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RHYBUDD O GYFARFOD	NOTICE OF MEETING
PWYLLGOR LLYWODRAETHU AC ARCHWILIO	GOVERNANCE AND AUDIT COMMITTEE
DYDD MAWRTH, 11 CHWEFROR, 2025 am 2:00 y. p.	TUESDAY, 11 FEBRUARY 2025 at 2.00 pm
YSTAFELL BWYLLGOR, SWYDDFEYDD Y CYNGOR AC YN RHITHIOL DRWY ZOOM	COMMITTEE ROOM, COUNCIL OFFICES AND VIRTUALLY VIA ZOOM

Swyddog Pwyllgor	Ann Holmes 01248 752518	Committee Officer

AELODAU / MEMBERS
Cynghorwyr / Councillors:-

PLAID CYMRU / THE PARTY OF WALES

Geraint Bebb, Trefor Lloyd Hughes, MBE, Euryn Morris ***(Deputy Chair)***, Margaret M. Roberts

Y GRWP ANNIBYNNOL / THE INDEPENDENT GROUP

Ieuan Williams

LLAFUR CYMRU/WELSH LABOUR

Keith Roberts

ANNIBYNNWYR MÔN / ANGLESEY INDEPENDENTS

Kenneth Hughes, Aled Morris Jones (Democratiaid Rhyddfrydol Cymru/Welsh Liberal Democrats)

AELODAU LLEYG / LAY MEMBERS

Dilwyn Evans ***(Chair),*** William Parry, Sharon Warnes, Michael Wilson

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A G E N D A

1 **DECLARATION OF INTEREST**

To receive any declaration of interest by any Member or Officer regarding any item of business.

2 **MINUTES OF THE PREVIOUS MEETING** (Pages 1 - 14)

To present the minutes of the previous meetings of the Governance and Audit Committee held on the following dates –

- 27 November 2024 (extraordinary)
- 5 December 2024

3 **GOVERNANCE AND AUDIT COMMITTEE ACTION LOG** (Pages 15 - 18)

To present the report of the Head of Audit and Risk.

4 **INTERNAL AUDIT UPDATE** (Pages 19 - 26)

To present the report of the Head of Audit and Risk.

5 **COUNTER FRAUD, BRIBERY AND CORRUPTION STRATEGY 2025-2028** (Pages 27 - 42)

To present the report of the Head of Audit and Risk.

6 **TREASURY MANAGEMENT MID-YEAR REVIEW 2024/25** (Pages 43 - 60)

To present the report of the Director of Function (Resources)/Section 151 Officer.

7 **TREASURY MANAGEMENT STRATEGY STATEMENT 2025/26** (Pages 61 - 102)

To present the report of the Director of Function (Resources)/Section 151 Officer.

8 **EXTERNAL AUDIT: FINANCIAL SUSTAINABILITY OF LOCAL GOVERNMENT** (Pages 103 - 184)

- To present the report of Audit Wales – national report.
- To present the report of Audit Wales – Isle of Anglesey County Council local report and management response.

9 **REVIEW OF FORWARD WORK PROGRAMME** (Pages 185 - 192)

To present the report of the Head of Audit and Risk.

GOVERNANCE AND AUDIT COMMITTEE

Minutes of the extraordinary meeting held on 27 November 2024 in the Committee Room and through Zoom

PRESENT:	Mr Dilwyn Evans (Lay Member) (Chair) Councillor Euryn Morris (Deputy Chair) Councillors Geraint Bebb, Trefor Lloyd Hughes, MBE, Keith Roberts, Margaret M. Roberts, Ieuan Williams. Lay Members: Sharon Warnes, Michael Wilson
IN ATTENDANCE:	Director of Function (Resources) and Section 151 Officer Head of Audit and Risk Corporate Planning, Programme and Performance Manager (GP) Accountancy Services Manager (BHO) Finance Manager (CLK) Committee Officer (ATH) Webcasting Officer (FT)
APOLOGIES:	None received.
ALSO PRESENT:	Councillor Robin Williams (Deputy Leader and Portfolio Member for Finance and Housing), Principal Auditor (IoACC) (NW), Rachel Freitag (Financial Audit Manager – Audit Wales), David Tomalin (Financial Audit Lead - Audit Wales)

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1. DECLARATION OF INTEREST

No declaration of interest was received.

2. STATEMENT OF THE ACCOUNTS 2023/24, ANNUAL GOVERNANCE STATEMENT 2023/24 AND ISA 260 REPORT

- The report of the Director of Function (Resources)/Section 151 Officer incorporating the Final Statement of the Accounts for 2023/24 following audit was presented for the Committee's consideration.

The Director of Function (Resources)/Section 151 Officer reported that the statutory deadline for the completion of the audited accounts for the 2023/24 financial year was extended to 30 November, 2024 for all Welsh councils. The Isle of Anglesey County Council's draft Statement of Accounts 2023/24 was presented to the Council's external auditors, Audit Wales for audit on 28 June 2024 and will be considered by Full Council on 3 December after which they will be signed. Audit Wales conducted a thorough review of the accounts and financial transactions in relation to 2023/24 and concluded that in all material respects the financial statements give a true and fair view of the financial position of the Council as at 31 March 2024. The audit testing identified some changes needed and all material errors which the audit team recommended were amended to ensure that the accounts are materially correct. None of the amendments to the Statements of the Accounts affected the outturn which remains at an underspend of £1.732m as reported to the Executive on 23 July 2024. Most of the amendments relate to changes on the balance sheet or expenditure in relation to grant income which had a nil impact on revenue.

The Section 151 Officer guided members through the amendments to the accounts which were outlined in section 3 of the report and set out fully in the auditors' ISA 26O report presented separately below and he clarified how they affected the figures within the accounts and the supplementary notes. He thanked the Finance Service's accountancy staff for their work in ensuring the timely completion of the accounts and the Audit Wales team for the professionalism and thoroughness of their approach and conduct of the audit.

- The report of the Head of Profession (HR) and Transformation incorporating the Annual Governance Statement for 2023/24 was presented for the Committee's review and endorsement prior to its submission for approval by the Full Council. The Annual Governance Statement (the draft version of which was presented to the Committee for comment at its 18 July, 2024 meeting) seeks to provide assurance that the Council had in place during 2023/24 appropriate arrangements for ensuring that its business was conducted according to the law and proper standards, that public money was safeguarded and properly accounted for and was used economically, efficiently, and effectively. The Annual Governance Statement will form part of the final 2023/24 Statement of the Accounts.

The Corporate Planning, Programme and Performance Manager updated the Committee on the status of the governance matters identified in the previous year's Statement confirming that four of the five actions to address weaknesses had been completed and that the fifth is underway. He referred to the governance matters identified in the 2023/24 Statement and advised that to provide assurance there would be an update on governance matters and the response to national recommendations to the committee's scheduled December meeting.

The following were points of discussion by the committee –

- The need to clarify with regard to the fifth identified governance matter in relation to ensuring that the Council's assets are needed, are fit for purpose and where required have been brought up to standards, that the pressure on capital funding makes it unlikely that this will be fully achieved and that this objective is aspirational.
- Whether in relation to ensuring the financial resilience of the Council there is any further scope to review and streamline processes to improve the efficiency and effectiveness of services and reduce the impact of reduced funding.

The committee was advised as follows –

- That the Council's Asset Management Strategic Plan 2024-2029 recognises that in the current financial climate delivering the plan will be challenging and that due to increased costs and budget pressures there is a gap between the Council's ambitions for its assets and what it is able to achieve. It is hoped that the local government settlement for next year will include an increase in core capital funding which the Council can use according to its own priorities. Welsh Government's strategy in respect of capital funding in recent years has been to allocate grants in the short term which often come with conditions and are targeted at specific objectives which may not be a priority for the Council.

- That the Council has sought to achieve efficiencies in recent years by streamlining processes and organisational structures to reduce costs and improve effectiveness and it continues to develop programmes to maximise the use of technology and to digitise processes. Although this is an ongoing endeavour it is becoming more difficult to achieve efficiencies through streamlining internal operations and processes alone.

- The report of External Audit on the audit of the Financial Statements for 2023/24 (ISA 260 report) was presented for the Committee's consideration.

Rachel Freitag, Audit Wales Financial Audit Manager in reporting on the main findings from the audit of the Council's accounts for the 2023/24 financial year, thanked the Council's accountancy team and the wider Finance Service for their input and co-operation and described the audit exercise as having gone smoothly. She confirmed that the auditors intend to issue an unqualified audit opinion on the 2023/24 accounts and following approval by the Full Council on 3 December, 2024, the accounts will be certified by the Auditor General. She referred to the amendments to the accounts as documented in Appendix 3 to the report some of which were identified internally by the accountancy team in the subsequent quality assurance review of the accounts. She advised that the number of amendments is largely due to time pressures and a tight schedule rather than any quality or systemic issues and confirmed that the accounts and working papers provided to the auditors were of a high quality. She highlighted the net pension adjustment because of the high values involved and clarified that the net pension adjustment of £71,145,000 was incorrectly credited to the Comprehensive Income and Expenditure Account rather than debited. She confirmed that the adjustment had no impact on the Council's Balance Sheet nor General Fund.

The following were points of discussion by the committee –

- Members asked for clarification of the reference in the ISA 260 report to the audit having been largely completed and queried where there are any outstanding matters.
- Whether the prescribed deadlines for the production of the accounts and subsequent auditor reporting are putting Finance service staff under pressure and leading to errors that might not otherwise occur and whether the timescales should therefore be extended.
- That in the interests of clarity the final sentence under Budget Monitoring at page 2 of the narrative report should be amended to read "Both the Revenue and Capital information alongside HRA, are reported to the Finance Scrutiny subgroup, the Scrutiny Committee and then the Executive on a quarterly basis which facilitates a level of challenge as well as being able to mitigate any impact that is likely to occur on services."
- Whether the table showing capital expenditure per service at page 4 of the narrative report should be more accurately designated as showing project expenditure per service as it includes revenue expenditure.

The committee was advised as follows –

- That the report on the audit of the financial statements has been drafted in tandem with the finalisation and checking of the revised accounts. It can be confirmed that the audit has now been completed and signed off.
- That it is intended to bring the audit reporting schedule back to the end of October for the 2024/25 audit of accounts process and to the end of September thereafter in line with pre-pandemic timescales. While the auditors are happy to discuss any concerns

with the Finance Service it is not considered that the timescale creates any significant issues as regard the completion of the audit.

The Director of Function (Resources)/Section 151 Officer advised that there had been an intention pre-pandemic to bring forward the deadlines for the production of the accounts and audit reporting processes to May and July respectively although it is now understood that the change may not be made. While the end of June deadline for the production of the draft accounts remains a challenge, it should become easier to manage as the Council continues to learn from the audit process and to improve its own processes and working papers.

- That the expenditure shown in the table at page 4 is classified under accounting practice as capital expenditure because it has been spent on creating an asset the use of which will extend beyond the current financial year and the expenditure exceeds £10k. Capital expenditure can include a contribution from revenue.

In closing the meeting the Chair on behalf of the committee, thanked all those who had been involved in the accounts preparation and audit process.

It was resolved –

- **To accept the Statement of the Accounts 2023/24 and to recommend to the Full Council that the Chair of the County Council and the Director of Function (Resources)/ Section 151 Officer are authorised to sign the final audited accounts for 2023/24.**
- **To recommend the Annual Governance Statement 2023/24 to the Full Council as a fair evaluation of the Council's governance arrangements.**
- **To note the Audit Wales ISA 260 Report in respect of the Financial Statements for 2023/24.**

Mr Dilwyn Evans
Chair

GOVERNANCE AND AUDIT COMMITTEE

Minutes of the meeting held in the Committee Room and on Zoom on 5 December, 2024

PRESENT:	Mr Dilwyn Evans (Lay Member) (Chair) Councillor Margaret M. Roberts (Deputy Chair for this meeting only) Councillors Geraint Bebb, Ieuan Williams. Lay Members: Sharon Warnes, William Parry, Michael Wilson.
IN ATTENDANCE:	Director of Function (Resources) and Section 151 Officer Director of Function (Council Business)/Monitoring Officer (for items 4 and 5) Head of Internal Audit & Risk (MP) Corporate Planning, Performance and Programme Manager (GP) (for items 3 and 11) Climate Change Manager (RAW) (for item 8) Chief Public Protection Officer (TO) (for item 10) Chief Digital Officer (MH) (for item 15) Principal Corporate Health and Safety Advisor (SN) (for item 10) Schools Data Protection Officer (EW) (for item 9) Committee Officer (ATH) Webcasting officer (FT)
APOLOGIES:	Councillors Euryn Morris and Liz Wood.
ALSO PRESENT:	Councillor Robin Williams (Deputy Leader & Portfolio Member for Finance), Alan Hughes (Performance Audit Lead – Audit Wales), Principal Auditor (NW)(IoACC), IT Infrastructure Manager (MD) Lead IT Security Engineer (CCT)

In the absence of Councillor Euryn Morris the Deputy Chair, Councillor Margaret M. Roberts was elected to serve as Deputy Chair for this meeting of the Governance and Audit Committee.

1. DECLARATION OF INTEREST

No declaration of interest was received.

2. MINUTES OF THE PREVIOUS MEETING

The minutes of the previous meeting of the Governance and Audit Committee held on 19 September 2024 were presented and were confirmed as correct.

3. GOVERNANCE AND AUDIT COMMITTEE ACTION LOG

The report of the Head of Audit and Risk incorporating the committee action log was presented for consideration. The report updated the committee on the status of the actions agreed upon to date since the introduction of the action log at the 18 April 2024 meeting.

The Head of Audit and Risk confirmed that all items due to be completed by this meeting had been completed. She confirmed with regard to item 8 on the log that the Council's Chief Digital Officer would now be briefing the committee on Artificial Intelligence and the associated risks and mitigations in a session which subject to the committee's agreement will take place at 1:00 p.m. immediately prior to the next meeting on 11 February 2025. The committee indicated that the proposed arrangement was acceptable.

The Corporate Planning, Performance and Programme Manager advised with regard to item 10 on the log that work to monitor the number of people in economic inactivity as part of the Council's population trends dataset is in progress. The Economic Development service has commissioned an external company, Quod to undertake a socio- economic analysis of the Island's population including economic inactivity. A report on the North Anglesey region has been published and was presented to the Executive in July 2024 and a report for the whole of the Island is in progress and is expected to be published by the end of December 2024. The information is also available through Welsh Government and Data Cymru which publishes data in respect of population and migration annually.

The Corporate Planning, Performance and Programme Manager further updated the committee on item 13 on the log which related to progress against the governance matters identified by the 2023/24 assessment process and he confirmed that the seven issues identified are receiving attention and are in progress. He referred to the arrangements with regard to conducting a panel performance assessment in November 2025 and to the progresses of the Procurement Strategic Plan through the Council's internal democratic processes as part of the work of ensuring compliance with the Procurement Act 2024. With regard to the Council's assets, the publication of a smallholding asset management strategy has been delayed to allow further work to be undertaken including a review by a cross party task and finish group.

It was resolved to note the actions detailed in the action log table and to confirm that the Committee is content that the actions have been implemented to its satisfaction.

Additional action – The Corporate Planning, Performance and Programme Manager to provide the committee with a link to access the Quod Anglesey socio-economic analysis and impact report when published

4. TO NOMINATE TO THE NORTH WALES CORPORATE JOINT-COMMITTEE (CJC)

The report of the Director of Function (Council Business)/Monitoring Officer seeking nominations to the North Wales Corporate Joint-Committee's Governance and Audit Committee was presented for the Committee's consideration. Attached to the report for information were the terms of reference for the North Wales CJC's Governance and Audit Committee along with an introduction to the role and role description of lay members serving on the committee.

