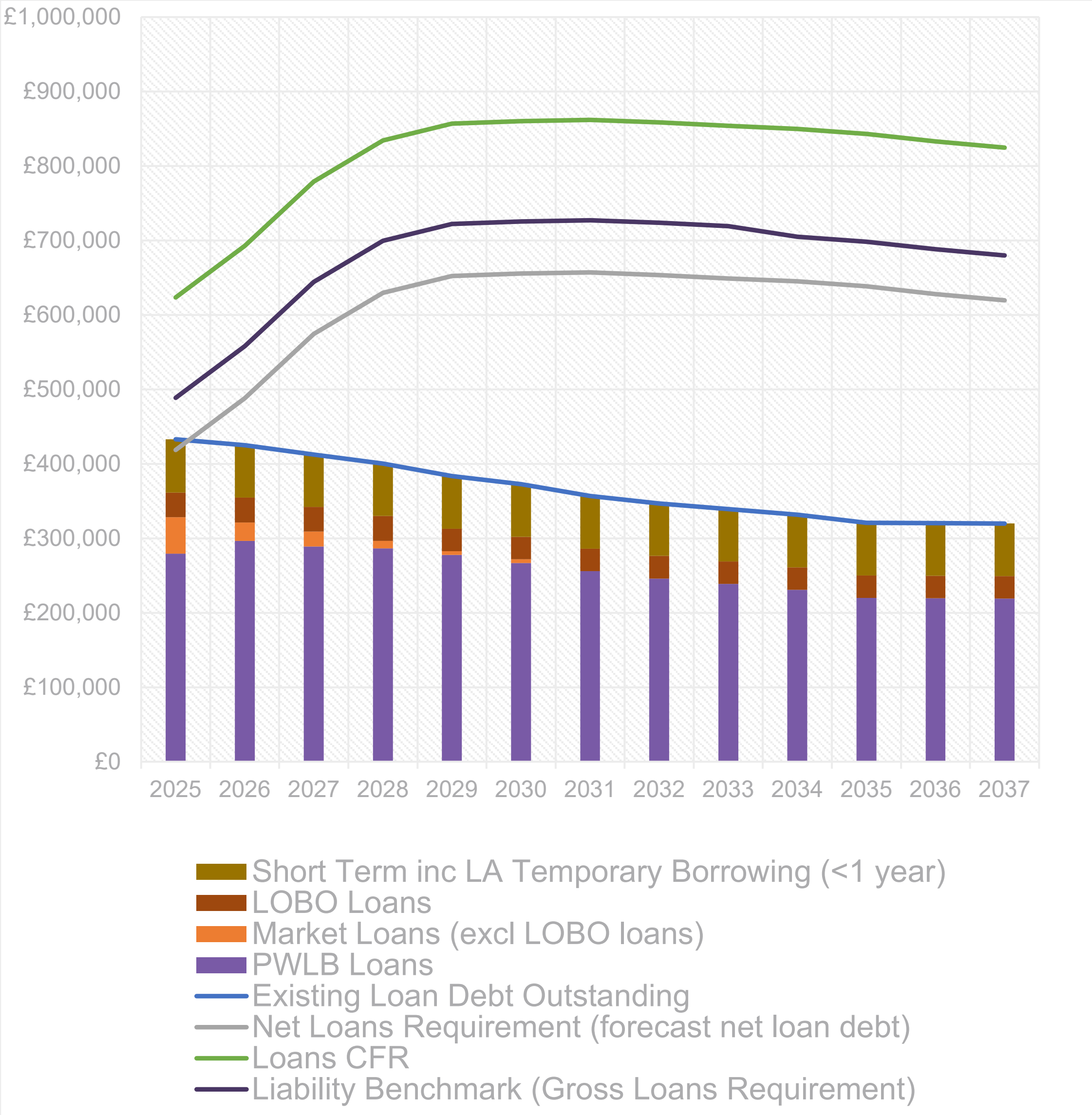
1.3 ***Liability Benchmark***

The Authority is required to estimate and measure the Liability Benchmark (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.



This chart shows that South Ayrshire have a significant borrowing requirement over the coming years, as highlighted by the purple 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.

1.4 *Capital Affordability Indicators*

The previous section covers the overall capital and borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council’s overall finances.

1.4.1 Actual and Estimates of the Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream of the Council.

	2024/25 Actual %	**2025/26 Projected %**	**2026/27 Estimate %**	**2027/28 Estimate %**	**2028/29 Estimate %**
General Services	**6.47**	**6.71**	**7.09**	**7.59**	**7.43**
HRA	**20.44**	**28.18**	**31.87**	**35.23**	**37.70**
Total Net Revenue Stream to Total Financing Costs	**6.72**	**7.51**	**7.97**	**8.51**	**8.04**

1.4.2 **HRA Debt Ratios**

£'000	**2024/25 Actual £'000**	**2025/26 Projected £'000**	**2026/27 Estimate £'000**	**2027/28 Estimate £'000**	**2028/29 Estimate £'000**
HRA debt	134,528	151,150	203,669	219,705	234,931
HRA revenues	37,177	38,909	41,424	42,909	44,538
Ratio of debt to revenues	3.62	3.88	4.92	5.12	5.27

£'000	**2024/25 Actual £'000**	**2025/26 Projected £'000**	**2026/27 Estimate £'000**	**2027/28 Estimate £'000**	**2028/29 Estimate £'000**
HRA debt	134,528	151,150	203,669	219,705	234,931
Number of HRA dwellings	8,313	8,491	8,552	8,587	8,657
Debt per dwelling	£16,183	£17,801	£23,815	£25,585	£27,137

1.4.3 Significant investment is planned in the next few years in the HRA major component replacement programme and the new build programme which has increased the debt per dwelling figure in the table above.

1.4.4 All of the above indicators at 1.4 are designed to indicate the financing costs of the Council's investment plans against its revenues and that of the HRA. The Code does not provide target figures and states that these indicators are not comparable between authorities given the wide-ranging variations in Council's historic debt and borrowing and investment plans.

Section 2 - Treasury Management

The capital expenditure plans set out in Section 1 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the management of the cash flow and, where capital plans require, the arrangement of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

2.1 *Current Portfolio Position*

The Council's treasury portfolio position as at 31 March 2025, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

External Debt	*2024/25 Actual £'000*	*2025/26 Projected £'000*	*2026/27 Estimate £'000*	*2027/28 Estimate £'000*	*2028/29 Estimate £'000*
Opening Debt on 1 April	**387,660**	**432,935**	**460,339**	**578,943**	**626,647**
Long Term Debt Maturities	**(85,225)**	**(153,096)**	**(12,396)**	**(17,296)**	**(23,896)**
New External Debt	**130,500**	**180,500**	**131,000**	**65,000**	**50,000**
External Debt	**432,935**	**460,339**	**578,943**	**626,647**	**652,751**
Other long-term liabilities (PPP + Finance Leases)	**126,608**	**137,303**	**132,600**	**127,896**	**123,406**
Actual Debt on 31 March	**559,543**	**597,642**	**711,543**	**754,543**	**776,157**
The Capital Financing Requirement	**623,441**	**654,083**	**767,446**	**810,199**	**829,297**
Under / (Over) Borrowing	**63,898**	**56,441**	**55,903**	**55,656**	**53,140**

External Debt	**432,935**	**460,339**	**578,943**	**626,647**	**652,751**
Cash Investments	(14,065)	(17,185)	(25,000)	(25,000)	(25,000)
Net External Debt	**418,870**	**443,154**	**553,943**	**601,647**	**627,751**

Within the prudential indicators, there are several key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the

Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes.

The Chief Financial Officer reports that the Council complied with this prudential indicator in the current year. This view considers current commitments, existing plans, and the proposals in the budget report.

2.2 *Treasury Indicators: Limits to Borrowing Activity*

2.2.1 **The Operational Boundary** - this is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR but may be lower or higher depending on the levels of actual debt and the Council's under/over borrowed position.

Operational Boundary	***2025/26 £'000***	***2026/27 £'000***	***2027/28 £'000***	***2028/29 £'000***
Debt	495,000	615,000	665,000	690,000
Other long-term liabilities	175,000	175,000	165,000	160,000
Total	**670,000**	**790,000**	**830,000**	**850,000**

2.2.2 **The Authorised Limit for External Borrowing** - a further key prudential indicator represents a control on the maximum level of external debt. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit (Affordable Capital Expenditure Limit) determined under section 35(1) of the Local Government in Scotland Act 2003. The Government retains an option to control either the total of all Councils' plans, or those of a specific Council, although this power has not yet been exercised.

Authorised limit	***2025/26 £'000***	***2026/27 £'000***	***2027/28 £'000***	***2028/29 £'000***
Debt	535,000	635,000	690,000	720,000
Other long-term liabilities	185,000	180,000	175,000	170,000
Total	**720,000**	**815,000**	**865,000**	**890,000**

2.2.3 The under-noted graph shows the relationship between the 4 main components of capital financing:

a) Authorised Limit (Debt).

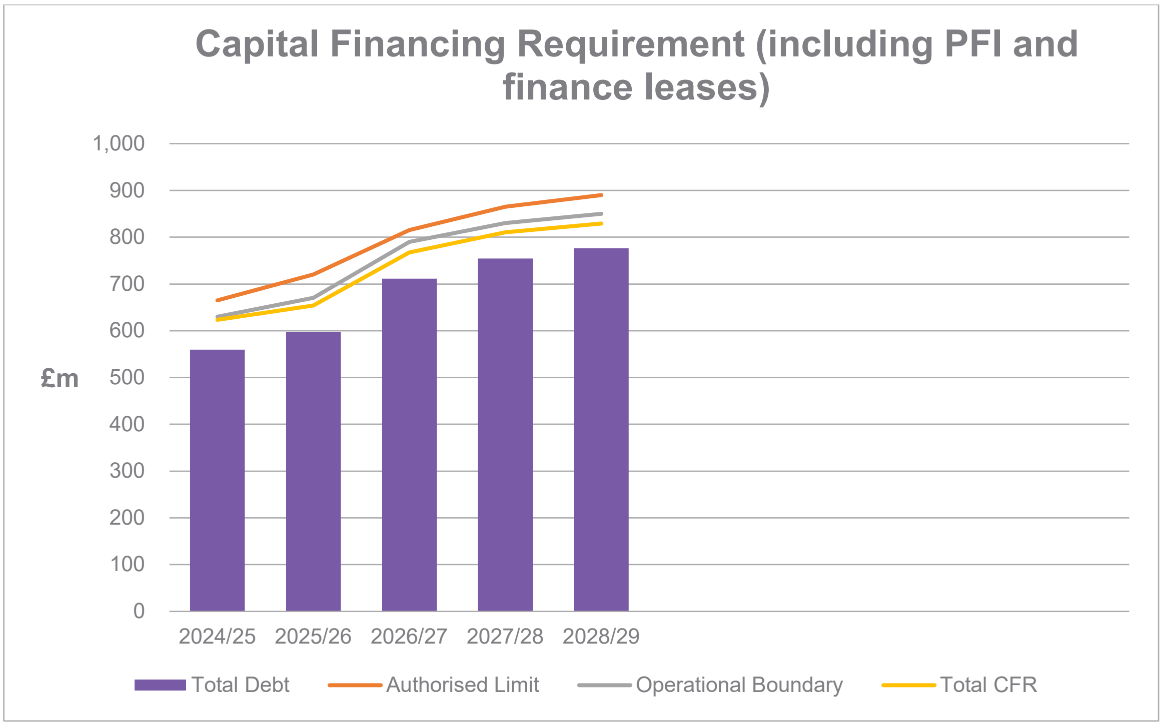
b) Operational Boundary (Debt).

c) Capital Financing Requirement; and

d) Actual External Debt

The graph below shows the increasing trend in the substantial capital investment plans of the Council in the medium term and therefore increasing debt and capital financing requirements going forward.

Both the authorised debt and operational boundary indicators include a margin for the balance of other financing arrangements such as PPP schemes.



2.3 ECONOMIC COMMENTARY (to 23rd December 2025)

- The first half of 2025/26 saw:
  - A 0.3% pick up in Gross Domestic Product (GDP) for the period April to June 2025. More recently, the economy flatlined in July, with higher taxes for businesses restraining growth, but picked up to 0.1% m/m in August before falling back by 0.1% m/m in September.
  - The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% to 4.6% in September.
  - Consumer Price Index (CPI) inflation has ebbed and flowed but finished September at 3.8%, whilst core inflation eased to 3.5%.
  - The Bank of England cut interest rates from 4.50% to 4.25% in May, and then to 4% in August (and subsequently to 3.75% in December).
  - The 10-year gilt yield fluctuated between 4.4% and 4.8%, ending the half year at 4.70% (before falling back to 4.43% in early November).
- From a GDP perspective, the financial year got off to a rough start with the 0.3% m/m fall in real GDP in April as front-running of US tariffs in Q1 (when GDP grew 0.7% on the quarter) weighed on activity. Despite the underlying reasons for the drop, it was still the first fall since October 2024 and the largest fall since October 2023. However, the economy surprised to the upside in May and June so that quarterly growth ended up 0.3% q/q (subsequently revised down to 0.2% q/q). Nonetheless, the 0.0% m/m change in real GDP in July, followed by a 0.1% m/m increase in August and a 0.1% decrease in September will have caused some concern. GDP growth for 2025 - 2028 is currently forecast by the Office for Budget Responsibility to be in the region of 1.5%.
- Sticking with future economic sentiment, the composite Purchasing Manager Index (PMI) for the UK increased to 52.2 in October. The manufacturing PMI output balance improved to just below 50 but it is the services sector (52.2) that continues to drive the economy forward. Nonetheless, the PMIs suggest tepid growth is the best that can be expected in the second half of 2025 and the start of 2026. Indeed, on 13 November we heard that GDP for July to September was only 0.1% q/q.
- Turning to retail sales volumes, and the 1.5% year-on-year rise in September, accelerating from a 0.7% increase in August, marked the highest gain since April. On a monthly basis, retail sales volumes rose 0.5%, defying forecasts of a 0.2% fall, following an upwardly revised 0.6% gain in August. Household spending remains surprisingly resilient, but headwinds are gathering.
- Prior to the November Budget, the public finances position looked weak. The £20.2 billion borrowed in September was slightly above the £20.1 billion forecast by the OBR. For the year to date, the £99.8 billion borrowed is the second highest for the April to September period since records began in 1993, surpassed only by borrowing during the COVID-19 pandemic. The main drivers of the increased borrowing were higher debt interest costs, rising government running costs, and increased inflation-linked benefit payments, which outweighed the rise in tax and National Insurance contributions.
- Following the 26 November Budget, the Office for Budget Responsibility (OBR) calculated the net tightening in fiscal policy as £11.7bn (0.3% of GDP) in 2029/30, smaller than the consensus forecast of £25bn. It did downgrade productivity growth

by 0.3%, from 1.3% to 1.0%, but a lot of that influence was offset by upgrades to its near-term wage and inflation forecasts. Accordingly, the OBR judged the Chancellor was going to achieve her objectives with £4.2bn to spare. The Chancellor then chose to expand that headroom to £21.7bn, up from £9.9bn previously.

- Moreover, the Chancellor also chose to raise spending by a net £11.3bn in 2029/30. To pay for that and the increase in her headroom, she raised taxes by £26.1bn in 2029/30. The biggest revenue-raisers were the freeze in income tax thresholds from 2028/29 (+£7.8bn) and the rise in NICs on salary-sacrifice pension contributions (+£4.8bn). The increase in council tax for properties worth more than £2.0m will generate £0.4bn.

- The weakening in the jobs market looked clear in the spring. May's 109,000 m/m fall in the PAYE measure of employment was the largest decline (barring the pandemic) since the data began and the seventh in as many months. The monthly change was revised lower in five of the previous seven months too, with April's 33,000 fall revised down to a 55,000 drop. More recently, however, the monthly change was revised higher in seven of the previous nine months by a total of 22,000. So instead of falling by 165,000 in total since October, payroll employment is now thought to have declined by a smaller 153,000. Even so, payroll employment has still fallen in nearly all the months since the Chancellor announced the rises in National Insurance Contributions (NICs) for employers and the minimum wage in the October 2024 Budget. The number of job vacancies in the three months to November 2025 stood at 729,000 (the peak was 1.3 million in spring 2022). All this suggests the labour market continues to loosen, albeit at a slow pace.

- A looser labour market is driving softer wage pressures. The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% in April to 4.6% in September (still at that level in November). The rate for the private sector has slipped just below 4% as the year end approaches.

- CPI inflation remained at 3.8% in September but dropped to 3.2% by November. Core inflation also fell to 3.2% by November while services inflation fell to 4.4%. Nonetheless, a further loosening in the labour market and weaker wage growth may be a requisite to UK inflation coming in below 2.0% by 2027.

- An ever-present issue throughout recent months has been the pressure being exerted on medium and longer dated gilt yields. The yield on the 10-year gilt moved sideways in the second quarter of 2025, rising from 4.4% in early April to 4.8% in mid-April following wider global bond market volatility stemming from the "Liberation Day" tariff announcement, and then easing back as trade tensions began to de-escalate. By the end of April, the 10-year gilt yield had returned to 4.4%. In May, concerns about stickier inflation and shifting expectations about the path for interest rates led to another rise, with the 10-year gilt yield fluctuating between 4.6% and 4.75% for most of May. Thereafter, as trade tensions continued to ease and markets increasingly began to price in looser monetary policy, the 10-year yield edged lower, and ended June at 4.50%.