The report was presented by the Director of Function (Council Business)/Monitoring Officer who outlined the requirements with regard to the composition of the North Wales CJC's Governance and Audit Committee and advised that its membership will consist of nine members six of whom will be county councillors one from each of the constituent North Wales councils and three lay members. Each of the CJC's constituent councils has been asked to nominate a councillor from its own Governance and Audit Committee as its principal nominee together with a second councillor to act as substitute to ensure that a quorum can be achieved when the principal nominee is unavailable. Additionally each of the constituent councils have been asked to consider whether they wish to nominate a lay member to serve on the Governance and Audit Committee. The Director of Function (Council Business)/Monitoring Officer further advised that while there was now one remaining lay member place available, the committee still could nominate more than one lay person and in that event the appointment would be made based on merit in accordance with a public process.

Having considered the matter and following discussion, it was resolved –

- **To nominate Councillor Geraint Bebb to serve on the Governance and Audit Committee of the North Wales Corporate Joint Committee as principal nominee.**
- **To nominate Councillor Keith Roberts to act as substitute in the event of the principal nominee's unavailability.**
- **To nominate Mrs Sharon Warnes to serve as a Lay Member on the Governance and Audit Committee of the North Wales Corporate Joint Committee.**

5. PUBLIC SERVICES OMBUDSMAN FOR WALES (PSOW) ANNUAL LETTER 2023/2024

The report of the Director of Function (Council Business)/Monitoring Officer incorporating the Annual Letter from the Public Services Ombudsman for Wales (PSOW) 2023/24 for the Isle of Anglesey Council was presented for the committee's consideration. The Letter summarised the performance of the Council in relation to the service complaints received and their outcomes during 2023/24, cases involving the Ombudsman's intervention and complaints made under the Code of Conduct for Members.

The headline messages in the Annual Letter were presented by the Director of Function (Council Business)/Monitoring Officer. Those showed that there had been an increase in the number of service complaints made to the PSOW although the number of investigations remained nil. Of the 38 complaints made about the Council in 2023/24, 9 or 24% related to its handling of complaints. There has also been increased reliance on intervention by the PSOW with 24% of complaints (10 complaints) having been resolved in this way which represents the highest level of intervention in Wales. While services deal with their own complaints, they rely on support, guidance and advice from the Corporate Information and Complaints Officer. This post has been vacant for some time and the vacancy is considered to be a contributory factor in the deterioration in complaints handling performance although the post is now being filled on a temporary basis by an agency appointment. Mitigating actions to provide resolutions had been identified and were set out in the report.

The following were points of discussion by the committee –

- The substance of the complaints made to the PSOW and whether they were serious
- Whether early intervention and resolution of 10 complaints by the PSOW is significant and reflects on the Council's approach to complaints handling.
- Whether there are any indications of an improvement in complaints handling performance and response midway through 2024/25.

The committee was further advised as follows –

- That most of the complaints made to the PSOW were in relation to the Council's normal day to day business and none were deemed serious enough to warrant an investigation by the PSOW.

- That the resolution of 10 complaints by early intervention and actions arranged by the PSOW shows that matters could have been put right early in the process had the Council taken the same approach to those complaints and acted accordingly.
- That an assessment of whether complaints are simply complaints or complaints about the way complaints have been dealt with has not been made based on the data made available to Scrutiny and the Executive because the scope of that information is narrow and the information has not been published.

It was resolved -

- **To note and accept the Annual Letter from the Public Services Ombudsman for Wales (PSOW) for 2023/24.**
- **To authorise the Director of Function (Council Business)/Monitoring Officer to write to the PSOW to confirm that the Governance and Audit Committee has given formal consideration to her Annual Letter.**
- **To provide assurance that the Council will continue to monitor complaints thereby providing Members with the information required to scrutinise the Council's performance.**
- **To continue supporting the Council's development of its CRM system as a platform for processing complaints and providing "live" data on complaints handling performance, by service, for relevant officers, heads of service and the Leadership Team.**

Additional action - the committee to be provided in due course with an update on the progress of the identified measures to provide resolutions.

6. UPDATE ON THE GOVERNANCE AND AUDIT COMMITTEE'S EFFECTIVENESS REVIEW ACTION PLAN

The report of the Head of Audit and Risk incorporating the Committee's Effectiveness Review Action Plan was presented for consideration. The report provided an update on progress with implementing the recommendations made by CIPFA following its review of the Governance and Audit Committee's effectiveness in 2024.

The Head of Audit and Risk confirmed that with regard to the 10 recommendations made and 13 actions proposed to resolve the recommendations, ten have been fully implemented, two have been noted and one action remains in progress which is the provision of training for officers reporting to the committee.

It was resolved to note the actions detailed in the table within the report and to confirm that the Governance and Audit Committee is content that the recommendations have been implemented to its satisfaction.

7. INTERNAL AUDIT UPDATE

The report of the Head of Audit and Risk providing an update as at 28 November, 2024 on the audits completed since the previous update as at 31 August 2024 was presented for the committee's consideration. The report also set out the current workload of Internal Audit and its priorities for the short to medium term going forward. Members of the committee were provided under separate cover with copies of the assurance reports finalised in the period in relation to Partnerships Oversight (Reasonable Assurance), Counter fraud controls within Revenues refunds (Reasonable Assurance) and Cybersecurity Assessment Framework Review (Reasonable Assurance).

The Head of Audit and Risk provided an overview of the three assurance reports completed during the period confirming that in each case an action plan has been formulated and agreed with management to address the issues /risks raised. She referred to Internal Audit's short to medium term priorities including work in progress as summarised in the schedule at paragraph 18 of the report along with the priorities for the longer term. Other developments in the form of changes to Internal Audit Standards were highlighted.

Reflecting on the risk of fraud and the adequacy of counter fraud controls, the committee sought assurance that the Council has in place appropriate mitigations and controls to manage the risks posed by Artificial Intelligence especially in a home working environment where staff may be more vulnerable to AI generated cyberattacks, impersonation and false identities which could compromise security.

The Head of Audit and Risk advised that knowing one's employees is a recognised way of mitigating fraud and that that is easier in smaller sized council such as Anglesey. The Council's hybrid working arrangements where staff are physically present in the office for part of the working week aids familiarity as does its primarily traditional, people based approach which means the risks from AI are reduced in that regard.

It was resolved to note the outcome of Internal Audit's work, the assurance provided and priorities going forward.

8. UPDATE ON THE COUNCIL'S WORK TO DELIVER THE NET ZERO STRATEGIC PLAN IN 2023/24

The report of the Deputy Chief Executive incorporating the Towards Net Zero Strategic Plan Annual Report for 2023/24 was presented for the committee's consideration. The annual report documented the Council's progress in managing the risk of climate change and in delivering the annual objectives of the plan during 2023/24. Included as appendix 1 to the report was an analysis of the 2023/24 emissions data submitted to Welsh Government under its annual net zero reporting programme along with a breakdown of both external and council budgets within the Towards Net Zero action plan at appendix 2.

The report was presented by the Climate Change Manager who provided an overview of the highpoints of the year and main actions from the Towards Net Zero action plan for 2023/24 including a reduction of 19.7% in the Council's total carbon emissions compared to the maximum emissions in 2021/22, ongoing decarbonisation of Council properties supported by £14m of Welsh Government grant funding over 3 years, the addition of 28 new carbon neutral homes to the Council's housing stock, extension of the EV charging network and active travel routes, the establishment of a new tree nursery near Llangoed and the delivery of climate change training to elected members and senior managers. The main messages to be taken from the report are that the number of Council schemes within the Towards Net Zero Strategic Plan have increased but there remain significant challenges to achieving the net zero target by 2030, the amount of external funding secured has exceeded expectations and the Council's carbon emissions continue to reduce but further work is needed.

The following were points of discussion by the committee –

- Acknowledging the progress made internally by the Council, questions were asked about the Council's ability to decarbonise its supply chains and the extent of its influence in this respect. It was suggested that it might be helpful for the report to distinguish between the Council's internal carbon emissions outcomes and sustainability performance and those of the supply chain without duplicating data.

- Whether the Council is able to specify maximum emission levels for supplier vehicles in order to encourage the transition away from petrol/diesel usage without discouraging potential bidders for contracts.
- The extent to which the Council's dependency on external grant funding is a risk to its achieving its net zero goals.

The committee was further advised that as the Council's carbon emissions are broken down into four main categories – Buildings, Transport, Waste and the Supply Chain within Welsh Government's reporting arrangements, it is possible to establish which emission sources are within the Council's direct control and which come within Scope 3 which are classified as indirect emissions and where the Council's influence may be weaker. The Council does seek to ensure that all supply chain data that is monitored is correctly recorded e.g. expenditure on transport is recorded under transport rather than under the supply chain so as to avoid duplication. While the Council intends in the long-term to hold discussions with suppliers with a view to identifying and reducing their carbon emissions over time, effecting supplier transition away from large petrol/diesel powered vehicles such as refuse collection lorries will take longer and will involve factors such as impacts on levels of service to communities and other considerations. The continued availability of external funding is recognised as a risk and any reduction in or withdrawal of grant funding is likely to affect the pace of progress towards net zero.

It was resolved to confirm that the Governance and Audit Committee takes assurance that reasonable measures are in place to manage climate change risks to an acceptable level.

9. ANGLESEY SCHOOLS ANNUAL INFORMATION GOVERNANCE ASSURANCE REPORT 2024

The report of the Director of Education, Skills and Young People Learning setting out the key information governance issues with regard to Anglesey's schools for the period November 2023 to November 2024 was presented for the committee's consideration. The report provided the School Data Protection Officer's statement and overview of Anglesey primary, secondary and special schools' compliance with the legal requirements in handling school information including the UK General Data Protection Regulation, Data Protection Act 2018, and the relevant codes of practice. The report also provided details of actions taken since the last report in November 2023 including achievements against the Schools Data Protection Development Strategy 2023-24 together with the content of the Schools Data Protection Development Strategy 2024/25 and progress to date.

The report was presented by the Schools Data Protection Officer who advised that based on her assessment she was able to provide reasonable assurance regarding Anglesey schools' compliance with data protection requirements and she provided an overview of the evidence which supported this conclusion and briefed the committee on the next steps.

The following were points of discussion by the committee –

- While the need for schools to monitor their own compliance with all data protection policies was accepted, questions were asked about the continuation of the annual audit visits to schools which were not conducted in the reporting period.
- The role and involvement of school governors in schools data protection self-regulation

  The Schools Data Protection Officer confirmed that no data protection audits took place in 2024 except for one school that had not been visited in 2023. She advised that it was decided to postpone the audits in 2024 pending the introduction of new legislation and that the audits would recommence once the Data (Use and Access) Bill becomes law and schools have had time to implement any changes and can be monitored for their compliance with any new requirements. Also, schools were considered to be in a good place in terms of basic compliance and had been visited three times since 2019. In the meantime schools have been provided with a Data Protection Checklist to support them with monitoring their compliance.

She further advised that a presentation has been made to school governing bodies on the main requirements and expectations on schools with regard to data protection obligations. School governing bodies have a role as data controllers and as such have a responsibility to ensure compliance. Reports following audit visits are also shared with governing bodies. The majority of school governing bodies have appointed a data protection lead/champion and training for school governors is incorporated within the Learning Service's further work programme.

It was resolved –

- **To accept the Schools Data Protection Officer's report and statement.**
- **To endorse the Schools Data Protection Officer's proposed next steps as set out in the Schools Data Protection Development Strategy 2024/25 to enable schools to fully operate in accordance with data protection requirements.**

10. ANNUAL CORPORATE HEALTH AND SAFETY REPORT 2023/24

The report of the Head of Regulation and Economic Development incorporating the Council's Annual Health and Safety Report for 2023/24 was presented for the committee's consideration. The report provided an overview of health and safety activity at the Council during the period including an analysis of accidents and incidents together with key achievements. Also included was an action plan for the following year.

The report was presented by the Principal Corporate Health and Safety Advisor who referred to two major issues as having required significant actions during the year the one being the presence of reinforced autoclave aerated concrete (RAAC) in two of the Authority's schools and the other the outbreak of bird flu and he explained how these were dealt with. He confirmed that the number of accidents/incidents reported to the Council over the reporting period had risen and that the number of incidents of violence and aggression towards the Council's staff and within schools where pupil behaviour is a developing issue particularly in the primary sector, had also increased. He outlined some of the factors that have contributed to these outcomes including changes in attitudes and behaviour post Covid and how these matters are being addressed. A strategic action plan to support continuous improvement in the management of health and safety was set out which the committee was asked to approve.

The Chief Public Protection Officer confirmed the Principal Corporate Health and Safety Advisor's analysis regarding the pressures on public facing staff including Public Protection as a front line service and the increase in incidents of aggression towards staff in the period since the pandemic.

The following were points of discussion by the committee –

- The approach towards tackling poor pupil behaviour in primary schools
- Whether the rise in incidents of aggression and abuse towards the Council's staff needs to be escalated to a significant risk and recognised as such.
- Whether the increase in the number of slip, trip and fall accidents has cost implications for the Council

The committee was further advised that reported incidents of challenging pupil behaviour in schools are referred to the Learning Service and may result in support from the Early Intervention Team. The Council has in place policies to deal with violent incidents and abuse against staff including a Risk of Violence Marker system which identifies individuals who may pose a risk to staff; where the abuse is verbal over the phone the Managing Contact – Unacceptable Actions by Customer Policy allows staff to inform the client that their behaviour is unacceptable and to terminate the phone call. Where incidents are in a public building the perpetrator may be excluded from entry.

The Director of Function (Resources)/Section 15 Officer advised that the Council is insured for public liability and that in claiming for compensation, a claimant has to show that the Council has been negligent in not ensuring the safety of a public area/building for which it is responsible for example. The Council and its insurers routinely deal with slips, trips, and falls and there has been no notable increase in the number of such incidents. The cost of dealing with the impact of a slip or fall is difficult to quantify because if a Council employee is absent from work due to a slip or fall then depending on the type of work involved e.g. care work, it may require the engagement of temporary labour. There are therefore varying costs for different services.

It was resolved that the Governance and Audit Committee –

- **Confirms that it is satisfied that the Council's activities regarding Corporate Health and Safety adequately address the risks and priorities of the Council**
- **Takes assurance that reasonable measures are in place to manage health and safety risks to an acceptable level.**
- **Supports the implementation of the Corporate Health and Safety Action Plan.**

11. EXTERNAL AUDIT – MONITORING REPORT

The report of the Head of Profession (HR) and Transformation detailing the Council's response to external audit reports and associated recommendations published by regulators was presented for the committee's consideration. The report provided assurance that the recommendations attached to external reports have been given due consideration by the Council's services and that those that are relevant to the Council are being implemented in a meaningful way.

The report was presented by the Corporate Planning, Performance and Programme Manager who confirmed that the Council had implemented 20% of the recommendations, 68% of responses are on track and 12% are behind schedule. He provided the committee with an update on the status and progress of the three recommendations that were behind schedule. In response to a query by the Chair regarding the absence of timescales for work in progress, the Corporate Planning, Performance and Programme Manager advised that recommendations which are optional in national reports where it is a matter for the council to determine whether implementing them would add value or not are not usually attached to a timescale. However recommendations in reports that are specific to Anglesey do carry a timescale and the Council internally would set a timescale for their implementation as appropriate.

Alan Hughes, Performance Audit Lead (Audit Wales) commented that it is useful to have a timeline for each task in an action plan as setting milestones will help to track progress over time and identify tasks that have required more time than anticipated to complete.

It was resolved to accept the report along with the responses and updates as an accurate reflection of the Council's work against the related recommendations.

Additional action agreed – that for future reports, updates on the progress of responses to recommendations be accompanied by a timescale for the completion of the work.

12. EXTERNAL AUDIT: AUDIT WALES PROGRAMME AND TIMETABLE QUARTERLY UPDATE (Q2 2024/25)

The report of Audit Wales providing an update as of 30 September 2024 on the delivery of its work programme in relation to work at the Isle of Anglesey County Council and nationally, was presented for the committee's information. The report also provided an overview of the regulatory work being undertaken by Estyn and CIW.

The report was introduced by the Head of Audit and Risk who provided a summary of the contents. Mr Alan Hughes Performance Audit Lead (Audit Wales) brought the committee up to date on progress with specific pieces of financial and performance audit work.

It was resolved to note the report and the assurance provided.