- More recently, the yield on the 10-year gilt rose from 4.46% to 4.60% in early July as rolled-back spending cuts and uncertainty over Chancellor Reeves' future raised fiscal concerns. Although the spike proved short lived, it highlighted the UK's fragile fiscal position. In an era of high debt, high interest rates and low GDP growth, the markets are now more sensitive to fiscal risks than before the pandemic. During August, long-dated gilts underwent a particularly pronounced sell-off, climbing 22 basis points and reaching a 27-year high of 5.6% by the end of the month. While yields have since eased back, the market sell-off was driven by investor concerns over growing supply-demand imbalances, stemming from unease over the lack of fiscal consolidation and reduced demand from traditional long-dated bond purchasers like pension funds. For 10-year gilts, by late September, sticky inflation, resilient activity data and a hawkish Bank of England kept yields elevated over 4.70% although by late December had fallen back again to a little over 4.50%.

- The FTSE 100 fell sharply following the "Liberation Day" tariff announcement, dropping by more than 10% in the first week of April - from 8,634 on 1 April to 7,702 on 7 April. However, the de-escalation of the trade war coupled with strong corporate earnings led to a rapid rebound starting in late April. As a result, the FTSE 100 ended June at 8,761, around 2% higher than its value at the end of March and more than 7% above its level at the start of 2025. Since then, the FTSE 100 has enjoyed a further 4% rise in July, its strongest monthly gain since January and outperforming the S&P 500. Strong corporate earnings and progress in trade talks (US-EU, UK-India) lifted share prices and the index hit a record 9,321 in mid-August, driven by hopes of peace in Ukraine and dovish signals from Fed Chair Powell. September proved more volatile and the FTSE 100 closed September at 9,350, 7% higher than at the end of Q1 and 14% higher since the start of 2025. Future performance will likely be impacted by the extent to which investors' global risk appetite remains intact, Fed rate cuts, resilience in the US economy, and AI optimism. A weaker pound will also boost the index as it inflates overseas earnings. In early November, the FTSE100 climbed to a record high just above 9,900. By late December, the index had clung on to most of those gains standing at 9,870 on 23 December.

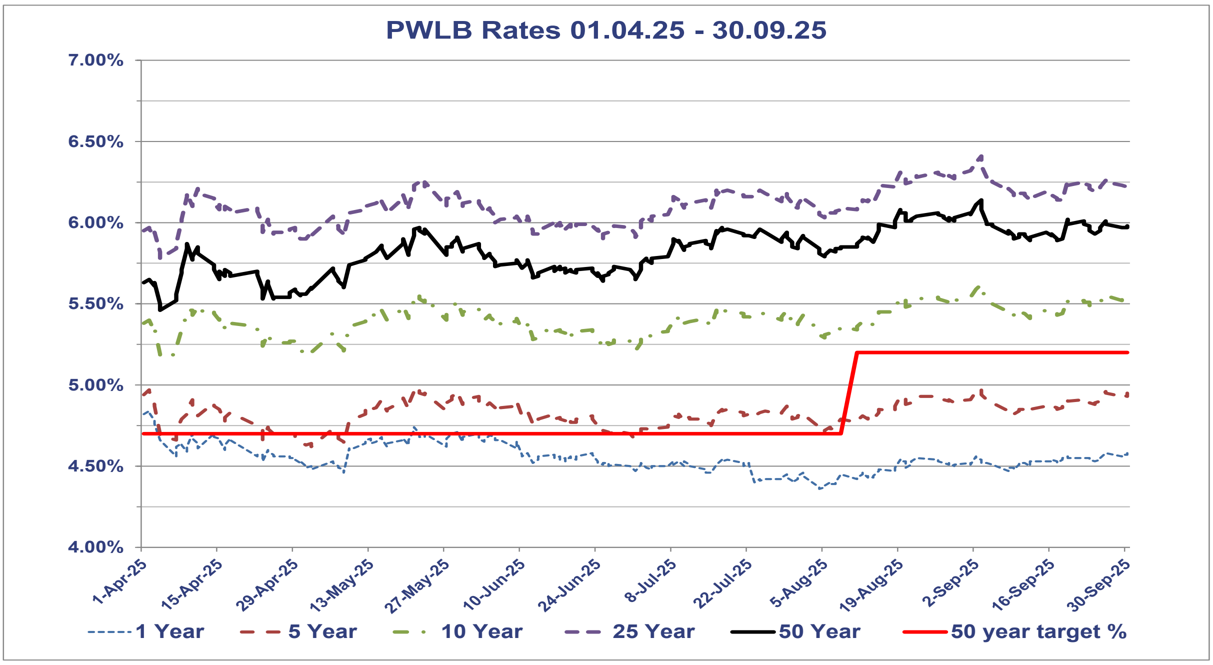
- **MPC meetings: 8 May, 19 June, 7 August, 18 September, 6 November, December 2025**
- There were six Monetary Policy Committee (MPC) meetings held between April and December. In May, the Committee cut Bank Rate from 4.50% to 4.25%, while in June policy was left unchanged. In June's vote, three MPC members (Dhingra, Ramsden and Taylor) voted for an immediate cut to 4.00%, citing loosening labour market conditions. The other six members were more cautious, as they highlighted the need to monitor for "signs of weak demand", "supply-side constraints" and higher "inflation expectations", mainly from rising food prices. By repeating the well-used phrase "gradual and careful", the MPC continued to suggest that rates would be reduced further.

- In August, a further rate cut was implemented. However, a 5-4 split vote for a rate cut to 4% laid bare the different views within the Monetary Policy Committee, with the accompanying commentary noting the decision was "finely balanced" and reiterating that future rate cuts would be undertaken "gradually and carefully". Ultimately, Governor Bailey was the casting vote for a rate cut but with the CPI measure of inflation expected to reach at least 4% later this year, the MPC was wary of making any further rate cuts until inflation begins its slow downwards trajectory back towards 2%.

- With wages still rising by just below 5%, it was no surprise that the September meeting saw the MPC vote 7-2 for keeping rates at 4% (Dhingra and Taylor voted for a further 25bps reduction). Moreover, the Bank also took the opportunity to announce that they would only shrink its balance sheet by £70bn over the next 12 months, rather than £100bn. The repetition of the phrase that "a gradual and careful" approach to rate cuts is appropriate suggested the Bank still thought interest rates will fall further.

- At the 6 November meeting, Governor Bailey was once again the deciding vote, keeping Bank Rate at 4% but hinting strongly that a further rate cut was imminent if data supported such a move. By 18 December, with November CPI inflation having fallen to 3.2%, and with Q2 GDP revised down from 0.3% q/q to only 0.2% q/q, and Q3 GDP stalling at 0.1%, the MPC voted by 5-4 to cut rates further to 3.75%. However, Governor Bailey made it clear that any further reductions would require strong supporting data, and the pace of any further decreases would be slow compared to recent months. The markets expect Bank Rate to next be cut in April.

PWLB RATES 01.04.25 - 30.09.25



2.4 Prospects for Interest Rates

The Authority has appointed MUFG Corporate Markets as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. MUFG Corporate Markets provided the following forecasts on 22 December 2025. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

MUFG Corporate Markets Interest Rate View 22.12.25													
	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28	Mar-29
BANK RATE	3.75	3.50	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	3.80	3.50	3.50	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	3.80	3.50	3.50	3.40	3.30	3.30	3.30	3.40	3.40	3.40	3.40	3.40	3.40
12 month ave earnings	3.90	3.60	3.60	3.50	3.40	3.50	3.50	3.50	3.50	3.50	3.60	3.60	3.60
5 yr PWLB	4.60	4.50	4.30	4.20	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10
10 yr PWLB	5.20	5.00	4.90	4.80	4.80	4.70	4.70	4.70	4.70	4.60	4.60	4.60	4.70
25 yr PWLB	5.80	5.70	5.60	5.50	5.50	5.40	5.30	5.30	5.30	5.20	5.20	5.20	5.20
50 yr PWLB	5.60	5.50	5.40	5.30	5.30	5.20	5.10	5.10	5.10	5.00	5.10	5.00	5.00

- Additional notes by MUFG Corporate Markets on this forecast table: -

- The last interest rate forecast update was undertaken on 11 August. Since then, a combination of tepid growth (0.2% q/q GDP for Q2 and 0.1% q/q GDP for Q3), falling inflation (currently CPI is 3.2%), and a November Budget that will place more pressure on the majority of households' income, has provided an opportunity for the Bank of England's Monetary Policy Committee to further reduce Bank Rate from 4% to 3.75% on 18 December.

- Surprisingly, to most market commentators, the recent steep fall in CPI inflation in one month from 3.6% to 3.2% did not persuade most "dissenters" from the November vote (Lombardelli, Greene, Mann and Pill) to switch to the rate-cutting side of the Committee. Instead, it was left to Bank Governor, Andrew Bailey, to use his deciding vote to force a rate cut through by the slimmest of margins, 5-4.

- Given the very small majority for a rate cut it was not unexpected to hear that although rates would continue a "gradual downward path", suggesting a further rate cut or cuts in the offing, MPC members want to assess incoming evidence on labour market activity and wage growth. Indeed, with annual wage growth still over 4.5%, the MPC reiterated that the case for further rate cuts would be "a closer call", and Governor Bailey observed there is "limited space as Bank Rate approaches a neutral level".

- Accordingly, the MUFG Corporate Markets forecast has been revised to price in a rate cut in Q2 2026 to 3.5%, likely to take place in the wake of a significant fall in the CPI inflation reading from 3% in March to 2% in April (as forecast by Capital Economics), followed by a short lull through the summer whilst more data is garnered, and then a further rate cut to 3.25% in Q4.

- As in August, nonetheless, threats to that central scenario abound. Wage increases could remain fairly high. There are several sectors of the domestic economy, including social care provision and the building/construction industries, where staff shortages remain severe. Moreover, by May 2026, following the local elections, there be a better forecast on whether or not the Starmer/Reeves team is going to see out the current Parliament or whether they face a Leadership challenge from within their own party If so, it remains to be seen how gilt markets will react to these variables and will there be additional geo-political factors to also factor in, particularly the Fed's monetary policy decisions in 2026 and the ongoing battle to lower rates whilst inflation remains close to 3%.

- Accordingly, MUFG's updated central forecast is made with several hefty caveats. They believe that the forecast for Bank Rate and the 5-year PWLB Certainty Rate is robust, and they have marginally brought forward the timing of the next rate cut(s). But for the 10-, 25- and 50-years part of the curve, the level of gilt issuance, and the timing of its placement, will be integral to achieving a benign trading environment. That is not a "given", and additionally, the inflation outlook and political factors domestically and, crucially, in the US, are also likely to hold sway. Matters should be clearer by June in the UK, but the US mid-term elections are scheduled for November.

- Their revised PWLB rate forecasts are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012. Please note, the lower Housing Revenue Account (HRA) PWLB rate started on 15 June 2023 for those authorities with an HRA (standard rate minus 60 bps) and is set to prevail until at least the end of March 2026. There will be a further extension to this discounted rate announced in January 2026.

- Money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.

Gilt yields and PWLB rates

The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of MUFG's forecasts, but the risks to the forecasts are generally to the upsides. The target borrowing rates are set **two years forward** (as they expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below: -

PWLB borrowing	Current borrowing rates as at 22.12.25 p.m. %	Target borrowing rate now (end of Q4 2027) %	Target borrowing rate previous (end of Q4 2027) %
5 years	4.81	4.10	4.20
10 years	5.39	4.70	4.70
25 years	6.01	5.30	5.30
50 years	5.78	5.10	5.10

Borrowing advice: MUFG's long-term (beyond 10 years) forecast for the neutral level of Bank Rate remains at 3.5%. As all PWLB certainty rates are still above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve (<5 years PWLB maturity/<10 years PWLB EIP) and short-dated fixed LA to LA monies should also be considered. Temporary borrowing rates will, generally, fall in line with Bank Rate cuts.

Their suggested **budgeted earnings rates for investments** up to about three months' duration in each financial year are set out below.

Average earnings in each year	Now %	Previously %
2025/26 (residual)	3.80	3.90
2026/27	3.40	3.60
2027/28	3.30	3.30

2028/29	3.30	3.50
2029/30	3.50	3.50
Years 6-10	3.50	3.50
Years 10+	3.50	3.50

MUFG will continue to monitor economic and market developments as they unfold. Typically, they formally review their forecasts following the quarterly release of the Bank of England's Monetary Policy Report but will consider the position on an ad-hoc basis as required.

MUFG interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. They continue to monitor events and will update the forecasts as and when appropriate.

.

2.5 ***Borrowing Strategy***

At the time of writing this report, the Council is estimated to have an under-borrowed position at the end of 2025/26 of £56,441m, (around 10.92% of the total underlying borrowing requirement). This would mean that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with external loan debt and means that an element of internal resources, cash and revenue surpluses have been used to finance capital expenditure. This strategy is prudent even although investment returns are on the increase, counterparty risk is still an issue that needs to be considered. Given the under-borrowed position is 10.92% of the borrowing requirement it removes an element of interest rate risk.

During **2026/27** it is estimated that the Council and HRA will have additional borrowing requirements of **£193,742m**.

The strategy is to fund most of this requirement from long term external borrowing of **£131m** whilst reducing the under-borrowed position to around 8.81% of the borrowing requirement. Although a reduction on the current year position, this remains a prudent strategy in the current interest rate environment and also allows flexibility in taking a pragmatic approach in terms of the pace of the major capital spend in 2026/27.

The treasury team are monitoring longer term interest rate forecasts on a regular basis to assess timing of longer term borrowing; whilst still minimising the cost of carrying any new borrowing prior to the loans actually being required.

Whilst the under-borrowed position remains a minimal risk, the significant borrowing requirements in 2026/27 and the level of temporary borrowing will require close monitoring.

Against this background and the risks within the economic forecast, caution will be adopted with the 2026/27 treasury operations. The Chief Financial Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

The estimates of borrowing required are set out in the under-noted table:

New Borrowing (Year)	***General Services £'000***	***HRA £'000***	***Total £'000***
2025/26	9,732	19,984	29,716
2026/27	71,979	56,043	128,022
2027/28	38,492	20,063	58,555
2028/29	15,781	19,695	35,476
2029/30	4,488	26,638	31,126
Total 5 Yr Borrowing	**140,472**	**142,423**	**282,895**

It is emphasised that a pragmatic approach will be taken when considering the timing of this borrowing externally in the light of prevailing interest rates, the overall treasury strategy, cost of carry, and in particular the out-turn of capital expenditure as the projects are delivered in 2026/27 and 2027/28:

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

Any decisions on new borrowing will be reported to Members within the mid-year Treasury Report or the end of year out-turn report.

2.5.1 **Treasury Management Limits on Activity**
Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large, fixed rate sums falling due for refinancing.

Maturity Structure of Fixed Interest Rate Borrowing		
	Lower	**Upper**
Under 12 months	0.00%	27%
1 – 2 years	0.00%	25%
2 – 5 years	0.00%	50%
5 – 10 years	0.00%	75%
10 years and above	0.00%	88%

2.6 *Statutory Repayment of Loans Fund Advances*

The Council is required to set out its policy for the statutory repayment of loans fund advances prior to the start of the financial year. The repayment of loans fund advances ensures that the Council makes a prudent provision each year to pay off an element of the accumulated loans fund advances made in previous financial years.

A variety of options are provided to Councils and method C below will be the prudent repayment option adopted by the Council.

- **Statutory method**

- **Depreciation method** – annual repayment of loans fund advances will follow standard depreciation accounting procedures;

- **Asset life method** – loans fund advances will be repaid with reference to the life of an asset using either the equal instalment or annuity method;

- **Funding / Income profile method** – loans fund advances will be repaid by reference to an associated income stream.

2.6.1 The Authority is required to set out its policy for the statutory repayment of loans fund advances prior to the start of the financial year. The repayment of loans fund advances ensures that the Authority makes a prudent provision each year to pay off an element of the accumulated loans fund advances made in previous financial years.
A variety of options are provided to authorities so long as a prudent provision is made each year. The Authority is recommended to approve the following policy on the repayment of loans fund advances: -

For loans fund advances made before 1 April 2016, the policy will be to maintain the practice of previous years and apply the **Statutory Method**, with all loans fund advances being repaid in equal instalments of principal/ by the annuity method.

For loans fund advances made after 1 April 2016, the policy for the repayment of loans advances will be the*:* -

Asset life method – loans fund advances will be repaid with reference to the life of an asset using either the equal instalment or annuity method.

The annuity rate applied to the loans fund repayments is based on historic interest rates and is currently 5%.