13. REVIEW OF FORWARD WORK PROGRAMME

The report of the Head of Audit and Risk incorporating the Committee's updated Forward Work Programme and Training Programme for 2024/25 was presented for the committee's consideration.

The Head of Audit and Risk highlighted the rescheduling of the Treasury Management Mid-Year Review report from December, 2024 to February 2025 due to ongoing financial audit work as the only change to the work programme.

It was resolved to accept the Forward Work Programme 2024/25 as meeting the Committee's responsibilities in accordance with its terms of reference.

14. EXCLUSION OF THE PRESS AND PUBLIC

It was considered and was resolved under Section 100 (A) (4) of the Local Government Act 1972, to exclude the press and public from the meeting during the discussion on the following item on the grounds that it involved the disclosure of exempt information as defined in Paragraphs 14 and 18 of Schedule 12A of the said Act and in the Public Interest Test presented.

15. ANNUAL ICT SECURITY REPORT 2023/24

The report of the Head of Profession (HR) and Transformation incorporating the Annual ICT Cyber Security Report for 2023/24 was presented for the committee's consideration. The report provided an update as at 31 March 2024 on the Council's activities with regard to cyber security risk mitigation during 2023/24.

The report was presented by the Lead IT Security Engineer who outlined the contents and provided an overview of the cyber security challenges facing the Council and the actions taken thus far to overcome these challenges, the handling of security alerts and how these were resolved along with current cyber security projects.

The following issues were raised by the committee and were discussed with the ICT officers present for the item –

- The timeliness of resolutions and responses of third party application suppliers to security vulnerabilities and whether this can be addressed/improved through contract specification or by withholding payment when delay results in regulatory failure.

- Ongoing and/or emerging risks in relation to the migration to Windows 11.
- The capacity of the ICT service in terms of staff and resources and whether costs can be reduced through collaboration and/or co-operation.
- Staff security awareness and the lessons to be learnt from exercises/campaigns that test staff on their knowledge and awareness of security issues.

Having considered the report and received Officer clarification and assurances with regard to the matters raised, it was resolved that the Governance and Audit Committee –

- **Notes the challenges highlighted in the report.**
- **Confirms that it is satisfied that the Council's activities regarding cyber security adequately address the risks and priorities of the Council.**
- **Takes assurance that reasonable measures are in place to manage cyber threats to an acceptable level.**

Mr Dilwyn Evans
(Chair)

ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Governance and Audit Committee
Date:	11 February 2025
Subject:	Governance and Audit Committee Action Log
Head of Service:	Marc Jones Director of Function (Resources) and Section 151 Officer MarcJones@anglesey.gov.wales
Report Author:	Marion Pryor Head of Audit and Risk MarionPryor@anglesey.gov.wales
Nature and Reason for Reporting: This report informs the members of the Governance and Audit Committee about the status of the actions / decisions it has agreed upon.	

1. Introduction

1.1. This action log is updated prior to each meeting to enable the Committee to monitor the progress and completion of the actions/decisions it has agreed upon.

2. Recommendation

2.1. That the Governance and Audit Committee notes the actions detailed in the following table and is content that the actions have been implemented to its satisfaction.

Governance and Audit Committee Action Log

No.	Date of Meeting	Agenda Item	Action	Action Owner	Action Taken	Status
8	27/06/24	7	Head of Audit and Risk to schedule a session on risk mitigation and an introduction to Artificial Intelligence within the Committee's training programme for 2024/25.	Head of Audit and Risk / Chief Digital Officer	The Chief Digital Officer will provide the Committee with a briefing on Artificial Intelligence and the measures that can be taken to mitigate the risks in relation to this developing area of technology. The Committee's preference for the format and timing of this briefing was agreed with the Committee at its meeting on 5 December 2024 and will occur at 1pm, immediately preceding the next meeting of the Governance and Audit Committee on 11 February 2025.	Completed.

No.	Date of Meeting	Agenda Item	Action	Action Owner	Action Taken	Status
10	27/06/24 05/12/24	9 3	Monitoring the number of people in economic inactivity be included as part of the Council's population trends dataset.	Corporate Planning and Performance Manager	The Council has completed a socio – economic analysis of the island's population, this includes economic inactivity, a report for the north Anglesey region was presented to the Executive in July 2024. A report for the whole island is also in progress and will be published shortly. UPDATE: At its meeting of the 5 December 2024 (Item 3), the Corporate Planning, Performance and Programme Manager agreed to provide the committee with a link to access the Quod Anglesey socio-economic analysis and impact report when published.	In progress.
16	19/09/24	5	The Annual Concerns, Complaints and Whistleblowing Report for 2024/25 to the Committee to include salient information regarding Social Services service user concerns and complaints.	Director of Function (Council Business) / Monitoring Officer		Next report due September 2025.

No.	Date of Meeting	Agenda Item	Action	Action Owner	Action Taken	Status
18	19/09/24	6	The Annual Treasury Management report to be reviewed to ensure tense consistency and clarity.	Director of Function (Resources) / Section 151 Officer		Next report due September 2025.
19	05/12/24	5	The Committee to be provided in due course with an update on the progress of the identified measures to provide resolutions.	Director of Function (Council Business) / Monitoring Officer	Concerns raised by a service regarding the CRM will require further adaptations, but the capacity to implement them are currently limited. The unfilled position may also limit a meaningful update. A progress update will therefore be provided in the next annual complaints report, in September 2025, allowing the Committee to receive information before the next annual PSOW letter.	Next report due September 2025.
20	05/12/24	11	For future external audit and regulator monitoring reports, updates on the progress of responses to recommendations be accompanied by a timescale for the completion of the work.	Corporate Planning and Performance Manager		Next report due December 2025.

ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Governance and Audit Committee
Date:	11 February 2025
Subject:	Internal Audit Update
Head of Service:	Marc Jones Director of Function (Resources) and Section 151 Officer MarcJones@anglesey.gov.wales
Report Author:	Marion Pryor Head of Audit and Risk MarionPryor@anglesey.gov.wales
Nature and Reason for Reporting: The Governance and Audit Committee's Terms of Reference has an explicit requirement for the Committee to oversee the Council's internal audit arrangements as part of its legislative duties under the Local Government (Wales) Measure 2011. (3.4.8.10.1) The Committee is required to consider updates on the work of internal audit including key findings, issues of concern, management responses and action in hand as a result of internal audit work. It is required to consider summaries of specific internal audit reports as requested, including the effectiveness of internal controls and will monitor the implementation of agreed actions. (3.4.8.10.10) This report also fulfils the requirements of CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2022, specifically, in relation to the authority's internal audit function and the Public Sector Internal Audit Standards, which require the chief audit executive to report information about progress and the results of audit activities. (Standard 2060)	

1. Introduction

1.1 This report updates the Committee, as at 31 January 2025, on the audits completed since the last update as at 28 November 2024, the current workload of internal audit and our priorities for the short to medium term going forward.

2. Recommendation

2.1 That the Governance and Audit Committee considers:

- the outcome of Internal Audit's work,
- the assurance provided and
- our priorities going forward.

Internal Audit Update

February 2025

Marion Pryor BA MA CMIIA CPFA ACFS

Head of Audit & Risk

Contents

Summary of Assurance Work Completed Since Last Update

1. This section provides an overview of assurance reports finalised since the meeting in December 2024, including the overall assurance rating and the number of issues/risks/opportunities raised.

2. We have finalised **three** pieces of work in the period, summarised below and discussed in more detail later in the report:

Title	Assurance Level	Critical	Major	Moderate
Housing Development (YM9)	**Reasonable**	0	3	3
Recruitment and Retention (YM2)	**Reasonable**	0	0	3
Investigation – Property Services	**Not Applicable**	0	0	4

Housing Development (YM15)

Reasonable Assurance	Issues/ Risks / Opportunities	
	0	Critical
	3	Major
	3	Moderate

3. Our review sought to answer the following key question:

   Does the Council have effective arrangements in place to increase its social housing stock, and therefore mitigate the risk of a lack of suitable, affordable housing for Anglesey residents?

4. Our review concluded that the Council has effective arrangements to increase its social housing stock, but areas for improvement exist, particularly in the management of 'buy-back' properties purchased under the former 'Right to Buy' scheme.

5. The Council's housing stock growth targets are on track; the Housing Strategy 2022-27 aims to add 45 properties per year (30 new builds and 15 buy-backs). Since 2022-23, 72 new developments have been added, and 54 are under construction. If completed by April 2026, the Council will meet its target of 30 new units annually.

6. Although the 'buy-back' goal is on track, with 51 properties purchased since 2022-23, challenges including procurement and renovation delays have resulted in properties taking over 18 months to be let. A lack of formal financial viability assessment hinders demonstration of value for money. The 2024-25 capital budget underestimates costs for buy-backs, which risks overspending, or resource being reallocated from new developments. A formal buy-back acquisitions policy would strengthen governance arrangements.

7. Despite identifying six areas requiring management attention, the review provides **reasonable assurance** that the Council is managing this strategic risk effectively. An action plan has been agreed with management.

Recruitment and Retention (YM2)

Reasonable Assurance	Issues / Risks / Opportunities	
	0	Critical
	0	Major
	3	Moderate

8. Our review sought to answer the following key question:

   Does the Council have adequate arrangements in place to be able to recruit, develop and retain staff with appropriate skills to deliver efficient and effective services?

9. Our review concludes that the Council has adequate arrangements in place, but would benefit from improvements in performance monitoring, learning from training programmes, and updating the strategic risk register to reflect current challenges.

10. Strong commitment to training and development is demonstrated through leadership programmes, partnerships with colleges, and funding for professional training. The revised 'Denu Talent' scheme focuses on addressing care workforce recruitment challenges. However, lessons learned from training programmes should be formalised and outcomes reported to the Leadership Team.

11. An upgraded HR system has streamlined job advertisement and authorisation processes and workforce discussions and trend reporting occur tri-annually, but additional data on hard-to-recruit roles would enhance management insights. New KPIs focus on first-time advertisements but miss re-advertised roles, risking an incomplete picture of recruitment challenges.

12. Vacancies have decreased over the past two years, with recruitment challenges now less widespread but certain service areas still face difficulties.

13. Our review provides **reasonable assurance** with three areas for improvement identified. An action plan has been agreed with the service to support ongoing enhancements.

Investigation – Property Services

Not Applicable	Issues/ Risks / Opportunities	
	0	Critical
	0	Major
	4	Moderate

14. Our investigation was conducted in response to allegations made in respect of the Council's expenditure on electrical contractors, where a complainant accused Council officers of favouring a contractor when procuring electrical work.

15. Our review therefore sought to answer the following key lines of enquiry:

- **The Council's procurement arrangements in relation to electrical works and whether the electrical contracts / works were awarded in accordance with regulations and followed a fair, transparent, non-discriminatory and competitive procurement process.**
- **Whether Conflicts of Interest existed between officers and the contractor and how these were managed.**

16. We also undertook a review of the effectiveness of the existing internal controls to mitigate associated fraud risks within this area.

17. Our investigation concluded that the Council had awarded electrical works and contracts to the contractor in accordance with contract procedure rules and regulations, following a fair, transparent, and non-discriminatory process, ensuring value for money due to a competitive procurement procedure.

18. Allegations that the contractor had been favoured and allocated electrical work at the expense of other contractors on the 2019 Property Repairs and Maintenance Framework could not be substantiated.

19. The contractor's low ranking on the Electrical Planned and Electrical Day Work Lot lists resulted in them not being considered for electrical works on schools and corporate buildings. The work of significant value that the contractor had carried out at a school was following a separate tender process via Sell2Wales[1].

20. We identified a potential conflict of interest with an employee who left the Council in 2021. However, there is no evidence that the officer had any role or undue influence in the procurement process for the 2018 Periodic Inspection, Testing & Maintenance of Electrical Installations in Smallholdings Stock contract, which led to the significant increase in work awarded to the contractor.

21. If the contractor was principally being allocated work because of this relationship, it would be expected that the work allocated to the contractor would reduce following the resignation. However, the contractor received the most work from the Council in terms of value in 2022 and 2023. Where quotes were sought from other suppliers, the contractor was fairly evaluated to offer best value in terms of price / quality.

22. The Property team has recently issued a tender via Sell2Wales for the Smallholdings Electrical Installation Condition Report (EICR) Testing & Maintenance work (Dwellings & Outbuildings) contract(s). In light of the allegations made, and in anticipation of potential further allegations if the contractor is awarded the contract(s), it will be important that a suitably qualified evaluation panel again scores the bids, ensuring fairness, transparency and equal treatment of suppliers.

23. Despite the allegations not being substantiated, our investigation did however highlight opportunities to strengthen fraud risk controls, such as arrangements for declaring personal and financial interests and the management of any conflicts of interest within the service.

24. We also identified some procedural discrepancies relating to invoices received from the contractor, not relating to these allegations, which we referred to the Property team and the Resources Service. We have agreed an action plan with the service to address these issues / risks / opportunities.

[1] Sell2Wales is a procurement portal set up by Welsh Government to help businesses win contracts with the public sector across Wales and public sector buyers to advertise and manage tender opportunities

Work in Progress

25. The following pieces of work are currently in progress:

Area	Reason for Audit	Stage
National Fraud Initiative	Counter Fraud, Bribery and Corruption Strategy 2022-2025	Match reports received end of December 2024. Currently reviewing high-risk matches.
Investigation – Housing Services	Complaint	Discontinued. Employee contract terminated following disciplinary process regarding an unrelated issue.
Childcare and Welsh Medium Education Provision	Requested by Chief Executive	Draft Report
Management of the Council's Assets	Strategic Risk Register (YM14)	Fieldwork
IT Audit: Purchase Card Industry Data Security Standards (PCI DSS)	Strategic Risk Register (YM3)	Draft Report
Recovery of Council Tax, Non-Domestic Rates and Sundry Debts	Second Follow Up	Fieldwork
Disabled Facilities Grants	First Follow Up	Fieldwork
Destination – Maritime Income Processes	First Follow Up	Fieldwork
IT Audit: Service Desk Management	Strategic Risk Register (YM3)	Fieldwork
Performance Management	Internal Audit Strategy 2024-25	Scoping
Council Tax Base	Requested by the Director of Function (Resources) / Section 151 Officer	Scoping
IT Audit: Cyber Security in Schools	Strategic Risk Register (YM3)	Scoping

Outstanding Actions

26. Work is progressing to support services with addressing all 'Issues / Risks / Opportunities' raised and implementing all outstanding actions.

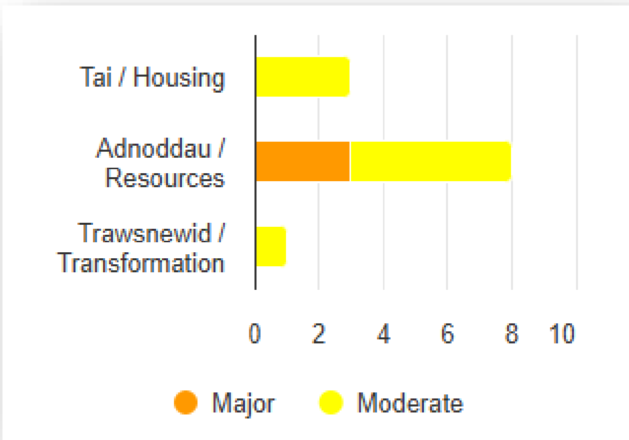
27. As at 31 January 2025, 12 issue / risk / opportunities remain unaddressed beyond their target date, as can be seen below.

28. Six of these actions relate to an audit of the Recovery of Council Tax, Non-Domestic Rates and Sundry Debts, for which a follow up review is currently in progress. These include the three 'Major' rated actions relating to the pursuit of aged council tax and sundry debts.

29. Three of the overdue actions relate to an audit of Disabled Facilities Grants, for which a follow up review is also currently in progress.

30. The Resources Service continues to pursue the recovery of duplicate invoices paid and the remaining overdue action relates to IT access management and a misalignment between a back-office system and the application standard used for authentication. The IT team is currently in dialogue with the supplier regarding whether changes can be made to the software.