Loans Fund Advances to General Fund

Loans Fund	Actual 2024/25 £'000	Est 2025/26 £'000	Est 2026/27 £'000	Est 2027/28 £'000	Est 2028/29 £'000
Opening Balance	314,765	330,848	334,172	399,720	431,141
Add advances	22,480	9,732	71,979	38,492	15,781
Less repayments	(6,397)	(6,408)	(6,431)	(7,071)	(7,419)
Closing Balance	**330,848**	**334,172**	**399,720**	**431,141**	**439,503**

Loans Fund Advances to HRA

Loans Fund	Actual 2024/25 £'000	Est 2025/26 £'000	Est 2026/27 £'000	Est 2027/28 £'000	Est 2028/29 £'000
Opening Balance	103,326	134,092	150,714	203,233	219,269
Add advances	33,209	19,984	56,043	20,063	19,695
Less repayments	(2,443)	(3,362)	(3,524)	(4,027)	(4,469)
Closing Balance	**134,092**	**150,714**	**203,233**	**219,269**	**234,495**

2.7 ***Policy on Borrowing in Advance of Need***

The Council will not borrow more than, or in advance of its needs, purely to profit from the investment of the extra sum borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Borrowing in advance will be made within the constraints that:

- It will be limited to no more than 20% of the expected increase in borrowing need (CFR) over the three-year planning period; and
- Would not look to borrow more than 12 months in advance of need.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting arrangements.

2.8 ***Debt Rescheduling***

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a significant difference between premature redemption rates and new borrowing rates.
The reasons for any rescheduling to take place will include:

1. the generation of cash savings and / or discounted cash flow savings;
2. helping to fulfil the treasury strategy; and
3. enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

If rescheduling is to be undertaken, it will be reported to the Cabinet at the earliest meeting following its action.

2.8.1 New financial institutions as a source of borrowing and / or types of borrowing

Currently the PWLB Certainty Rate is set as PWLB standard interest rate less 20 basis points for non-HRA borrowing. Borrowing using the HRA concessionary rate is available at PWLB standard interest rate less 60 basis points and is for HRA, intended primarily for new housing delivery.
However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

1. Local authorities (primarily shorter dated maturities out to 3 years or so – where this is cheaper than the Certainty Rate).
2. Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a 'cost of carry' or to achieve refinancing certainty over the next few years).
3. Municipal Bonds Agency (still a viable alternative depending on market circumstances prevailing at the time).

Our advisors MUFG will keep us informed as to the relative merits of each of these alternative funding sources. All rescheduling will be reported to Members in the mid-year or year-end treasury reports.

2.8.2 Approved Sources of Long and Short-term Borrowing

The list below details the available sources of both long and short term Borrowing borrowing. The sources that South Ayrshire can undertake are noted by Y.

On Balance Sheet	Fixed	Variable
PWLB	Y	Y
Municipal Bond Agency	Y	Y
Local Authorities	Y	Y
Banks	Y	Y
Pension Funds	Y	Y
Insurance Companies	Y	Y
UK (United Kingdom) Infrastructure Bank	Y	Y
Market (long-term)	Y	Y
Market (temporary)	Y	Y
Market (LOBO's)	Y	Y
Stock Issues	Y	Y
Local Temporary	Y	Y
Local Bonds	Y	Y
Local Authority Bills	Y	Y
Overdraft	Y	Y
Negotiable Bonds	N	N
Internal (capital receipts & revenue balances)	Y	Y
Commercial Paper	Y	N
Medium Term Notes	Y	N
Finance Leases	Y	Y

Section 3 – Annual Investment Strategy

3.1 *Investment Policy*

The Council's investment policy implements the requirements of the following: -

- Local Government Investments (Scotland) Regulations 2010, (and accompanying Finance Circular 5/2010),
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). 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 maintain a degree of liquidity to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options

The above regulations and guidance place a high priority on the management of risk. The Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. **Minimum acceptable credit criteria** are applied to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

2. **Other information**: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as 'credit default swaps' and overlay that information on top of the credit ratings.

3. **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. **The Council has defined the list of types** of investment instruments that are permitted investments authorised for use in Annex A. Annex B expands on the risks involved in each type of investment and the mitigating controls.

   Specified investments are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity, if originally, they were classified as being non-specified investments solely due to the maturity period exceeding one year.

   Non-specified investments are those with less high credit quality, may be for periods more than one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. Lending limits, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 3.2.

6. Transaction limits are set for each type of investment in appendix 3.2.

7. The Council will set a limit for its investments which are invested for longer than 365 days, (see paragraph 3.4).

8. Investments will only be placed with counterparties from countries with a specified minimum sovereign rating, (see paragraph 3.3).

9. The Council has engaged external consultants, (see paragraph 4.3), to provide expert advice on how to optimise an appropriate balance of security, liquidity, and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

10. All investments will be denominated in sterling.

As a result of the change in accounting standards for 2022/23 under IFRS 9, the council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.

The Council will pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, Regular monitoring of investment performance will be carried out during the year.

3.2 ***Credit Worthiness Policy***

3.2.1 The Council applies the credit worthiness service provided by MUFG. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swaps (CDS) spreads to give early warning of changes in credit ratings; and
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of Credit Default Swap (CDS) spreads for which the product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration for investments.

The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years
- Dark Pink 5 years for Ultra short, dated bond funds with a credit score of 1.25
- Light Pink 5 years for Ultra short, dated bond funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (UK (United Kingdom) part nationalised banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No Colour not used

3.2.2 The under-noted table sets out the monetary limits that will be applied to each counterparty within each colour on the creditworthiness matrix.

Applying the criteria in the under-noted table has been derived from the Council's current investment activities in terms of funds available for investment, and cash flow requirements. This policy also provides a clearly defined policy on investment activity limits.

	Colour Code (Based on credit information)	***Limit per Counterparty***	***Maximum Maturity Period***
Banks/ Building Societies	Yellow	£25m	5 Years
Banks – (UK Part Nationalised)	Blue	£25m	1 Year
Banks/ Building Societies	Purple	£20m	2 Years
Banks/ Building Societies	Orange	£15m	1 Years
Banks/ Building Societies	Red	£10m	6 months
Banks/ Building Societies	Green	£5m	100 days
Banks/ Building Societies	No Colour	£0	0 days
Council's Corporate Bankers	Orange	£50m	1 Year
Debt Management Account – UK Treasury	AA+	unlimited	6 months
Local / Public Authorities	N/A	£10m	2 Years
Housing Associations	Colour Bands	£5m	As per colour band
Money Market Funds CNAV	AAA	£20m	Liquid
Money Market Funds LVNAV	AAA	£10m	Liquid
Money Market Funds VNAV	AAA	£10m	Liquid
Ultra-short, dated bond funds with a credit score of 1.25	Dark Pink/ AAA	£10m	Liquid
Ultra-short, dated bond funds with a credit score of 1.25	Light Pink/ AAA	£10m	Liquid

The MUFG creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically, the minimum credit ratings criteria South Ayrshire uses will be a short-term rating (Fitch or equivalents) of F1 and a long-term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the complete range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored daily. South Ayrshire is alerted to changes to ratings of all three agencies through its use of the MUFG creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting South Ayrshire's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings South Ayrshire will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Senior Financials benchmark and other market data daily via its Passport website, provided exclusively to it by MUFG. Extreme market movements may result in downgrade of an institution or removal from the South Ayrshire's lending list.

Sole reliance will not be placed on the use of this external service. In addition, South Ayrshire will also use market data and market information, as well as information on any external support for banks to help support its decision-making process.

3.3 ***Country Limits – Credit Worthiness***

Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, more recently the UK sovereign debt rating has been placed on Negative Outlook by the three major rating agencies in the wake of the Truss/Kwarteng unfunded tax-cuts policy. Although the Sunak/Hunt government has calmed markets, the outcome of the rating agency reviews is unknown at present, but it is possible the UK sovereign debt rating will be downgraded. Accordingly, when setting minimum sovereign debt ratings, this Authority will not set a minimum rating for the UK.

CDS prices

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the days of the Truss/Kwarteng government, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. MUFG monitor CDS prices as part of their creditworthiness service to local authorities and South Ayrshire has access to this information via its MUFG-provided Passport portal.

Other limits

Due care will be taken to consider the exposure of South Ayrshire's total investment portfolio to non-financial investments, countries, groups, and sectors.

1. **Non-financial investment limit.** South Ayrshire has determined that it will limit the maximum total exposure to non-financial investments, (e.g. property and third-party loans).

2. **Country limit.** South Ayrshire has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of** ***AA-.*** The list of countries that qualify using this credit criteria as at the date of this report are shown below. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher, (shown is the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the MUFG credit worthiness service.

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- Qatar

AA-

- Belgium
- France
- Qatar
- U.K.

3.4 ***Investment Strategy***

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods.

The current shape of the yield curve suggests that rates can be expected to fall throughout 2026, but only if the CPI measure of inflation maintains a downwards trend towards the Bank of England's 2% target. Rates may be cut quicker than expected if the economy stagnates.