Overdue Issues / Risks / Opportunities by Service



Priorities

Short/Medium Term Priorities

31. Our current workload can be seen in Work in Progress detailed earlier in this report. We are making steady progress with our Annual Internal Audit Strategy for 2024-25 and Counter Fraud, Bribery and Corruption Strategy 2022-2025 and work continues consulting on the 2025-26 Internal Audit Strategy.

32. The Head of Audit and Risk has been heavily involved in a CIPFA working group to respond to the issuing of the Global Internal Audit Standards and more latterly, a CIPFA Reference Group to oversee a review of the guidance on the Annual Governance Statement (AGS) in UK local government bodies (detailed in Other Developments below).

Longer Term Priorities

33. Although 1 April 2025 is the effective date for the new standards, internal audit teams will not be expected to demonstrate full conformance on this date. CIPFA acknowledges teams will build up their conformance and time will be needed to make the transition and build familiarity. It is a significant change that will mean internal audit teams will need to review their working practices to make sure they comply with the standards and have an action plan to achieve compliance.

34. Following the publication of the Code of Practice, a self-assessment gap analysis and action plan for compliance will be submitted to the May meeting of the Governance and Audit Committee.

Tender for the provision of Internal Audit services

35. Local government internal audit teams across the UK are struggling with resourcing issues, due to unfilled vacancies, lack of specialist skills and budget cuts.

36. We are continuing to work with Wrexham County Borough Council to improve the outcome of a tender exercise undertaken on behalf of the north and mid-Wales region for the provision of internal audit services to resolve this issue. This includes the provision of specialist roles, including IT audit.

Other Developments

Changes to Internal Audit Standards

37. As reported to the last meeting, new Global Internal Audit Standards (GIAS) have been issued and the UK public sector are responding.

38. The final version of the Application note: Global Internal Audit Standards in the UK Public Sector is now live. Taken together, the GIAS and the Application Note will form the basis of UK public sector internal audit, effective from 1 April 2025.

39. CIPFA issued a briefing for audit committee members on the new internal audit standards - Audit Committee Update Issue 40, which was forwarded to the Committee on 24/12/24.

Code of Practice for the Governance of Internal Audit in UK Local Government

40. In addition, CIPFA has developed a new Code of Practice to support authorities in establishing their internal audit arrangements and providing oversight and support for internal audit.

41. Details were provided in the update to the last meeting of the Committee in December 2024.

42. The Code was subject to consultation with responses invited from those with an interest in internal audit in the UK local government sector, with a closing date for responses of 28 November 2024.

43. CIPFA plans to publish the Code on 3 February 2025 and will issue a further briefing for audit committee members then.

Review of the CIPFA and Solace Guidance on the Annual Review and Annual Governance Statements

44. UK local government bodies are required by the statutory regulations of their national government to undertake an annual review of the effectiveness of its system of internal control. The outcome is published in an annual governance statement (AGS).

45. Guidance on the completion of the review and AGS is in Delivering Good Governance in Local Government: Framework (Governance Framework) (CIPFA and Solace, 2016). CIPFA and Solace propose to update that guidance with an Addendum.

46. The aims of the Addendum are to support good governance in the sector, reflect the changes affecting governance in local government bodies since 2016, encourage robust reviews of governance arrangements and improve accountability to stakeholders, including local communities.

47. This is the first update of the guidance since 2016 and replaces Chapter 7 of the Framework publication. The 2016 publication and the seven principles of good governance remain unchanged.

48. The Addendum is currently out for consultation with a deadline of 10 March 2025 to respond.

49. Authorities will be required to ensure that the AGS for 2025-26 onwards complies with the guidance and are encouraged to consider it for 2024-25.

ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Governance and Audit Committee
Date:	11 February 2025
Subject:	Counter Fraud, Bribery and Corruption Strategy 2025-28
Head of Service:	Marc Jones Director of Function (Resources) and Section 151 Officer MarcJones@anglesey.gov.wales
Report Author:	Marion Pryor Head of Audit and Risk MarionPryor@anglesey.gov.wales
Nature and Reason for Reporting: The Governance and Audit Committee's Terms of Reference has an explicit requirement for the Committee to oversee the Council's arrangements for managing the risks from fraud and corruption, providing assurance that they are fit for purpose and will champion good counter fraud and anti-corruption practice to the wider organisation. (3.4.8.9.2) In doing so, the Committee will monitor the counter-fraud and corruption strategy, actions and resources, to ensure that it meets with recommended practice, governance standards and legislation. (3.4.8.9.3).	

1. Introduction

1.1 This report presents the activity that Internal Audit will carry out during 2025-28 to minimise the risk of fraud, bribery and corruption occurring within and against the Council.

2. Recommendation

2.1 That the Governance and Audit Committee reviews Internal Audit's strategy for countering fraud, bribery and corruption for 2025-28 and:

- notes the activity that will be undertaken during 2025-28 to minimise the risk of fraud
- takes assurance that the strategy meets with recommended practice, governance standards and legislation.

Counter Fraud, Bribery & Corruption Strategy 2025-28

February 2025

Marion Pryor BA MA CMIIA CPFA ACFS

Head of Audit & Risk

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Introduction

1. This report presents the activity that Internal Audit will carry out during 2025-28 to minimise the risk of fraud, bribery and corruption[1] occurring within and against the Isle of Anglesey County Council.

2. This supports the requirements of the Public Sector Internal Audit Standards, 2022 (PSIAS), which require internal audit to evaluate the potential for fraud occurring and how the organisation manages fraud risk (Standard 2120).

3. In addition, the Accounts and Audit (Wales) Regulations 2014 state that the Council's responsible financial officer (Section 151 Officer) must ensure that its accounting control systems include measures to enable the prevention and detection of inaccuracies and fraud.

4. A report[2] by the Auditor General for Wales stated that the value the public sector loses to fraud is unknown. A Cabinet Office report[3] identified an upper and lower range for likely losses in government spend between 0.5% and 5% of expenditure.

5. Applying those estimates to the £226 million gross revenue budget of the Isle of Anglesey County Council in 2024-25 suggests that losses to fraud and error may be anywhere between £1.13 million and £11.3 million per annum.

6. Minimising fraud and irregularity is vital in ensuring resources, intended to provide essential services to the residents and businesses of the Isle of Anglesey, are used for that purpose.

7. The purpose of this strategy is to ensure that the Isle of Anglesey County Council does all that it can to address this threat and minimises the risk of fraud and corruption occurring.

[1] An explanation of what constitutes fraud, bribery and corruption is included at Appendix 1
[2] Counter-Fraud Arrangements in the Welsh Public Sector, Audit Wales, June 2019
[3] Cross-Government Fraud Landscape Annual Report 2019, Cabinet Office

Why is Countering Fraud, Bribery and Corruption Important?

8. Each pound lost to fraud, bribery and corruption represents a loss to the public purse and reduces the ability of the public sector to provide services to people who need them.

9. At a time of increasing financial pressure, it is more important than ever for all public bodies in Wales to seek to minimise the risks of losses through fraud and support financial sustainability.

10. Fraud can also affect the public sectors' reputation, undermining public trust and organisational efficiency.

11. When councils take effective counter fraud measures, they rebuild this public trust, and ensure that scarce funds are used effectively.

12. The public sector is now being increasingly targeted due to their larger financial transactions and the greater potential profits for fraudsters.

13. CIPFA, in its 'Code of Practice on Managing the Risk of Fraud and Corruption'[4] advocates that:

> **"Leaders of public services organisations have a responsibility to embed effective standards for countering fraud and corruption in their organisations. This supports good governance and demonstrates effective financial stewardship and strong public financial management".**

Current Context

14. There is real concern in the public and private sectors in the UK that fraud is now at unprecedented levels. According to the Home Office, fraud accounts for over 40% of crime but receives less than 1% of police resource[5] and is the most commonly experienced crime in England and Wales today.[6]

15. With the war in Ukraine continuing and the cost-of-living crisis, other business-critical risks such as supply chain disruption, staff retention, and cyber threats, the opportunities for fraud continue to increase, and fraudsters will take advantage of the situation using increasingly sophisticated tools to commit crime.

16. In response we have seen the UK government issue its Fraud Strategy[7] and there is new legislation including the 'failure to prevent fraud' offence introduced in the Economic Crime and Corporate Transparency Act 2023. The new offence will come into force on 1 September 2025.

17. The offence is intended to encourage organisations to take responsibility for poor systems and controls that may be exploited by individuals to break the law. The organisation will be able to avoid prosecution if it is able to prove that, at the time that the fraud offence was committed, it had 'reasonable procedures' in place to prevent this type of fraud from occurring.

18. Fraud risk is also recognised as a serious issue by many in terms of the internal threat from management and staff. A report[8] by Zurich UK highlighted that employee theft jumped as the rising cost of living triggered a wave of workplace crime.

[4] Code of Practice on Managing the Risk of Fraud and Corruption, CIPFA, 2014
[5] Fraud Barometer 2023 Update, KPMG, August 2024
[6] 'Crime in England and Wales', ONS, June 2024
[7] Fraud Strategy: stopping scams and protecting the public, June 2023
[8] Employee theft jumps by a fifth as cost-of-living pressures mount, Zurich UK, February 2023

19. Recent statistics highlight over 500 incidents of employees caught stealing from their employer every month in England and Wales.[9]

20. Zurich has also seen an increase in insurance claims for social engineering, where fraudsters manipulate employees into making payments or handing over bank details and passwords. This includes cases where criminals have hacked a senior employee's email and sent urgent payment instructions with fraudulent bank details to other staff members and external parties.

21. When examining the most common type of fraud seen in the courts, account takeover fraud was the highest by volume in the first half of 2024.

22. The Auditor General, in his report[10] discussing the challenges facing Welsh public services, fears that it is too easy for public bodies to think of their investment in counter fraud work as a luxury rather than a necessity amid other pressures.

23. Quoting the Public Sector Fraud Authority estimates of at least £33 billion of UK taxpayers' money (including tax and welfare) subject to fraud and error every year, the Auditor General suggests the opportunities are significant if there is the will to pursue them.

Counter fraud arrangements and resourcing

UK arrangements for counter fraud

24. A number of bodies support and drive good counter-fraud practice across the UK, including CIPFA's Counter Fraud Centre, the National Anti Fraud Network (NAFN)[11] and most notably, the National Fraud Initiative (NFI).

25. The NFI is a biennial exercise, which matches data within and across organisations, systems, and national borders to help public bodies identify potential fraud or error in claims and transactions. It is a government anti-fraud programme run by the Cabinet Office and was set up in 1996 to protect public money and punish fraudsters.

26. The Auditor General's latest report[12] highlighted that the exercise has detected or prevented more than £56.5 million of fraud and overpayments in Wales since it was set up and that the 2022-23 exercise helped Welsh public bodies identify £7.1 million of fraud and overpayments.

27. Of the £7.1 million reported outcomes, 97% were from local authority data matches relating to council tax, housing benefit, blue badges, housing waiting lists, and pensions. The Isle of Anglesey County Council was a case study in the report, for the work we had undertaken in relation to investigating blue badge (disabled badge) matches.

28. This highlights the value of our participation investing resources in assessing and reviewing data matches.

[9] Number of theft by an employee offences in England and Wales from 2002/03 to 2023/24, Statista, accessed 27/01/2025
[10] From firefighting to future-proofing – the challenge for Welsh public services, Audit Wales, February 2024
[11] NAFN is a public sector organisation currently hosted by Tameside MBC. Membership is open to any organisation that has responsibility for managing public funds and/or assets. Currently, almost 90% of local authorities are members.
[12] The National Fraud Initiative in Wales 2022-23, Audit Wales, October 2024

Wales-wide arrangements for counter fraud

29. A review[13] of counter-fraud arrangements across the Welsh public sector by the Auditor General reported that the resources devoted to counter-fraud activity varied widely across the public sector in Wales. Across local government in Wales, counter-fraud resourcing arrangements differed markedly from council to council and there is no all-Wales team responsible for local government counter-fraud activities, or any overarching strategy or policy framework.

Regional arrangements

30. In the absence of a group or professional network that specifically promotes counter-fraud in local government in Wales, to fill this gap in north Wales a sub-group of the North and Mid Wales Audit Partnership was formed in May 2021 to share and drive good practice in relation to counter-fraud and continues to meet three times a year.

Arrangements in the Council

31. The CIPFA Code establishes that the ability to undertake counter fraud activities will be dependent upon the size and nature of an organisation and the size of its counter-fraud capacity. Following the transfer of fraud investigators from local government to the Department for Works and Pensions in 2014, most councils in Wales, including the Isle of Anglesey County Council, no longer have a dedicated counter-fraud resource, and instead, Internal Audit has been designated the counter-fraud role in the Council.

32. Within the team, the Senior Auditor is a qualified Accredited Counter Fraud Technician, and the Head of Audit and Risk is a qualified Accredited Counter Fraud Specialist. We will be using their skills to drive forward counter-fraud activity within the Council.

[13] 'Raising Our Game' - Tackling Fraud in Wales, Audit Wales, July 2020

Strategic objectives

33. When considering our objectives, we considered CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption (2014) (the CIPFA Code), which sets out best practice for counter-fraud work in local government, based on five principles.

34. In addition, in the absence of a Wales-specific overarching strategy, or policy framework we used the 'Fighting Fraud and Corruption Locally: A Strategy for the 2020s' (FFCL), to underpin our strategic focus. This is the overarching counter-fraud and corruption strategy for local government in England and provides a blueprint for a tougher response to fraud and corruption perpetrated against local authorities.

35. Similar to the CIPFA Code, the FFCL strategy focuses on five pillars of activity, or strategic objectives, which are detailed in the following pages, and helps us to set out where the Council needs to concentrate its counter-fraud efforts.

36. These strategic objectives have been used to develop a delivery plan of counter fraud activity, detailed in Appendix 2. Progress on delivering the activities in the plan will be provided to the Governance and Audit Committee annually, with the Counter Fraud, Bribery and Corruption Annual Report.

Govern

Having robust arrangements and executive support to ensure anti-fraud, bribery and corruption measures are embedded throughout the organisation.

What is expected

The foundation of the Strategy is that *'those charged with governance'* support the activity by ensuring that there are robust arrangements and executive support to ensure anti-fraud, bribery and corruption measures are embedded throughout the Council.

Beating fraud is everyone's business, and the Council needs robust internal arrangements, which are communicated throughout the Council to demonstrate the culture and commitment to preventing fraud.

The first principle of the CIPFA Code also advocates that the governing body should acknowledge its responsibility for ensuring that the risks associated with fraud and corruption are managed effectively across all parts of the organisation.

The third principle of the Code advocates that organisations need a counter fraud strategy setting out its approach to managing its risks and defining responsibilities for action.

What we do / What we are going to do

A framework of policies exists, as recommended by the guidance and policy acceptance software tracks staff's acceptance and understanding of some policies. A programme of policy refreshment, counter fraud awareness raising, and an eLearning package will be delivered as part of the Counter Fraud Strategy for 2025-28.

The Council has a clearly defined three-year strategy, approved at the highest level which is focused on outcomes, helping to ensure that the risk of fraud and corruption is taken seriously in the Council.

Acknowledge

Assessing and understanding fraud risks.
Committing the right support and tackling fraud and corruption.
Demonstrating that it has a robust anti-fraud response.
Communicating the risks to those charged with Governance.

What is expected

To create a counter-fraud response, the Council must acknowledge and understand fraud risks and then demonstrate this by committing the right support and appropriate resource for tackling fraud.

The second principle of the CIPFA Code advocates fraud risk identification as essential to understanding specific exposures to risk, changing patterns in fraud and corruption threats and the potential consequences to the organisation and its service users. The Code supports fraud and corruption risks as business risks and for them to be managed as part of the organisation's risk management process.

The fourth principle advocates that organisations should make arrangements for appropriate resources to support the counter fraud strategy.

What we do / What we are going to do

The Leadership Team (LT) has acknowledged the threats of fraud and corruption and the harm they can cause to the Council, its aims and objectives and to its service users by mandating the inclusion of fraud in every service risk register. This will be enhanced by the establishment of a Council-wide Counter Fraud Working Group. Its first task will be to develop a Council-wide fraud risk assessment.

Similar to all services within the Council, there has been limited capacity and resources within the Council towards counter fraud arrangements.