Accordingly, while most cash balances are required to manage the downs of cash flow where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

Investment Returns Expectations -

The current forecast shown in paragraph 2.4, includes a forecast for Bank Rate to fall to a low of 3.25% in 2026.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Average earnings in each year	
2025/26 (residual)	3.80%
2026/27	3.40%
2027/26	3.30%
2028/29	3.30%
2029/30	3.50%
Years 6 to 10	3.50%
Years 10+	3.50%

As there are so many variables now, caution must be exercised in respect of all interest rate forecasts.

Invesment Treasury Indicator and Limit - total principal funds invested for greater than 365 days. These limits are set regarding the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

Maximum principal sums invested > 365 days (about 12 months)			
	2024/25 £m	**2025/26 £m**	**2026/27 £m**
Principal sums invested > 365 days (about 12 months)	£10m	£10m	£10m

For its cash flow generated balances, the Council will seek to utilise its business reserve accounts, notice accounts, money market funds and short-dated deposits to benefit from the compounding of interest.

3.5 ***Investment – Cash Liquidity***

A key responsibility of the Treasury function is to ensure the Council maintains adequate liquidity of cash to ensure its payment obligations can be fully always met. This liquidity of cash is required on a daily basis to meet the cash flow requirements of payments to employees, suppliers, agencies, re-payment of loan interest and benefits etc.

The Council does not currently utilise an overdraft facility from its bankers, Bank of Scotland as liquidity cash is available using investment accounts. Additionally, the Council has access to short term loan funding from the money markets when required.

Liquidity - in respect of this area the Council seeks to maintain:

- Bank overdraft - £0.00m; and
- Liquidity cash available of £15m.

3.6 ***End of Year Investment Report***

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report. This report will be submitted to the Council's Audit and Governance Panel and South Ayrshire Council Leadership Panel prior to 30 September following the end of each financial year (or as soon as practicable depending on Council meeting dates).

Section 4 – Governance Arrangements

4.1 ***Financial Regulations***

The Financial Regulations set out the responsibilities of the Council and the Audit and Governance Panel in respect of treasury matters as follows:

4.1.1 **Council**

1. Approval of treasury strategy report.
2. Approval of mid-year and annual report

Cabinet

1. budget consideration and approval
2. approval of the division of responsibilities
3. approving the selection of external service providers and agreeing terms of appointment.

Audit and Governance Panel

1. Reviewing the treasury management policy and procedures and making recommendations to the responsible body; and
2. Scrutiny or the quarterly performance indicators

4.2 ***Role of the Section 95 Officer – Chief Financial Officer***

The S95 (responsible) officer has authority through the Scheme of Delegation and the Financial Regulations for the day-to-day execution and administration of treasury management decisions in line with the Council's Strategy and Treasury Management Practices. This includes:

- recommending clauses, treasury management policy for approval, reviewing the same regularly and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers;
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a longer-term timeframe;
- ensuring that the capital strategy is prudent, sustainable, affordable, and prudent in the long term and provides value for money;

- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority;
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources;
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities;
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans, and financial guarantees ensuring that members are adequately informed and understand the risk exposures taken on by an authority;
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above; and
- creation of Treasury Management Practices which specifically deal with how non-treasury investments will be carried out and managed, to include the following:

  1. *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*

  2. *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*

  3. *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*

  4. *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*

  5. *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

4.3 *Policy on the Use of External Service Providers*

South Ayrshire uses MUFG Corporate Markets Treasury Limited as its external treasury management advisors.

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

It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. South

Ayrshire will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

4.4 ***Training***

The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

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

As a minimum, South Ayrshire will carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/council members.
- Require treasury management officers and board/council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis."

In further support of the revised training requirements, CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management,' which is available from the CIPFA website to download.

The training needs of treasury management officers are periodically reviewed.

A formal record of the training received by officers central to the Treasury function will be maintained by Senior Accountant. Similarly, a formal record of the treasury management/capital finance training received by members will also be maintained by Senior Accountant.

Permitted Investments

The Council approves the following forms of investment instrument for use as permitted investments as set out in **Table 1-6** (page 39 to 41).

Treasury risks

All the investment instruments in Table 1 are subject to the following risks:

- **Credit and counter-party risk:** this is the risk of failure by counterparty (bank or building society) to meet its contractual obligations to the organisation particularly because of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources. There are no counterparties where this risk is zero although AAA rated organisations have the highest, relative, level of creditworthiness.

- **Liquidity risk:** this is the risk that cash will not be available when it is needed. While it could be said that all counterparties are subject to at least a very small level of liquidity risk as credit risk can never be zero, in this document, liquidity risk has been treated as whether instant access to cash can be obtained from each form of investment instrument. However, it must be pointed out that while some forms of investment e.g., Gilts, CDs, corporate bonds can usually be sold immediately if the need arises, there are two caveats: a. Cash may not be available until a settlement date up to three days after the sale b. there is an implied assumption that markets will not freeze up and so the instrument in question will find a ready buyer. The column in tables 1 / 2 headed as 'market risk' will show each investment instrument as being instant access, sale T+3 = transaction date plus 3 business days before you get cash, or term – i.e., money is locked in until an agreed maturity date.

- **Market risk**: this is the risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately. However, some cash-rich local authorities may want exposure to market risk, e.g., those investing in investment instruments to obtain a long-term increase in value.

- **Interest rate risk:** this is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately. This authority has set limits for its fixed and variable rate exposure in its Treasury Indicators in this report. All types of investment instruments have interest rate risk except for the following forms of instrument which are at variable rate of interest (and the linkage for variations is also shown):

- **Legal and regulatory risk:** this is the risk that the organisation itself, or an organisation powers or regulatory requirements, and that the organisation suffers losses accordingly.

Controls on treasury risks

- **Credit and counter-party risk**: this authority has set minimum credit criteria to determine which counterparties and countries are of sufficiently high creditworthiness to be considered for investment purposes.

- **Liquidity risk:** the Council has a cash flow forecasting model to enable it to determine how long investments can be made for and how much can be invested.

- **Market risk:** this Council does not purchase investment instruments which are subject to market risk in terms of fluctuation in their value.

- **Interest rate risk:** the Council manages this risk by having a view of the future course of interest rates and then formulating a treasury management strategy accordingly which aims to maximize investment earnings consistent with control of risk or alternatively, seeks to minimise expenditure on interest costs on borrowing.

- Legal and regulatory risk: the Council will not undertake any investment until it has ensured it has all necessary powers and complied with all regulations.

Unlimited investments

Regulation 24 states that an investment can be shown as being 'unlimited' in terms of the maximum amount or percentage of the total portfolio that can be put into that type of investment.

The Council has given the following types of investment an unlimited category:

- **Debt Management Agency Deposit Facility.** This is considered the lowest risk investment form available to local authorities as it is operated by the Debt Management Office, part of H.M. Treasury, i.e., the UK Government's sovereign rating stands behind the DMADF. It is also a deposit account and avoids the complications of buying and holding Government issued treasury bills or gilts.

- **High credit worthiness banks and building societies**. See Section 3.2 relating to creditworthiness. While an unlimited amount of the investment portfolio may be put into banks and building societies with high credit worthiness, the Council will ensure diversification of its portfolio ensuring that no more than 50% of the total portfolio can be placed with any one institution or group at any one time.

Objectives of each type of investment instrument

Regulation 25 requires an explanation of the objectives of every type of investment instrument which an authority approves as being 'permitted'. (Part 1 section 17 also requires authorities to explain any special circumstances that have led them to a particular approach.

1. Deposits

The following forms of 'investments' are more accurately called deposits as cash is deposited in an account until an agreed maturity date or is held at call.

1. **Debt Management Agency Deposit Facility -** This offers the lowest risk form of investment available to local authorities as it is effectively an investment placed with the Government. It is also easy to use as it is a deposit account and

avoids the complications of buying and holding Government issued treasury bills or gilts. As it is low risk it also earns low rates of interest. However, it is very useful for authorities whose overriding priority is the avoidance of risk. The longest period for a term deposit with the DMADF is 6 months.

2. **Term deposits with high credit worthiness banks and building societies -** See paragraph 3.2 for an explanation of this authority's definition of high credit worthiness. This is the most widely used form of investment used by local authorities. It offers a much higher rate of return than the DMADF (dependent on term). The Council will ensure diversification of its portfolio of deposits, ensuring that no more than 50% of the total portfolio can be placed with any one institution or group. In addition, longer-term deposits offer an opportunity to increase investment returns by locking in high rates ahead of an expected fall in the level of interest rates. At other times, longer-term rates can offer good value when the markets incorrectly assess the speed and timing of interest rate increases. This form of investment therefore offers a lot of flexibility and higher earnings than the DMADF. Where it is restricted is that once a longer-term investment is made, that cash is locked in until the maturity date.