We submit an annual report to the Governance and Audit Committee to enable it to challenge activity and understand the Council's counter-fraud activity.

Prevent

Making the best use of information and technology.
Enhancing fraud controls and processes.
Developing a more effective anti-fraud culture.
Communicating its activity and successes.

What is expected

The most efficient and effective way to fight fraud is to prevent fraud occurring in the first place. This can be achieved by sharing knowledge and raising awareness. The Council can prevent and detect by enhancing fraud controls and processes, making better use of information and technology and developing a more effective anti-fraud culture.

What we do / What we are going to do

In conjunction with the Training and Development Team, we provided a programme of counter fraud training events in 2023-24, targeted at elected and lay members, and managers and officers with financial and procurement responsibilities. We will repeat this training at regular intervals, which will be supported by the rollout of eLearning during 2025.

We will undertake regular awareness raising initiatives across the Council and distribute National Anti-Fraud Network alerts to the relevant parts of the organisation when received.

Where fraud is identified and successfully addressed it will be publicised to re-enforce a robust message from the top that fraud will not be tolerated.

We will actively promote the importance the Council gives to countering fraud, giving confidence to staff and members of the public that fraud is not tolerated.

Pursue

Prioritising fraud recovery and use of civil sanctions.
Developing capability and capacity to punish offenders.
Collaborating across geographical and sectoral boundaries.
Learning lessons and closing the gaps.

What is expected

While preventing fraud and corruption from happening in the first place is the Council's primary aim, it is essential that a robust enforcement response is available to pursue fraudsters and deter others.

The fifth principle of the Code advocates that organisations put in place the policies and procedures to support the counter fraud and corruption strategy and take action to prevent, detect and investigate fraud.

It establishes that the ability to take action will be dependent upon the size and nature of an organisation and the size of its counter fraud capacity. Irrespective of the size and activities of an organisation, however, it needs to take appropriate action and report on that action to its governing body.

What we do / What we are going to do

The Council will always seek the strongest possible sanction against any individual or organisation that defraud or attempt to defraud the Council. Where criminality has been proven then the Proceeds of Crime Act 2002 will, where appropriate, be used to recover funds. Other methods of recovery may include, but are not confined to, civil proceedings, unlawful profit orders and compensation orders.

We will continue attending the North & Mid Wales Audit Partnership's Counter Fraud Working Group.

We will continue to coordinate data required from the Council by the National Fraud Initiative for its biennial data matching exercise and explore high-risk matches identified by the NFI data matching exercise.

Protecting itself and its residents

Having robust arrangements and executive support to ensure anti-fraud, bribery and corruption measures are embedded throughout the organisation.

Recognising the harm that fraud can cause in the community.

What is expected

This theme lies across the pillars of this strategy and involves protecting the Council against serious and organised crime, protecting individuals from becoming victims of crime and protecting against the harm that fraud can do to the wider community. It also covers protecting public funds, protecting the Council from cyber-crime and protecting itself from future frauds.

What we do / What we are going to do

The Council recognises that fraud is not a victimless crime and seeks to protect the vulnerable from the harm that fraud can cause in the community.

We have a duty to protect residents in our communities from fraud and we will work in collaboration with officers across the Council and partner agencies to prevent fraud and safeguard the vulnerable.

Conclusion

37. Some level of public sector fraud is likely, even in normal times. Given that all elements of the classic fraud triangle in which fraud thrives (motivation, opportunity and rationalisation) are heightened, the prediction for fraud is that it continues to pose a major financial threat for councils, with no sign of slowing down.

38. The Council is not immune to theft in the workplace, which can go undetected for years, and occur at all levels. Unless we have the right protections in place, the Council will have little chance of recovering stolen cash and goods, and may face other expenses, such as regulatory fines.

39. The effective management of fraud and corruption risks is a critical part of an effective, modern council, one that manages its resources efficiently to secure value for money outcomes. The Council can reduce the risk of employee theft by implementing robust payment controls, regular audits, and a positive work culture.

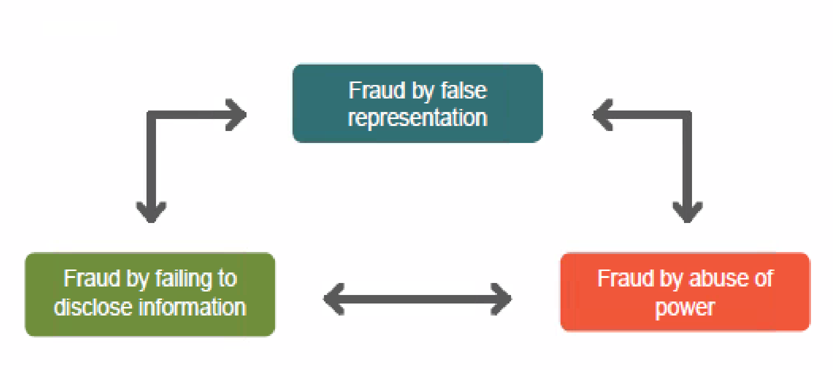
40. Delivery of the Counter Fraud, Bribery and Corruption Strategy 2025-28 and Delivery Plan will ensure the Council is successful in fighting fraud. A key next step is the development of a Council-wide fraud risk assessment which will help to improve the Council's ability to identify potential instances of fraud, as well as any weaknesses in its counter-fraud arrangements or areas at higher risk of fraud. This will allow the Council to better target its limited resources and activities appropriately, particularly if and when new fraud risks emerge.

41. Finally, the behaviours and actions of individuals play a crucial role in tackling fraud risks. We must all, staff and members alike, play our part in creating a culture hostile to the risks of fraud and corruption, clearly setting out the line between acceptable and unacceptable behaviour within the Council.

Appendix 1 – What is Fraud, Bribery and Corruption?

Fraud

The Fraud Act 2006 sets out three ways in which the crime can be committed:



It involves leading the perpetrator to make a gain (generally financial), causing a loss to another (including an organisation), or exposing someone else to loss.

For example, fraud by false representation is where the perpetrator deliberately submits false overtime claims or submits false qualifications during the recruitment process.

An example of fraud by failing to disclose information includes not disclosing information to a judge during litigation which results in the organisation losing the case and paying compensation.

Fraud by abuse of position includes where a member of staff abuses their position to award contracts to friends and family or transferring creditor payments into their own personal account.

Bribery

The Bribery Act 2010 sets out four ways in which the crime can be committed:

- Giving bribes either directly or through a third party
- Receiving bribes
- Bribery of a foreign public official
- Failure of a commercial organisation to prevent bribery (corporate offence)

The concept of bribery is broad and includes the offer, promise or giving of a financial or other advantage intended to induce or reward the improper performance of a public function or business activity. Special consideration is also given in the Act to certain areas of activity, including hospitality and gifts.

For example, someone giving a Council employee an advantage in return for them not performing their function properly. Just offering or promising a bribe is a criminal offence, there does not have to be any payment or reward given; accepting a bribe is a criminal offence as is agreeing to take or asking for a bribe. The advantage can be money, concert tickets or any other type of gift or hospitality. Examples include if someone offers money in return for:

- Not checking the accuracy of a benefits application
- Providing confidential information on a tendering process
- Influencing a Council outcome e.g., lobbying for private companies.

The Council is legally bound to prevent bribery and could face a fine for not doing so. Staff are under a duty to report any suspicions they have about financial or professional misconduct. The penalty for being involved in bribery is up to 10 years in prison and / or an unlimited fine.

Corruption

While there is no legal definition of corruption, corruption is often seen as a precursor to bribery and His Majesty's Government uses the definition developed by the Home Office. [14]

Corruption is often seen as a precursor to bribery and has been defined as:

"...the abuse of entrusted power for private benefit that usually breaches laws, regulations, standards of integrity and/or standards of professional behaviour."

Corruption or someone being 'corrupt' relates to behaviour and is the lack of integrity or honesty (which may involve bribery) or the abuse of position for dishonest gain.

It is used to describe someone who engages in fraud, theft, money laundering and other potential criminal or damaging practices where they act against the interests of the Council for their or another's gain.

For example:

- Deliberate misrepresentation of performance information
- Taking money or a gift to award a contract
- Theft of assets (laptops, equipment)
- Passing sensitive information to third parties for their advantage in a tendering process
- Not disclosing a conflict of interest for financial gain
- Using their influence to secure a job for friends / family members.

[14] Government Counter Fraud Functional Strategy 2024-2027

Appendix 2 – Counter Fraud, Bribery and Corruption Delivery Plan 2025-2028

Issue / Risk / Opportunity	Action	By Whom	By When	Current Status
Progress with delivering outstanding actions from Counter Fraud, Bribery and Corruption Action Plan 2025-2028				
Procurement was one of the highest perceived fraud risk areas in 2019-20	We will work with the Procurement Manager to implement the action plan following the internal audit review of 'Managing the Risk of Fraud and Corruption in Procurement', undertaken in August 2022.	Head of Audit and Risk	March 2023	**Work in progress and included in 2025-28 Strategy.** One out of six 'Issues/Risks' remain outstanding from the 'Managing the Risk of Fraud and Corruption in Procurement' Action Plan. 1. The Counter Fraud Working Group has not yet been set up
Purchase to pay processes are vulnerable to fraud given their large processing volumes, diverse suppliers, staffing challenges, and high-value transactions	We will continue to work with the Creditors Team to identify and prevent error and fraud, including through the use of data analytics (continuous monitoring) and issuing National Anti-Fraud Network (NAFN) and other fraud alerts.	Head of Audit and Risk with Payroll and Payments Team Manager	Ongoing	**Ongoing and included in 2025-28 Strategy.** Continuous monitoring is carried out annually. Report issued in September 2024 and submitted to the Governance and Audit Committee.
Having robust arrangements and executive support to ensure anti-fraud, bribery and corruption measures are embedded throughout the organisation.	Having a corporate counter-fraud framework, which provides a whole range of high-level parts, will contribute to the Council having an effective counter-fraud strategy. The Council has a robust framework of procedures and policies, which combine to act as an effective deterrent to fraudulent activity and provide the means for reporting or detecting fraud or corruption. We will therefore undertake: • a comprehensive programme of policy refreshment • counter-fraud awareness raising • an eLearning package	Head of Audit and Risk	December 2023	**Work in progress and included in 2025-28 Strategy.** • Policy refreshment will be completed by the end of 2024-25. • A week-long programme of training was provided in December 2023, with two mop-up sessions in March 2024. • An eLearning package has been developed and will be rolled out by the end of 2024-25.

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Issue / Risk / Opportunity	Action	By Whom	By When	Current Status
The identification, assessment and understanding of fraud risks is a cornerstone of effective counter-fraud arrangements	We will, in conjunction with services, develop three key work streams which will: • seek to identify fraud risks across the Council • assess fraud control activities and their effectiveness, and • dedicate the right level of resource to investigating and detecting fraud where reported A counter-fraud working group will be developed to help identify fraud risk across the Council. We will work with the group to develop a fraud risk assessment to identify the possible frauds to which services may be exposed. The assessment will estimate both the potential impact of a given fraud and the likelihood of it occurring. The results of the assessments will enable the Council to understand better the fraud-threat environment in which it operates. The assessments will also be used as a tool to assist in focusing resources on the most relevant fraud risks.	Head of Audit and Risk	December 2024	**Carried forward to the 2025-28 Strategy.** Due to capacity issues within the team, this work has not started. Key to responding to the risks the Council faces from fraud is using its available resources to bring together services to undertake comprehensive fraud risk assessments, using appropriately skilled staff, using national intelligence as well as organisation-specific intelligence. These fraud risk assessments will be used as a live resource and integrated within the general risk management framework to ensure that the risks identified are appropriately managed and escalated as necessary. The establishment of a Counter Fraud Working Group is key to this action. A proposal will be made to Leadership Team to seek support for the establishment of this group. This will be taken forward and prioritised in the 2025-28 Strategy.
Making the best use of information and technology by participating in the National Fraud Initiative	We will participate in the annual and biennial NFI exercises, which use data provided by some 1,200 participating organisations from across the public and private sectors to prevent and detect fraud. The NFI matches electronic data within and between public and private sector bodies, which include police authorities, local probation boards, fire and rescue authorities as	Head of Audit and Risk in conjunction with services	Ongoing	**Ongoing and included in 2025-28 Strategy.** National Fraud Initiative Outcomes Report 2022-24 submitted to the Governance and Audit Committee in December 2023 and July 2024. The timetable for the 2024-2026 exercise was released in October 2024 with data

Issue / Risk / Opportunity	Action	By Whom	By When	Current Status
	well as local councils and a number of private sector bodies. The NFI data matching plays an important role in protecting the public purse against fraud risks.			upload later the same month. Matches released in December 2024 are currently being reviewed. A report will be submitted to the Governance and Audit Committee in September 2025.
Promotion of an anti-fraud culture	We will promote an anti-fraud culture across the Council by publicising the impact of fraud on the Council and the community, through social media.	Head of Audit and Risk in conjunction with the Corporate Communications Team	Ongoing	**Ongoing and included in 2025-28 Strategy**. A programme of fraud awareness training has been provided internally, and the National Anti-Fraud Network alerts continue to be circulated, a programme of more general communications has not yet started.
Raising awareness	The best way to prevent fraud is to share knowledge and raise awareness. Therefore, we will in conjunction with the Training and Development Team, hold regular fraud awareness raising events, including issuing newsletters, training sessions and briefings.	Head of Audit and Risk in conjunction with the Training and Development Manager	Ongoing	**Ongoing and included in the 2025-28 Strategy**. A week-long programme of training was provided in December 2023, with two mop-up sessions in March 2024. Discussions are being held with the trainer to provide more sessions in 2025. The eLearning will be launched during 2025.
Fraud Reporting	All fraud occurrences are required to be reported to Internal Audit. We will report investigation outcomes and lessons to be learned to the Governance and Audit Committee and the Leadership Team.	Head of Audit and Risk in conjunction with services	Ongoing	**Ongoing and included in the 2025-28 Strategy**. Information is provided to the Governance and Audit Committee through the Annual Counter Fraud, Bribery and Corruption Report and the Internal Audit Updates submitted to every meeting of the Governance and Audit Committee.
Collaboration, learning lessons and closing the gap	We will continue collaborating across the north Wales region to drive forward improvements in counter-fraud activity, including addressing the 15 recommendations made by the Auditor General in his July 2020 report.	Head of Audit and Risk	Ongoing	**Ongoing and included in the 2025-28 Strategy**. The North and Mid Wales Audit Partnership Counter Fraud Working Group has completed its work on developing a template to address the 15

Issue / Risk / Opportunity	Action	By Whom	By When	Current Status
	We will also continue collaborating across national boundaries to collaborate with the North West Chief Audit Executive Counter Fraud Sub Group, to learn lessons, share good practice and close the gap.			recommendations made by the Auditor General. The Group will continue meeting to share knowledge, organise training and discuss emerging risks.
Protecting the Council and its residents	To ensure our counter-fraud strategy aligns with the Council's safeguarding responsibilities to actively protect the most vulnerable in our communities, we will work closely with social care teams to develop joint approaches to identify best practice in countering risks relating to social care fraud.	Head of Audit and Risk with the Director of Social Services	Ongoing	**Carried forward to the 2025-28 Strategy.** Due to capacity issues within the team, this work has not started.
New actions from Counter Fraud, Bribery and Corruption Action Plan 2025-2028				
Professional Training	The new Global Internal Audit Standards (GIAS) and Application note: Global Internal Audit Standards in the UK Public Sector will form the basis of UK public sector internal audit, effective from 1 April 2025. A requirement of the GIAS is that internal auditors should develop competencies related to pervasive risks, such as fraud. The team will continue with a programme of professional fraud training.	Head of Audit and Risk	March 2028	
The use of data analytics as detective exercises on areas of vulnerability	Data interrogation tools will be used in a continuous monitoring exercise of the payroll system to identify missing data such as NI numbers; high levels of pay or overtime claimed; duplicate names; duplicate bank account numbers, links to other organisations.	Head of Audit and Risk	March 2026	
Failure to prevent fraud offence	Under the legislation, an organisation will be criminally liable where a specified fraud offence is committed by an employee, agent or other 'associated person', for the organisation's benefit and the organisation did not have 'reasonable' fraud prevention procedures in place. A self-assessment will be undertaken.	Head of Audit and Risk	March 2026	

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ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	**GOVERNANCE AND AUDIT COMMITTEE**
Date:	**11 FEBRUARY 2025**
Subject:	**TREASURY MANAGEMENT MID-YEAR REVIEW 2024/25**
Portfolio Holder(s):	**COUNCILLOR R WILLIAMS, DEPUTY LEADER AND PORTFOLIO HOLDER FINANCE AND HOUSING**
Head of Service / Director:	**R MARC JONES, DIRECTOR OF FUNCTION (RESOURCES) & SECTION 151 OFFICER**
Report Author: Tel: E-mail:	**CLAIRE KLIMASZEWSKI** **01248 752133** **claire.klimaszewski@ynysmon.llyw.cymru**
Local Members:	**n/a**

A –Recommendation/s and reason/s

To recommend that the Governance and Audit Committee:-

1. Review and note the report, the treasury activity and the prudential indicators as at 30 September 2024.

2. To forward any comments onto the Executive.

B – What other options did you consider and why did you reject them and/or opt for this option?

The report is for scrutiny and information and the consideration of options is not applicable.

C – Why is this a decision for the Executive?

To comply with regulations issued under the Local Government Act 2003 and the CIPFA Prudential Code 2021.

CH – Is this decision consistent with policy approved by the full Council?

The report gives an update on the treasury management position, whereby borrowing and investments decisions have been taken in accordance with the Treasury Management Strategy that was approved by the full Council on 7 March 2024.

D – Is this decision within the budget approved by the Council?

No decision required in respect of this report which will impact on the budgetary position of the Council.

	DD – Who did you consult?	What did they say?
1	**Chief Executive / Leadership Team (LT)** (mandatory)	No additional comments.
2	**Finance / Section 151**(mandatory)	N/A - This is the Section 151 Officer's report.
3	**Legal / Monitoring Officer** (mandatory)	No additional comments.
4	**Human Resources (HR)**	Not applicable
5	**Property**	Not applicable
6	**Information Communication Technology (ICT)**	Not applicable
7	**Procurement**	Not applicable
8	**Scrutiny**	This report is for scrutiny of the Governance and Audit Committee, 11 February 2025.
9	**Local Members**	Not applicable
10	**Other**	None

E – Assessing the potential impact (if relevant):		
1	**How does this decision impact on our long-term needs as an Island**	Treasury management is key to facilitating sustainability for the long-term needs of the Island, as borrowing plans help to fund capital expenditure to ensure assets are available now and into the future. Treasury plans must also be affordable to ensure that future generations are not disadvantaged by Treasury Management decisions taken in the short and medium term.
2	**Is this a decision which it is envisaged will prevent future costs / dependencies on the Authority. If so, how:-**	The Treasury Management strategy and activity must be affordable to mitigate the impact on the future. Some capital expenditure funded by borrowing, such as Sustainable Communities for Learning, and other invest to save schemes funded by borrowing, may help to reduce future costs.
3	**Have we been working collaboratively with other organisations to come to this decision, if so, please advise whom:**	Treasury Management activities often fund capital projects in partnership with other organisations, such as Welsh Government. The 21st Century Schools Programme / Sustainable Communities for Learning new schools / extensions were / are funded with significant funding from Welsh Government.
4	**Have Anglesey citizens played a part in drafting this way forward? Please explain how:-**	Anglesey Citizens are consulted each year about the annual capital programme, some of which is dependent on Treasury Management activities. More in-depth consultation occurs on some capital projects, such as new school builds / school reorganisations.
5	**Note any potential impact that this decision would have on the groups protected under the Equality Act 2010.**	Newly built assets funded by borrowing will be compliant with the Equality Act and related regulations and guidance. Annual refurbishments and replacement programmes also help to increase accessibility and enable diversity.
6	**If this is a strategic decision, note any potential impact that the decision would have on those experiencing socio-economic disadvantage.**	This is statutory monitoring of Treasury Management activities, not a strategic decision.
7	**Note any potential impact that this decision would have on opportunities for people to use the Welsh language and on treating the Welsh language no less favourably than the English language.**	Some of the projects funded by borrowing have a positive impact on the development and increase of the Welsh Language, such as the Welsh medium schools built as part of the 21st Century Schools Programme / Sustainable Communities for Learning Programme.

F - Appendices

Appendix A –Treasury Management Quarter 2 Report 2024/25
Appendix B – Analysis of the Isle of Anglesey County Council PWLB Loans by year of Maturity
Appendix C – Economic Analysis – MUFG Corporate Markets Treasury Limited
Appendix CH – PWLB Analysis – MUFG Corporate Markets Treasury Limited

FF - Background papers:

- Treasury Management Strategy Statement 2024/25 – Isle of Anglesey County Council 7 March 2024

APPENDIX A

1. PURPOSE OF TREASURY MANAGEMENT

1.1 The Treasury Management Strategy Statement (TMSS) 2024/25 provides the framework for day-to-day and medium-term treasury management. The TMSS is a key part of the Council's strategic planning processes to help identify what the Council's key priorities and objectives are for the next year and into the future.

1.2 Treasury management activity, in line with the TMSS, is key for implementation of the priorities of the Council Plan 2023/28 and the Capital Strategy 2024/25, and several related strategic and operational plans. Capital expenditure is fundamental to ensure the Council has long-term assets, such as Council offices, schools, social care facilities, Council dwellings, ICT infrastructure, software and equipment, vehicles and equipment needed to deliver Council services and functions, and to help achieve the priorities of the Council Plan 2023/28. This includes ensuring the Council's current assets are refurbished, extended or replaced as needed and new assets built to deliver Council priorities, such as new schools.

1.3 Capital funding is limited, therefore, the Council funds some capital projects by means of supported borrowing, for which the Council receives funding in the annual revenue support grant from Welsh Government (WG), or unsupported borrowing, where the annual financing costs are funded in full by the Council. Borrowing is usually fulfilled by taking out loans from the Public Works Loans Board (PWLB). This is a key part of treasury management, hence the important link to the Capital Strategy 2024/25 and implementation of the capital programme.

1.4 The Treasury Management Code of Practice 2021, which is statutory guidance, 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*."

2. BACKGROUND INFORMATION

2.1 Treasury management involves tasks which ensure that there is enough cash in the Council general account to pay day-to-day bills and the investment of surplus cash, over what is needed in the general account. These investments must be in highly secure accounts, such as UK banks with high credit ratings, as defined in the TMSS. The Council prioritises security of its funds, in line with the Code, and ensures that enough cash is instantly accessible so that the Council is able to pay suppliers, staff and benefits at the required payment dates. The last consideration is yield, the Council invests to get the highest interest rate possible within the pool of organisations that are secure and meet the criteria in the TMSS 2024/25. The final element of Treasury Management is managing the Council's loan portfolio, to ensure that the Council's borrowing is not too high and that the revenue costs of borrowing are affordable.

2.2 A key 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. The Capital Strategy 2024/25, Capital Programme 2024/25 and quarterly capital budget monitoring reports are closely linked to the Council's treasury management activity. In accordance with legislation, the Council is only able to borrow for capital expenditure, not revenue costs, with the exception of when WG provides a capitalisation directive for specific exceptional revenue expenditure, such as the capitalisation of equal pay back pay. The capital strategy, the annual capital programme and TMSS all support the Council's key priorities in the Council Plan 2023/28. This report is part of the monitoring of treasury management activities during the period 1 April 2024 to 30 September 2024, to help ensure that the TMSS is complied with.

3. ECONOMIC UPDATE

3.1 The Council's external treasury management advisers, MUFG Corporate Markets Treasury Limited (MUFG), sends several updates, such as economic and credit reports, each week, to help Council officers and Members to make the best decisions on treasury management activities. MUFG provided an economic update for the second quarter, which can be found in Appendix C. MUFG has also recently provided the following interest rate forecast:-

Table 1
Forecast Bank Base Rate, inflation and PWLB Rates - March 2025 to December 2026

	Mar 2025	Jun 2025	Sep 2025	Dec 2025	Mar 2026	June 2026	Sept. 2026	Dec 2026
Bank Rate (%)	4.50%	4.25%	4.00%	4.00%	3.75%	3.75%	3.75%	3.50%
Inflation (OBR October 2024)	2.60%	2.60%	2.60%	2.60%	2.30%	2.30%	2.30%	2.30%
5yr PWLB rate (%)	.4.90%	4.80%	4.60%	4.50%	4.50%	4.40%	4.30%	4.20%
10yr PWLB rate (%)	5.10%	5.00%	4.80%	4.80%	4.70%	4.50%	4.50%	4.40%
25yr PWLB rate (%)	5.50%	5.40%	5.30%	5.20%	5.10%	5.00%	4.90%	4.80%
50yr PWLB rate (%)	5.30%	5.20%	5.10%	5.00%	4.90%	4.80%	4.70%	4.60%

3.2 The Bank of England's (BoE) target inflation, set by the Government, is 2%. Inflation started to creep up beyond this from August 2021, with the CPI rate reaching a high of 11.1% in October 2022 due to the impact of the invasion of Ukraine, which caused significant energy and food price increases. Inflation remained high for longer than anticipated, but started to decrease in April 2023 to 8.7%, with CPI reducing to 7.9% at the end of the first quarter of 2023/24. In 2024/25, inflation has reduced significantly to the BoE target of 2%, achieved in June 2024. Inflation rates continued to decrease in the second quarter, with CPI at 1.7% at 30 September 2024. While the forecasts of CPI for 2025 and 2026 are higher than the 2% target (see Inflation forecast by OBR, October 2024 above in Table 1), these rates are significantly better than in 2022 and 2023.

3.3 At the start of the pandemic, the base rate was reduced to its lowest point at 0.1%, in support of the economy. In December 2021, the BoE increased the rate to 0.25%, and then increased the base rate at each meeting of the Monetary Policy Committee (MPC) between 0.25% to 0.75% at its highest increase. In August 2023, the MPC increased the base rate to 5.25%. The rate of 5.25% remained unchanged until 1 August 2024, when the base rate was reduced for the first time since 2020, to 5%, which was also the rate at 30 September 2024. The base rate has since reduced to 4.75%, and the markets are expecting two or 3 further incremental reductions in the base rate during 2025.

3.4 The Council benefits from a higher base rate for investment of surplus cash, which has helped the Council earn more than £1m in interest receivable. However, loans to the Council are more expensive since the BoE started raising interest rates to try to control inflation. External borrowing is, therefore, delayed until cash balances can no longer sustain the use of Council balances to fund capital expenditure (internal borrowing).

4. POSITION AS AT 30 SEPTEMBER 2024

4.1 Borrowing PWLB – The Council did not take out any new borrowing from the PWLB during the period 1 April 2024 to 30 September 2024. This is due to the need to avoid borrowing while interest rates are increasing. Instead, Council cash balances have been used to fund capital expenditure. This is in line with MUFG Corporate Markets' advice on borrowing in the current economic climate. The opportunity cost of this is that there are less balances to invest, however, borrowing costs are higher than investment yields. To ensure the Council has enough cash to pay creditors and salaries, sufficient cash must remain in instant call accounts. Typically, the interest rates on these are much lower, so the Council is still able to make reasonable savings on interest payable while using cash balances.

4.2 Appendix B shows the full list of PWLB loans taken out and still payable. The oldest loan dates to 1969, and the majority of the loans have higher interest rates than the current rates, despite the recent rise in interest rates. These are organised by the financial year the loans are due to be repaid.

Table 2
PWLB Loans Outstanding - 30 September 2024

PWLB Loans at 30 September 2024			
	PWLB Maturity £'000	PWLB EIP £'000	Total PWLB Loans at 30 September 2024 £'000
Loan Outstanding	117,546	153	117,699
Percentage of maturity and annuity loans	99.87%	0.13%	100.00%
Average life (years)	31.14	3.66	31.10
Average rate (%)	4.47%	9.42%	4.48%

4.3 Borrowing Salix – Salix is a WG organisation which provides interest free loans and, more recently, grants for projects which support the environment and to help public sector bodies in Wales to work towards achieving their net zero target by 2030. The Council held £4.570m of Salix loans at 30 September 2024. These loans are repaid over a period of 8 or 10 years, depending on the agreement, with 2 repayments made per year, per loan. These loans have funded LED street lighting, LED lighting in schools and leisure centres and various other sustainable projects. Table 3 shows the remaining Salix loans at 30 September and the year of the last repayment for each loan. The loan repayments for the Salix loans are shown in Appendix C.

Table 3
Salix Loans at 30 September 2024

Salix Loans at 30 September 2024						
	Salix Loan 2 £'000	Salix Loan 3 £'000	Salix Loan 4 £'000	Salix Loan 5 £'000	Salix Loan 6 £'000	TOTAL £'000
Outstanding Balance	68	287	132	1,653	2,431	**4,571**
Repayment Date	2025/26	2027/28	2029/30	2031/32	2035/36	
Interest rate (%)	-	-	-	-	-	**-**

5. ANNUAL INVESTMENT STRATEGY

5.1 The Treasury Management Strategy Statement (TMSS) for 2024/25, which includes the Annual Investment Strategy, was approved by the full Council on 7 March 2024.

5.2 The Council continues to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, aligned with the Council's risk appetite.

5.3 **Creditworthiness –** There have been few changes to credit ratings over the quarter under review. However, officers continue to closely monitor these and other measures of creditworthiness, to ensure that only appropriate counterparties are considered for investment purposes.

5.4 **Investment Counterparty Criteria –** The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

5.5 **Investment Balance –** The total balance of investments at 30 September 2024 was £39.451m, as shown in Table 4 below. The yield from these investments from 1 April 2024 to 30 September 2024 was £924k, with the total interest receivable on the below listed investments expected to be £1.322m for 2024/25. This figure is likely to be higher as new investments are made when these mature. However, cash balances are reducing as the financial year progresses, so not all these investments will be viable to renew on maturity.

5.6 Investment rates started to decrease in August 2024, as the base rate was reduced from 5.25% to 5% on 1 August 2024. However, all the fixed term investments for the half year to 30 September 2024 were organised before this decrease. The Bank of Scotland call account, which has variable interest rates, was reduced from 5.14% to 4.88% in August 2024. However, even at reduced rates, the Council's interest receivable for 2024/25 is higher than budgeted .The Council Fund is forecast to receive a total of £833k interest from the investments, which is £163k higher than the budget of £670k, £304k interest receivable is expected for the HRA, £119k for schools and £66k for third parties where the Council hold funds belonging to others, including the Trusts which the Council is trustee for.

Table 4
Investments held 1 April 2024 to 30 September 2024

Counterparty	Start Date	End Date	Interest Rate %	Investment Amounts 1 April to 30 September 2024 £	Investment Principal at 30 September 2024 £	Estimated Interest earned to 30 September 2024 £	Estimated Total Interest 2024/25 on these Investments £
Natwest Call Account - estimate for period	01/04/2024	31/03/2025	Variable	11,758,959	11,758,959	266,374	426,038
Nationwide Building Society	08/01/2024	08/04/2024	5.11%	5,000,000	-	5,600	5,600
Santander Uk Plc	09/02/2024	09/05/2024	5.19%	5,000,000	-	27,727	27,727
National Westminster	11/03/2024	11/06/2024	5.23%	5,000,000	-	51,584	51,584
Bank of Scotland Call Account - Lloyds	01/04/2024	31/03/2025	Variable	7,692,214	7,692,214	198,489	352,676
Goldmansachs International Bank	08/04/2024	08/10/2024	5.29%	5,000,000	5,000,000	127,540	133,337
Santander	09/05/2024	08/11/2024	5.07%	5,000,000	5,000,000	100,705	127,792
National Westminster Fixed	09/05/2024	09/08/2024	5.14%	5,000,000	5,000,000	65,482	65,482
National Westminster Fixed	11/06/2024	11/12/2024	5.23%	5,000,000	5,000,000	80,241	131,825
					39,451,173	**923,743**	**1,322,060**

5.7 Approved Limits – Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30 September 2024.

6. PRUDENTIAL INDICATOR FOR CAPITAL EXPENDITURE

6.1 The Council's Capital Position

Table 5 below shows the revised estimates for capital expenditure in comparison to the capital budget at quarter 2:-

Table 5
Capital Expenditure

Capital Expenditure 2024/25	Annual Budget £'000	Projected Expenditure £'000	Projected (Under) / Over Expenditure £'000
Council Fund	42,904	36,384	(6,520)
Housing HRA	29,573	30,596	1,023
	72,477	**66,980**	**(5,497)**

6.1.1 The revised capital budget for 2024/25 at quarter 2 was £72.477m. The projected expenditure for 2024/25 is £66.980m. Projects for the Council are expected to underspend by £6.520m, though most of this will be carried forward into 2025/26, along with the funding. The HRA is expecting to overspend by £1.023m, which will be funded by the HRA.