3. **Call accounts with high credit worthiness banks and building societies**. The objectives are as for 1b. But there is instant access to recalling cash deposited. This generally means accepting a lower rate of interest than that which could be earned from the same institution by making a term deposit. Some use of call accounts is highly desirable to ensure that the authority has ready access to cash when needed to pay bills.

4. **Fixed term deposits with variable rate and variable maturities (structured deposits).** This line encompasses ALL types of structured deposits. There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are no longer available. In view of this area's fluidity, this is a generic title for all structured deposits to provide Councils greater flexibility to adopt new instruments as and when they are brought to the market.

5. **Collateralised deposits.** These are deposits placed with a bank which offers collateral backing based on specific assets. Examples seen in the past have included local authority LOBOs, where such deposits are effectively lending to a local authority as that is the ultimate security.

- **Deposits with Counterparties currently in receipt of Government Support/ Ownership**

These banks offer another dimension of creditworthiness in terms of Government backing through either partial or full direct ownership. The view of the Council is that such backing makes these banks attractive institutions with whom to place deposits, and that will remain our view if the UK sovereign rating were to be downgraded in the coming year.

1. **Term deposits with high credit worthiness banks which are fully or semi nationalised.** As for 1b. but Government full, (or substantial partial), ownership, implies that the Government stands behind this bank and will be deeply committed to providing whatever support that may be required to ensure the continuity of that bank. This authority considers that this indicates a low and acceptable level of residual risk.

2. **Fixed term deposits with variable rate and variable maturities (structured deposits).** This line encompasses ALL types of structured deposits. There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are no longer available. In view of this area's fluidity, this is a generic title for all structured deposits to provide Councils greater flexibility to adopt new instruments as and when they are brought to the market.

- **Collective Investment Schemes structured as Open-Ended Investment Companies (OEICs)**

1. **Government liquidity funds**. These are the same as money market funds (see below) but only invest in government debt issuance with highly rated governments. Due to the higher quality of underlying investments, they offer a lower rate of return than MMFs. However, their net return is typically on a par with the DMADF, but with instant access.

2. **Money Market Funds (MMFs).** MMFs are AAA rated and are widely diversified, using many forms of money market securities including types which this authority does not currently have the expertise or capabilities to hold directly. However, due to the high level of expertise of the fund managers and the huge amounts of money invested in MMFs, and the fact that the weighted average maturity (WAM) cannot exceed 60 days (about 2 months), MMFs offer a combination of high security, instant access to funds, high diversification and good rates of return compared to equivalent instant access facilities. They are particularly advantageous in falling interest rate environments as their 60-day WAM means they have locked in investments earning higher rates of interest than are currently available in the market. MMFs also help an authority to diversify its own portfolio, e.g., a £2m investment placed directly with HSBC is a 100% risk exposure to HSBC whereas £2m invested in an MMF may end up with say £10,000 being invested with HSBC through the MMF. For authorities particularly concerned with risk exposure to banks, MMFs offer an effective way of minimising risk exposure while still getting much better rates of return than available through the DMADF.

3. **Ultra-short, dated bond funds.** These funds are like MMFs, can still be AAA rated but have variable net asset values (VNAV) as opposed to a traditional MMF which has a Constant Net Asset Value (CNAV). They aim to achieve a higher yield and to do this either take more credit risk or invest out for longer periods of time, which means they are more volatile. These funds can have WAM's and Weighted Average Life (WAL's) of 90 – 365 days (about 12 months) or even longer. Their primary objective is yield and capital preservation is second. They therefore have a higher risk than MMFs and correspondingly have the potential to earn higher returns than MMFs.

4. **Gilt funds.** These are funds which invest only in U.K (United Kingdom). Government gilts. They offer a lower rate of return than bond funds but are highly rated both as a fund and through investing only in highly rated government securities. They offer a higher rate of return than investing in the DMADF, but they do have exposure to movements in the market prices of assets held.

5. **Bond funds**. These can be invested in both government and corporate bonds. This therefore entails a higher level of risk exposure than gilt funds and the aim is to achieve a higher rate of return than normally available from gilt funds by trading in non-government bonds.

4. Securities Issued or Guaranteed by Governments

The following types of investments are where an authority directly purchases a particular investment instrument, a security – i.e., it has a market price when purchased and that value can change during the period the instrument is held until it matures or is sold. The annual earnings on a security are called a yield – i.e., it is normally the interest paid by the issuer divided by the price you paid to purchase the security unless a security is initially issued at a discount – for example, treasury bills.

1. **Treasury bills.** These are short term bills (up to 18 months (about 1 and a half years) but usually 9 months or less, although none have ever been issued for this maturity) issued by the Government and so are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF, and another advantage compared to a time deposit in the DMADF is that they can be sold if there is a need for access to cash at any point in time. However, there is a spread between purchase and sale prices so early sales could incur a net cost during the period of ownership.

2. **Gilts.** These are longer term debt issuance by the UK Government and are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF, and another advantage compared to a time deposit in the DMADF is that they can be sold if there is a need for access to cash at any point in time. However, there is a spread between purchase and sale prices so early sales may incur a net cost. Market movements between purchase and sale may also adversely impact proceeds. The advantage over Treasury bills is that they generally offer higher yields the longer it is to maturity (for most periods) if the yield curve is positive.

3. **Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government** e.g., National Rail. This is like gilt due to the explicit Government guarantee.

4. **Sovereign bond issues (other than the UK govt) denominated in Sterling.** As for gilts but issued by other nations. Use limited to issues of nations with at least the same sovereign rating as for the UK.

5. **Bonds issued by Multi-Lateral Development Banks (MLDBs).** These are like c. and d. above but are issued by MLDBs which are typically guaranteed by a group of sovereign states e.g. European Bank for Reconstruction and Development.

5 Securities issued by Corporate Organisations

The following types of investments are where an authority directly purchases a particular investment instrument, a security – i.e., it has a market price when purchased and that value can change during the period the instrument is held until it is sold. The annual earnings on a security are called a yield – i.e., is the interest paid by the issuer divided by the price you paid to purchase the security. These are like the previous category but corporate organisations can have a wide variety of credit worthiness, so it is essential for local authorities to only select the organisation's with the highest levels of credit worthiness. Corporate securities are generally a higher risk than government debt issuance and so earn higher yields.

1. **Certificates of deposit (CDs).** These are shorter term securities issued by deposit taking institutions (mainly financial institutions). They are negotiable instruments, so they can be sold ahead of maturity and purchased after being issued. However, that liquidity can come at a price where the yield could be marginally less than placing a deposit with the same bank as the issuing bank.

2. **Commercial paper.** This is like CDs but is issued by commercial organisations or other entities. Maturity periods are up to 365 days (about 12 months) but commonly 90 days (about 3 months).

3. **Corporate bonds.** These are (long term) bonds (usually bearing a fixed interest rate) issued by a financial institution, company, or other non-government issuer to raise capital for the institution as an alternative to issuing shares or borrowing from banks. They are generally seen to be of a lower creditworthiness than government issued debt and so usually offer higher rates of yield.

4. **Floating rate notes.** These are bonds on which the rate of interest is established periodically with reference to short-term interest rates.

6. Other

Property Fund - This is a collective investment fund specialising in property. Rather than owning a single property with all the risk exposure that means to one property in one location rising or falling in value, maintenance costs, tenants paying their rent / lease etc., a collective fund offers the advantage of diversified investment over a wide portfolio of different properties. This can be attractive for authorities who want exposure to the potential for the property sector to rise in value. However, timing is critical to entering or leaving this sector at the optimum times of the property cycle of rising and falling values. Typically, the minimum investment time horizon for considering such funds is 3-5 years.