6.2 Changes to the Financing of the Capital Programme

6.2.1 There are some changes to the financing of the capital programme, as can be seen in Table 6 below, arising from the changes to the capital budget noted in 6.1.1.

6.2.2 Table 6 below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original funding of the capital programme, and the expected funding arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision - MRP). The source of funding for projects might also change at year end as funding is allocated in the most cost-effective way to mitigate capital financing pressures. This also allows increased flexibility to respond to later offers of external grant funding where the Council is asked to displace the funding in year, but to ensure there is funding in the next year to fulfill the conditions of the grant being offered.

Table 6
Estimated Funding of Capital Expenditure

Capital Funding	2024/25 Annual Budget £'000	2024/25 Revised Estimate £'000
Capital Grants	43,171	38,638
Capital Receipts	1,032	931
Reserves	1,205	1,002
Revenue Contribution	15,381	15,017
Supported Borrowing	5,867	5,925
Unsupported Borrowing	5,805	5,451
Loan	16	16
Total	**72,477**	**66,980**

6.3 Prudential Indicator – Capital Financing Requirement (CFR)

6.3.1 Table 7 below shows the CFR, which is the underlying need to incur borrowing to fund capital expenditure. The CFR is expected to be £15.534m lower than the original estimate provided in the TMSS 2024/25. This mainly relates to the HRA. Changes are expected as the TMSS is produced before the capital programme for the year has been finalised. Capital projects can also slip due to a variety of reasons, or alternative funding is found to reduce the amount of borrowing needed.

Table 7
Change in the Capital Financing Requirements 2024/25 at 30 September 2024

Prudential Indicator – CFR	2024/25 Original Estimate £'000	2024/25 Revised Estimate £'000
CFR – Council Fund	116,485	115,695
CFR – HRA	55,506	40,762
Total CFR	**171,991**	**156,457**
Net movement in CFR		(15,534)

6.3.2 Analysis of borrowing

The table above shows that the revised forecast CFR for 2024/25 is £156.457m. The difference between the CFR, which is the amount of capital expenditure to be funded by borrowing, and the external / actual borrowing taken out, is the internal borrowing. This is where the Council has used cash balances to fund capital expenditure to delay the actual borrowing for as long as possible, to save interest payable charges. This is in line with the TMSS 2024/25, and is the approach recommended by the Council's treasury management consultants, MUFG Corporate Markets Treasury Limited. This is due to the impact of the economy on interest rates and gilts which PWLB interest rates are based on. When cash balances become too low, this borrowing will be externalised by taking out new loans from the PWLB. To reduce the capital financing charges, it is likely that shorter-term loans would be taken out, as interest rates are expected to reduce in the future along with inflation.

Table 8 below shows that the balance of external borrowing and internal borrowing is expected to change in the last quarter, with £2.751m of PWLB borrowing expected for the HRA. This will be at a discounted rate for HRAs.

Table 8
Profile of borrowing between external borrowing and internal borrowing (use of cash balances)

	Current Position at 30 September 2024 £'000	Revised Estimated CFR 31 March 2025 £'000
External Borrowing	122,270	125,021
Internal Borrowing	34,187	31,436
Other long-term liabilities	-	-
Year-end position	**156,457**	**156,457**

7. OTHER PRUDENTIAL INDICATORS

7.1 The Treasury Management Strategy sets out a number of prudential indicators and authorised limits. The current forecast position against each of the relevant indicators and limits are shown in Table 9 below:-

Table 9
Prudential Indicators 2024/25 at Quarter 2

PRUDENTIAL INDICATORS			
Indicator Group	**Description**	**TMS 2024/25**	**Estimated Position at end of Q2**
Affordability	Ratio of Financing Costs to Net Revenue Stream – General Fund	3.12%	3.00%
	Ratio of Financing Costs to Net Revenue Stream – Housing Revenue Account	10.38%	6.04%
Capital Financing Requirement	Council Fund & HRA	£171.991m	£156.457m
AUTHORISED LIMITS			
Prudence	Gross debt must be lower than the CFR plus any additional CFR in the next two years	<198.521m	122.270m
External Debt	Authorised Limit	< £198.521m	£122.270m
	Operational Boundary	< £193.521m	£122.270m
Maturity of Debt		Under 12 months	0.178m - 0.15%
		12 months and within 24 months	1.105m - 0.9%
		24 months and within 5 years	5.595m – 4.58%
		5 years and within 10 years	6.722m - 5.50%
		10 years and above	108.674m - 88%
	Total borrowing		**122.270m - 100%**

7.2 The table above shows that the performance indicators in respect of affordability and the level of CFR are better than the original forecast and that none of the authorised debt limits have been exceeded. The ratio of financing costs to net revenue stream for the Council Fund, is less than that proposed in the TMSS 2024/25 at 3.00%, similarly the capital financing costs for the HRA are also much lower than at 6.04%. For the Council Fund, this is due to using internal borrowing for as long as possible to save interest payable. The HRA has been using its surplus income and HRA reserve to fund its capital programme. However, these balances are now too low and the HRA is likely to take out short-term borrowing shortly due to the success of its HRA developments, house purchases and works to existing homes to ensure they meet the Welsh Housing Quality Standards (WHQS).

7.3 Given the current levels of interest, the Council has utilised its own cash balances to fund capital expenditure, rather than externally borrowing, as discussed above. However, as cash balances fall, it will be necessary to borrow around the end of the 2024/25 financial year or early 2025/26. The external debt information in Table 9 aboveshows that the Council is well below the affordability prudential limit, which is also the authorised limit and the operational boundary.

8. DEBT RESCHEDULING

8.1 Debt rescheduling opportunities have increased significantly in the current period, where gilt yields, which underpin PWLB rates and market loans, have risen materially. An exercise was completed which demonstrated that replacing existing loans with new loans would attract discounts but, due to higher interest rates, total interest payable until the loans mature would be significantly higher and would, therefore, not be affordable as revenue capital financing costs would increase.

9. COMPLIANCE WITH TREASURY AND PRUDENTIAL LIMITS

9.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the period ended 30 September 2024, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2024/25. The Director of Function (Resources) reports that no difficulties are envisaged for the current or future years in complying with these indicators.

9.2 All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

10. CONCLUSION

10.1 During the period 1 April 2024 to 30 September 2024, the Council has been proactive with depositing surplus cash balances in secure UK banks and local authorities. The Council has benefitted from the favourable interest rate during the period, with £924k in interest receivable on these deposits. The estimated interest receivable for the full year on the investments active during the period is forecast at £1.322m. The HRA, schools and organisations for which the Council holds funds on behalf of, will receive a share of the interest receivable based on their balances on 31 March 2025, at the average interest rate from all deposits. Also of note, is the Council's cash balances are reducing, along with interest rates, therefore, future interest receivable might not achieve the levels in 2023/24 or 2024/25.

10.2 The Council has not applied for any PWLB loans during the period, to minimise interest payable and defer the borrowing identified for funding specific capital projects until necessary. The Council has borrowed interest free loans from Salix for energy efficiency / low carbon capital projects.

10.3 In summary, the Council's Treasury Management position remains stable, with better than forecast investment returns and all prudential indicators remaining within the boundaries and targets set in the Treasury Management Strategy Statement for 2024/25. No new external borrowing has taken place, with the Council's strategy continuing to use internal borrowing to fund capital expenditure, but, as cash reserves are utilised (balance the budget, winding down of school balances, use of HRA reserve to fund capital expenditure), the amount of surplus cash reduces, which has reduced the sums available to invest and the level of internal borrowing that can be supported. This will invariably require a change in strategy in the future, with additional external borrowing having to be undertaken.

APPENDIX B

PWLB LOAN REPAYMENTS

Financial year	Loan Maturing Date	Interest Rate %	Repayment Amount £
2026/27	01/04/2026	3.67	527,601
	30/09/2026	8.63	853,800
2026/27 Total			1,381,401
2027/28	01/04/2027	3.73	490,601
	19/08/2027	5.20	1,000,000
	30/09/2027	7.00	674,502
2027/28 Total			2,165,103
2028/29	01/04/2028	3.80	262,440
	01/03/2029	9.50	17,135
2028/29 Total			279,575
2029/30	01/04/2029	3.85	684,697
	09/05/2029	9.25	3,652
	06/06/2029	9.38	12,087
	01/09/2029	9.25	6,210
	30/09/2029	8.63	853,800
	06/12/2029	9.25	11,782
2029/30 Total			1,572,228
2030/31	01/04/2030	3.91	450,706
	09/05/2030	9.38	8,462
	01/09/2030	9.75	12,901
	09/11/2030	9.75	4,628
	06/12/2030	9.75	9,622
	01/03/2031	9.25	7,140
2030/31 Total			493,459
2031/32	01/04/2031	3.96	660,449
	30/09/2031	8.63	1,280,700
2031/32 Total			1,941,149
2032/33	01/04/2032	4.01	314,886
	06/06/2032	9.25	25,858
	06/12/2032	9.50	32,229
	01/03/2033	9.88	1,168
2032/33 Total			374,140
2033/34	01/04/2033	4.05	636,565
2033/34 Total			636,565
2034/35	01/04/2034	4.09	623,834
2034/35 Total			623,834
2035/36	01/04/2035	4.13	611,357
2035/36 Total			611,357
2036/37	01/04/2036	4.16	599,130
2036/37 Total			599,130
2037/38	01/04/2037	4.18	587,147
2037/38 Total			587,147
2038/39	01/04/2038	4.20	225,467
2038/39 Total			225,467
2039/40	15/04/2039	4.95	5,000,000
2039/40 Total			5,000,000
2040/41	15/04/2040	4.95	3,500,000
2040/41 Total			3,500,000

Financial year	Loan Maturing Date	Interest Rate %	Repayment Amount £
2042/43	01/04/2042	4.25	999,781
2042/43 Total			999,781
2043/44	01/04/2043	4.25	1,020,120
2043/44 Total			1,020,120
2044/45	01/04/2044	4.25	1,009,718
2044/45 Total			1,009,718
2045/46	01/04/2045	4.25	11,464,215
2045/46 Total			11,464,215
2050/51	16/01/2051	4.15	2,000,000
2050/51 Total			2,000,000
2052/53	19/05/2052	4.05	5,000,000
	12/10/2052	4.55	4,300,000
	09/11/2052	4.55	6,138,400
	20/11/2052	4.20	6,800,000
	11/12/2052	4.25	6,000,000
2052/53 Total			28,238,400
2054/55	06/05/2054	8.38	3,000,000
2054/55 Total			3,000,000
2055/56	15/11/2055	8.00	1,500,000
	15/12/2055	7.88	2,000,000
2055/56 Total			3,500,000
2056/57	15/04/2056	7.13	3,000,000
	10/10/2056	7.88	2,000,000
2056/57 Total			5,000,000
2057/58	15/04/2057	7.13	6,000,000
	15/10/2057	6.50	2,512,854
2057/58 Total			8,512,854
2059/60	22/06/2059	4.25	1,763,308
2059/60 Total			1,763,308
2064/65	25/03/2065	2.24	10,000,000
2064/65 Total			10,000,000
2066/67	30/03/2067	2.20	6,200,000
2066/67 Total			6,200,000
2068/69	16/01/2069	2.49	15,000,000
2068/69 Total			15,000,000
Grand Total			**117,698,952**

APPENDIX C

SALIX LOAN REPAYMENTS

Financial year	Salix Loan Repayments £000
2024/25	178
2025/26	577
2026/27	531
2027/28	531
2028/29	531
2029/30	455
2030/31	441
2031/32	441
2032/33	221
2033/34	221
2034/35	221
2035/36	221
Total	**4,571**

Economic Update & Forecasts – produced by Link Group

- The second quarter of 2024 (July to September) saw:
  - GDP growth stagnating in July following downwardly revised Q2 figures (0.5% q/q)
  - A further easing in wage growth as the headline 3myy rate (including bonuses) fell from 4.6% in June to 4.0% in July;
  - CPI inflation hitting its target in June before edging above it to 2.2% in July and August;
  - Core CPI inflation increasing from 3.3% in July to 3.6% in August;
  - The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting;
  - 10-year gilt yields falling to 4.0% in September.
- The economy's stagnation in June and July points more to a mild slowdown in GDP growth than a sudden drop back into a recession. Moreover, the drop in September's composite activity Purchasing Managers Index, from 53.8 in August to 52.9, was still consistent with GDP growth of 0.3%-0.4% for the summer months. This is in line with the Bank of England's view, and it was encouraging that an improvement in manufacturing output growth could be detected, whilst the services PMI balance suggests non-retail services output grew by 0.5% q/q in Q3. Additionally, the services PMI future activity balance showed an uptick in September, although readings after the Chancellor's announcements at the Budget on 30th October will be more meaningful.
- The 1.0% m/m jump in retail sales in August was stronger than the consensus forecast for a 0.4% m/m increase. The rise was reasonably broad based, with six of the seven main sub sectors recording monthly increases, though the biggest gains came from clothing stores and supermarkets, which the ONS reported was driven by the warmer-than-usual weather and end of season sales. As a result, some of that strength is probably temporary.
- The government's plans to raise public spending by around £16bn a year (0.6% GDP) have caused concerns that a big rise in taxes will be announced in the Budget, which could weaken GDP growth in the medium-term. However, if taxes are raised in line with spending (i.e., by £16bn) that would mean the overall stance of fiscal policy would be similar to the previous government's plan to reduce the budget deficit. Additionally, rises in public spending tend to boost GDP by more than increases in taxes reduce it. Our colleagues at Capital Economics suggest GDP growth will hit 1.2% in 2024 before reaching 1.5% for both 2025 and 2026.
- The further easing in wage growth will be welcomed by the Bank of England as a sign that labour market conditions are continuing to cool. The 3myy growth rate of average earnings fell from 4.6% in June to 4.0% in July. On a three-month annualised basis, average earnings growth eased from 3.0% to 1.8%, its lowest rate since December 2023. Excluding bonuses, the 3myy rate fell from 5.4% to 5.1%.
- Other labour market indicators also point to a further loosening in the labour market. The 59,000 fall in the alternative PAYE measure of the number of employees in August marked the fourth fall in the past five months. And the 77,000 decline in the three months to August was the biggest drop since November 2020. Moreover, the number of workforce jobs fell by 28,000 in Q2. The downward trend in job vacancies continued too. The number of job vacancies fell from 872,000 in the three months to July to 857,000 in the three months to August. That leaves it 34% below its peak in May 2022, and just 5% above its pre-pandemic level. Nonetheless, the Bank of England is still more concerned about the inflationary influence of the labour market rather than the risk of a major slowdown in labour market activity.
- CPI inflation stayed at 2.2% in August, but services inflation rose from a two-year low of 5.2% in July to 5.6%, significantly above its long-run average of 3.5%. Food and fuel price inflation exerted some downward pressure on CPI inflation, but these were offset by the upward effects from rising furniture/household equipment inflation, recreation/culture inflation and a surprisingly large rise in airfares inflation from -10.4% in July to +11.9% in August. As a result, core inflation crept back up from 3.3% to 3.6%. CPI inflation is also expected to rise in the coming months, potentially reaching 2.9% in November, before declining to around 2.0% by mid-2025.