Deposits

Table 1	***Liquidity risk***	***Market risk***	***Max % of total investment***	***Max. maturity***
Debt Management Agency Deposit Facility	Term	no	100%	6 months
Term deposits – local / public authorities	Term	no	100%	2 years
Call accounts – banks and building societies	Instant	no	100%	N/A
Term deposits – banks and building societies	Term	no	100%	See Credit Policy (colour code)
Fixed term deposits with variable rate and variable maturities: Structured deposits.	Term	no	10%	See Credit Policy (colour code)

Deposits with Counterparties Currently in Receipt of Government Support/ Ownership

Table 2	*Liquidity risk*	*Market risk*	*Max % of total investment*	*Max. maturity period*
UK Part Nationalised Banks	Term	no	100%	See Credit Policy (colour code)
Banks nationalised by high credit rated (sovereign rating) countries – non-UK	Term	no	100%	See Credit Policy (colour code)
Fixed term deposits with variable rate and variable maturities: Structured deposits	Term	Yes	10%	See Credit Policy (colour code)

Collective Investment schemes structured as Open-Ended Investment Companies (OEIC's)

Table 3	Liquidity risk	Market risk	Max % of total investment	Max. maturity period
Government Liquidity Funds	Instant	See Section 3	20%	See credit policy
Money Market Funds (CNAV)	Instant	See Section 3	100%	See credit policy
Money Market Funds LVNAV	Instant	See Section 3	50%	See credit policy
Money Market Funds VNAV	Instant	See Section 3	50%	See credit policy
Ultra-short, dated bond funds with a credit score of 1.25	T+1 – T+5	See Section 3	50%	See credit policy
Ultra-short, dated bond funds with a credit score of 1.50	T+1 – T+5	See Section 3	50%	See credit policy
Bond Funds	Min T+2	See Section 3	50%	See credit policy
Gilt Funds	Min T+2	See Section 3	50%	See credit policy

Securities issued or guaranteed by governments

Table 4	***Minimum Credit Criteria***	***Liquidity risk***	***Market Risk***
Treasury Bills	UK sovereign	Sale T+1	Yes
UK Government Gilts	UK Sovereign	Sale T+1	Yes
Bond issuance issued by a financial institution which is guaranteed by UK Government e.g. Network Rail	UK Sovereign	Sale T+3	Yes
Sovereign Bond issues (other than UK Government)	AAA	Sale T+1	Yes
Bonds issued by multi-lateral development banks	AAA	Sale T+1	Yes

Securities issued by corporate organisations

Table 5	***Liquidity risk***	***Market risk***	***Max % of total investmen t***
Certificates of deposit issued by banks and building societies	Sale T+1	yes	20%
Commercial Paper	Sale T+1	yes	20%
Floating Rate Notes	Sale T+0	yes	20%
Corporate bonds	T +3	Yes	20%

Other

Table 6	***Liquidity risk***	***Market risk***	***Max % of total investment***	***Max. maturity period***
Property Funds	Variable	Yes	20%	3-5 Yrs.

Accounting Treatment of Investments

The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

Treasury Management Practice – Credit and Counterparty Risk Management
South Ayrshire Council and Common Good Funds Permitted Investments, Associated Controls

Type of Investment	***Treasury Risks***	***Mitigating Controls***	***Council Limits***	***Common Good Limits***
Cash type instruments				
• Deposits with the Debt Management Account Facility (UK Government) *(***Very low risk)**	This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months.	Little mitigating controls required. As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.	Unlimited (maximum 6 months)	Unlimited (maximum 6 months)
• Deposits with other local authorities or public bodies **(Very low risk)**	These are considered quasi–UK Government debt and as such counterparty risk is very low, and there is no risk to value. Liquidity may present a problem as deposits can only be broken with the agreement of the counterparty, and penalties can apply. Deposits with other non-local authority bodies will be restricted to the overall credit rating criteria.	Little mitigating controls required for local authority deposits, as this is a quasi-UK Government investment. Non-local authority deposits will follow the approved credit rating criteria.	£20m per counterparty – 2 Years	£20m per counterparty – 2 Years
• Money Market Funds (MMFs) **(Low to Very low risk)**	Pooled cash investment vehicle which provides very low counterparty, liquidity, and market	Funds will only be used where the MMFs have an 'AAA' rated status from Fitch, Moody's or Standard and Poor's.	£20m	£20m

Type of Investment	*Treasury Risks*	*Mitigating Controls*	*Council Limits*	*Common Good Limits*
	risk. These will primarily be used as liquidity instruments.			
• Ultra-short, dated bond funds **(low risk)**	Pooled cash investment vehicle which provides very low counterparty, liquidity, and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where the MMFs have an 'AAA' rated status from Fitch, Moody's or Standard and Poor's.	£10m	£10m
• Call account deposit accounts with financial institutions (banks and building societies) **(Low risk depending on credit rating)**	These tend to be low risk investments but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk of value with these types of investments, liquidity is high, and investments can be returned at short notice.	The counterparty selection criteria approved above restrict lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. The selection defaults to the lowest available credit rating to provide additional risk control measures. On daily investment dealing with these criteria will be further strengthened by additional market intelligence.	See credit policy	See credit policy
• Term deposits with financial institutions (banks and building societies) **(Low to medium risk depending on period and credit rating)**	These tend to be low risk investments but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value these types of investments, liquidity is low and term deposits can only be broken with the	The counterparty selection criteria approved above restrict lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. The selection defaults to the lowest available credit rating to provide additional risk control measures.	See credit policy	See credit policy

Type of Investment	***Treasury Risks***	***Mitigating Controls***	***Council Limits***	***Common Good Limits***
	agreement of the counterparty, and penalties may apply.	On daily investment dealing with these criteria will be further strengthened by additional market intelligence.		
• Government Gilts and Treasury Bills **(Very low risk)**	These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates (no loss if these are held to maturity.	Little counterparty mitigating controls are required, as this is a UK Government investment. The potential for capital loss will be reduced by limiting the maximum monetary and time exposures.	See credit policy	See credit policy
• Certificates of deposits with financial institutions **(Low risk)**	These are short dated marketable securities issued by financial institutions and as such counterparty risk is low but will exhibit higher risks than categories (a), (b) and (c) above. There is a risk in the value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will normally be low.	The counterparty selection criteria approved above restrict lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. The selection defaults to the lowest available credit rating to provide additional risk control measures. On daily investment dealing with these criteria will be further strengthened by additional market intelligence.	See credit policy	See credit policy
• Structured deposit facilities with banks and building societies (escalating rates, de-escalating rates etc.)	These tend to be medium-to-low risk investments but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk of value with these types	The counterparty selection criteria approved above restrict lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's.	See credit policy	See credit policy

Type of Investment	*Treasury Risks*	*Mitigating Controls*	*Council Limits*	*Common Good Limits*
(Low to medium risk depending on period and credit rating)	of investments, liquidity is very low, and investments can only be broken with the agreement of the counterparty (penalties may apply).	The selection defaults to the lowest available credit rating to provide additional risk control measures. On daily investment dealing with these criteria will be further strengthened by additional market intelligence.		
• Corporate bonds **(Medium to high risk depending on period and credit rating)**	These are marketable securities issued by financial and corporate institutions. Counterparty risk will vary and there is risk of the value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will be low.	The counterparty selection criteria approved above restrict lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. Corporate bonds will be restricted to those meeting the base criteria. Day-to-day investment dealing with these criteria will be further strengthened using additional market intelligence.	See credit policy	See credit policy

Other types of Investment

Type of Investment	*Credit Criteria*	*Liquidity Risk*	*Market Risk*	*Mitigating Controls*	*Council Limits*
Common Good	Not applicable	Not applicable	No	Any Common Good, loan or investment would be subject to a separate panel report and the approval of Members before progressing. Each loan would therefore be assessed on a case-by-case basis and be supported by the rationale behind the investment and likelihood of any loss.	Term – 20 years - unlimited
Registered Social Landlord	Not applicable	Not applicable	No	Any RSL loan or investment would be subject to a separate panel report and the approval of Members before progressing. Each loan would therefore be assessed on a	Term – 20 years - unlimited

Type of Investment	***Credit Criteria***	***Liquidity Risk***	***Market Risk***	***Mitigating Controls***	***Council Limits***
				case-by-case basis and be supported by the rationale behind the investment and likelihood of any loss.	
Third Party	Not applicable	Not applicable	No	Any third-party loan or investment would be subject to a separate panel report and the approval of Members before progressing. Each loan would therefore be assessed on a case-by-case basis and be supported by the rationale behind the investment and likelihood of any loss.	Term – 5 years - £1m
Third Party (Soft Loans)	Not applicable	Not applicable	No	Any third-party loan or investment on a soft loan basis (below market rates) would be subject to a separate panel report and the approval of Members before progressing. Each loan would therefore be assessed on a case-by-case basis and be supported by the rationale behind the investment and likelihood of any loss.	Term – 5 years - £1m
hub SW/ SFT Project Investment	Not applicable	Minimum 25 years term	No	Investment is subject to a separate panel report and the approval of Members before progressing. The investment would therefore be assessed on a case basis and be supported by the rationale behind the investment and the likelihood of any loss.	Term – 25 years - £1m

The Monitoring of Investment Counterparties - The status of counterparties will be monitored regularly. The Council receives credit rating and market information from MUFG Corporate Markets Treasury Limited, including when ratings change, and counterparties are checked promptly.

On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Chief Financial Officer, and if required new counterparties which meet the criteria will be added to the list.