- The Bank initiated its loosening cycle in August with a 25bps rate cut, lowering rates from 5.25% to 5.0%. In its September meeting, the Bank, resembling the ECB more than the Fed, opted to hold rates steady at 5.0%, signalling a preference for a more gradual approach to rate cuts. Notably, one Monetary Policy Committee (MPC) member (Swati Dhingra) voted for a consecutive 25bps cut, while four members swung back to voting to leave rates unchanged. That meant the slim 5-4 vote in favour of a cut in August shifted to a solid 8-1 vote in favour of no change.
- Looking ahead, CPI inflation will likely rise in the coming months before it falls back to its target of 2.0% in mid-2025. The increasing uncertainties of the Middle East may also exert an upward pressure on inflation, with oil prices rising in the aftermath of Iran's missile attack on Israel on 1 October. China's recent outpouring of new fiscal support measures in the latter stages of September has also added to the upshift in broader commodity prices, which, in turn, may impact on global inflation levels and thus monetary policy decisions. Despite these recent developments, our central forecast is still for rates to fall to 4.5% by the end of 2024 with further cuts likely throughout 2025. This is in line with market expectations, however, although a November rate cut still looks likely, December may be more problematic for the Bank if CPI inflation spikes towards 3%. In the second half of 2025, though, we think a more marked easing in inflation will prompt the Bank to speed up, resulting in rates eventually reaching 3.0%, rather than the 3.25-3.50% currently priced in by financial markets.
- Our forecast is next due to be updated around mid-November following the 30 October Budget, 5 November US presidential election and the 7 November MPC meeting and the release of the Bank of England Quarterly Monetary Policy Report.
- Looking at gilt movements in the first half of 2024/25, and you will note the 10-year gilt yield declined from 4.32% in May to 4.02% in August as the Bank's August rate cut signalled the start of its loosening cycle. Following the decision to hold the Bank Rate at 5.0% in September, the market response was muted, with the 10-year yield rising by only 5bps after the announcement. This likely reflected the fact that money markets had priced in a 25% chance of a rate cut prior to the meeting. The yield had already increased by about 10bps in the days leading up to the meeting, driven in part by the Fed's "hawkish cut" on 18 September. There is a possibility that gilt yields will rise near-term as UK policymakers remain cautious due to persistent inflation concerns, before declining in the longer term as rates fall to 3.0%.
- The FTSE 100 reached a peak of 8,380 in the third quarter of 2024, but its performance is firmly in the shade of the US S&P500, which has breached the 5,700 threshold on several occasions recently. Its progress, however, may pause for the time being whilst investors wait to see who is elected the next US President, and how events in the Middle East (and Ukraine) unfold. The catalyst for any further rally (or not) is likely to be the degree of investors' faith in AI.

MPC meetings: 9 May, 20 June, 1 August, 19 September 2024

- On 9 May, the Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20th June.
- However, by the time of the August meeting, there was a 5-4 vote in place for rates to be cut by 25bps to 5%. However, subsequent speeches from MPC members have supported Governor Bailey's tone with its emphasis on "gradual" reductions over time.
- Markets thought there may be an outside chance of a further Bank Rate reduction in September, following the 50bps cut by the FOMC, but this came to nothing.
- Nonetheless, November still looks most likely to be the next month to see a rate cut to 4.75% but, thereafter, inflation and employment data releases, as well as geo-political events, are likely to be the determinant for what happens in the remainder of 2024/25 and into 2025/26.

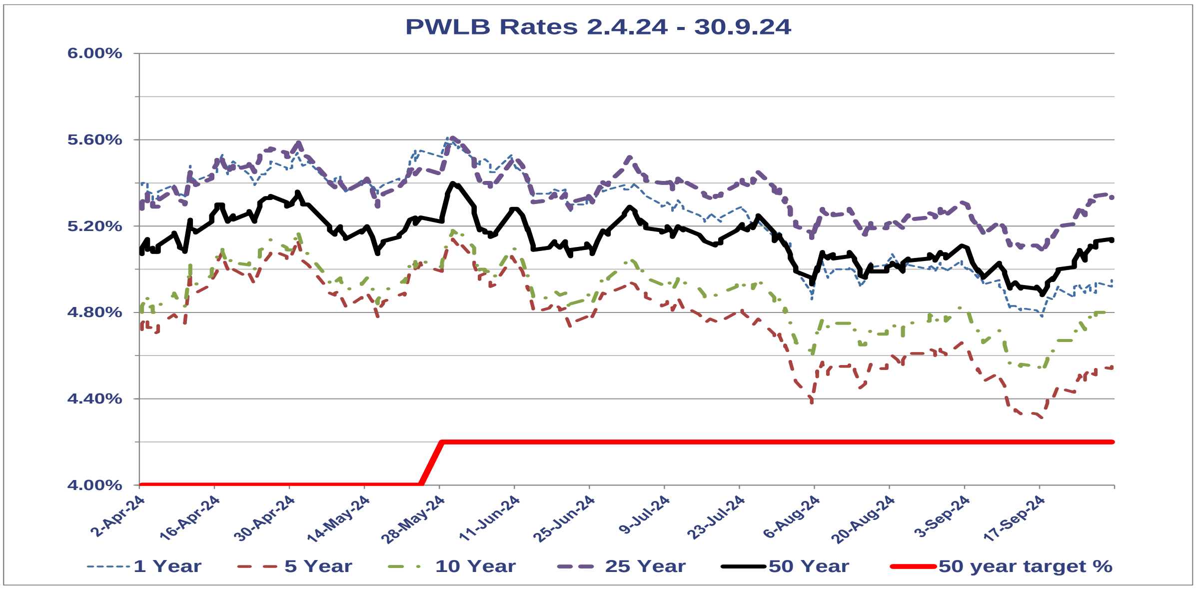
INTEREST RATE FORECASTS AND PWLB RATES – PRODUCED BY LINK GROUP

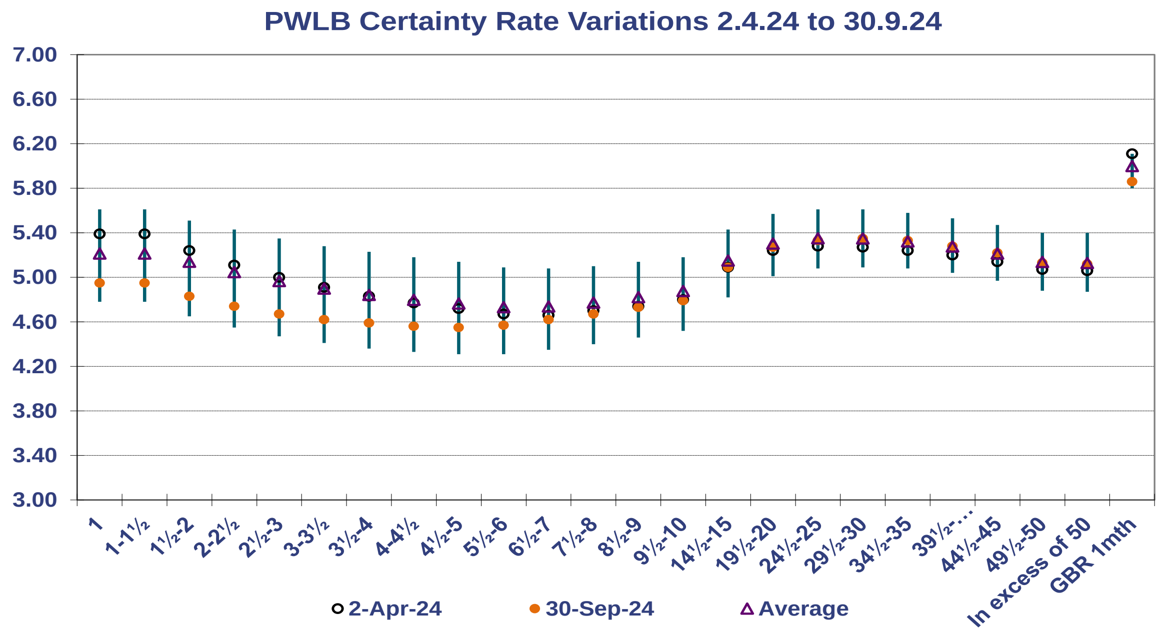
The Authority has appointed Link Group as its treasury advisors and part of their service is to assist the Authority to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since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

Our latest forecast on 28 May sets out a view that short, medium and long-dated interest rates will fall back over the next year or two, although there are upside risks in respect of the stickiness of inflation and a continuing tight labour market, as well as the size of gilt issuance.

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

Link Group Interest Rate View	28.05.24									
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
3 month ave earnings	4.50	4.00	3.50	3.30	3.30	3.30	3.30	3.00	3.00	3.00
6 month ave earnings	4.40	3.90	3.50	3.30	3.30	3.30	3.30	3.10	3.10	3.20
12 month ave earnings	4.30	3.80	3.50	3.40	3.40	3.40	3.40	3.20	3.30	3.40
5 yr PWLB	4.50	4.30	4.10	4.00	3.90	3.90	3.90	3.90	3.90	3.80
10 yr PWLB	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00	4.00	3.90
25 yr PWLB	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
50 yr PWLB	4.80	4.60	4.50	4.30	4.30	4.20	4.20	4.20	4.10	4.10





HIGH/LOW/AVERAGE PWLB RATES FOR 02.04.24 – 30.09.24

	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2024	5.39%	4.72%	4.80%	5.28%	5.07%
30/09/2024	4.95%	4.55%	4.79%	5.33%	5.13%
Low	4.78%	4.31%	4.52%	5.08%	4.88%
Low date	17/09/2024	17/09/2024	17/09/2024	17/09/2024	17/09/2024
High	5.61%	5.14%	5.18%	5.61%	5.40%
High date	29/05/2024	01/05/2024	01/05/2024	01/05/2024	01/05/2024
Average	5.21%	4.76%	4.88%	5.35%	5.14%
Spread	0.83%	0.83%	0.66%	0.53%	0.52%

- The current PWLB rates are set as margins over gilt yields as follows: -.
    - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
    - **PWLB Certainty Rate (GF)** is gilt plus 80 basis points (G+80bps)
    - **PWLB Local Infrastructure Rate** is gilt plus 60 basis points (G+60bps)
    - **PWLB Certainty Rate (HRA)** is gilt plus 40bps (G+40bps)

- The **UK Infrastructure Bank** will lend to local authorities that meet its scheme criteria at a rate currently set at gilt plus 40bps (G+40bps).

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ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	**GOVERNANCE AND AUDIT COMMITTEE**
Date:	**11 FEBRUARY 2025**
Subject:	**TREASURY MANAGEMENT STRATEGY STATEMENT 2025/26**
Portfolio Holder(s):	**COUNCILLOR R WILLIAMS, DEPUTY LEADER AND PORTFOLIO HOLDER FINANCE & HOUSING**
Head of Service / Director:	**MARC JONES, DIRECTOR OF FUNCTION (RESOURCES) AND SECTION 151 OFFICER**
Report Author: Tel: E-mail:	**CLAIRE KLIMASZEWSKI** ClaireKlimaszewski@ynysmon.llyw.cymru
Local Members:	**n/a**

A – Recommendation/s and reason/s

- The Council is required to produce and publish an annual Treasury Management Strategy Statement (TMSS) before the start of each financial year. The Council, under the Local Government Act 2003 and Welsh Government Regulations, has to have due regard to the CIPFA Prudential Code and CIPFA Treasury Management Codes, the latest versions of which were published in 2021.

- This TMSS complies with the requirements in both codes and sets out all the requirements which must be followed in how the Isle of Anglesey County Council treasury management activities are conducted. This helps to ensure that the Council's investments are secure and sufficiently accessible so that there is enough cash to for day-to-day payments as they fall due. The TMSS, as required by the codes, also provides a framework to ensure that the Council's borrowing levels remain prudent and affordable.

- The CIPFA Prudential Code, 2021 (S29), introduced more frequent treasury management monitoring reports. The Council now produces treasury management quarterly reports, culminating in the year-end treasury management outturn report.

- These reports provide monitoring information on the forward-looking prudential indicators which are specified in the appendices within the TMSS. The quarterly reports highlight any significant variances from the approved indicators and include forecasts on the Council's borrowing and investments during the year.

- **Recommendations**
    - To review the Treasury Management Strategy for 2025/26 and submit comments to the Executive and full Council.

B – What other options did you consider and why did you reject them and/or opt for this option?

n/a

C – Why is this a decision for the County Council? Statutory requirement

It is a requirement of the Code that the Treasury Management Strategy Statement is approved by the full Council.
.

CH – Is this decision consistent with policy approved by the full Council?

Yes

D – Is this decision within the budget approved by the Council?		
N/a		
DD – Assessing the potential impact (if relevant)		
1	**How does this decision impact on our long term needs as an Island**	Treasury management is key to facilitating sustainability for the long-term needs of the Island, as borrowing plans help to fund capital expenditure to ensure assets are available now and into the future. Treasury plans must also be affordable to ensure that future generations are not disadvantaged by Treasury Management decisions taken in the short and medium term.
2	**Is this a decision which it is envisaged will prevent future costs / dependencies on the Authority? If so, how:-**	The Treasury Management strategy and activity must be affordable to mitigate the impact on the future. Some capital expenditure funded by borrowing, such as Sustainable Communities for Learning and other invest to save schemes funded by borrowing, may help to reduce future costs.
3	**Have we been working collaboratively with other organisations to come to this decision, if so, please advise whom:**	Treasury Management activities often fund capital projects in partnership with other organisations, such as Welsh Government. The 21st Century Schools Programme / Sustainable Communities for Learning new schools/extensions were / are funded with significant funding from Welsh Government.
4	**Have Anglesey citizens played a part in drafting this way forward? Please explain how:-**	Anglesey Citizens are consulted each year about the annual capital programme, some of which is dependent on Treasury Management activities. More in-depth consultation occurs on some capital projects such as new school builds / school reorganisations.
5	**Note any potential impact that this decision would have on the groups protected under the Equality Act 2010.**	Newly built assets funded by borrowing will be compliant with the Equality Act and related regulations and guidance. Annual refurbishments and replacement programmes also help to increase accessibility and enable diversity.
6	**If this is a strategic decision, note any potential impact that the decision would have on those experiencing socio-economic disadvantage.**	The TMSS is required each year.
7	**Note any potential impact that this decision would have on opportunities for people to use the Welsh language and on treating the Welsh language no less favourably than the English language.**	Some of the projects funded by borrowing have a positive impact on the development and increase of the Welsh Language, such as the Welsh medium schools built as part of the 21st Century Schools Programme / Sustainable Communities for Learning Programme.

E – Who did you consult?		What did they say?
1	**Chief Executive / Leadership Team (LT)** (mandatory)	
2	**Finance / Section 151**(mandatory)	N/A – this is the Section 151 Officer's report.
3	**Legal / Monitoring Officer** (mandatory)	
4	**Human Resources (HR)**	
5	**Property**	
6	**Information Communication Technology (ICT)**	
7	**Procurement**	
8	**Scrutiny**	
9	**Local Members**	
10	**Other**	

F - Appendices:

1. Treasury Management Key Principles
2. Economic background
3. Interest rate forecasts
4. Loan maturity profile
5. MRP Policy Statement
6. Specified and non-specified investments
7. Counterparty criteria
8. Approved countries for investments
9. Treasury management scheme of delegation and the role of the Section 151 Officer
10. Prudential and Treasury Indicators
11. Explanation of Prudential and Treasury Indicators
12. Glossary of, and information on, Prudential & Treasury Management indicators

FF - Background papers (please contact the author of the Report for any further information):

- 2024/25 Treasury Management Strategy Statement, approved by the full Council on 7 March 2024
- Annual Treasury Management Review 2023/24, approved by the full Council on 22 October 2024
- 2023/24 Capital Outturn Report, presented to this Committee on 23 July 2024
- 2024/25 Capital Budget Monitoring Quarter 2, presented to the Executive on 26 November 2024
- 2024/25 Treasury Management Mid-Year Report, presented to this Committee on 11 February 2025
- 2025/29 Capital Strategy – Isle of Anglesey County Council, 6 March 2025

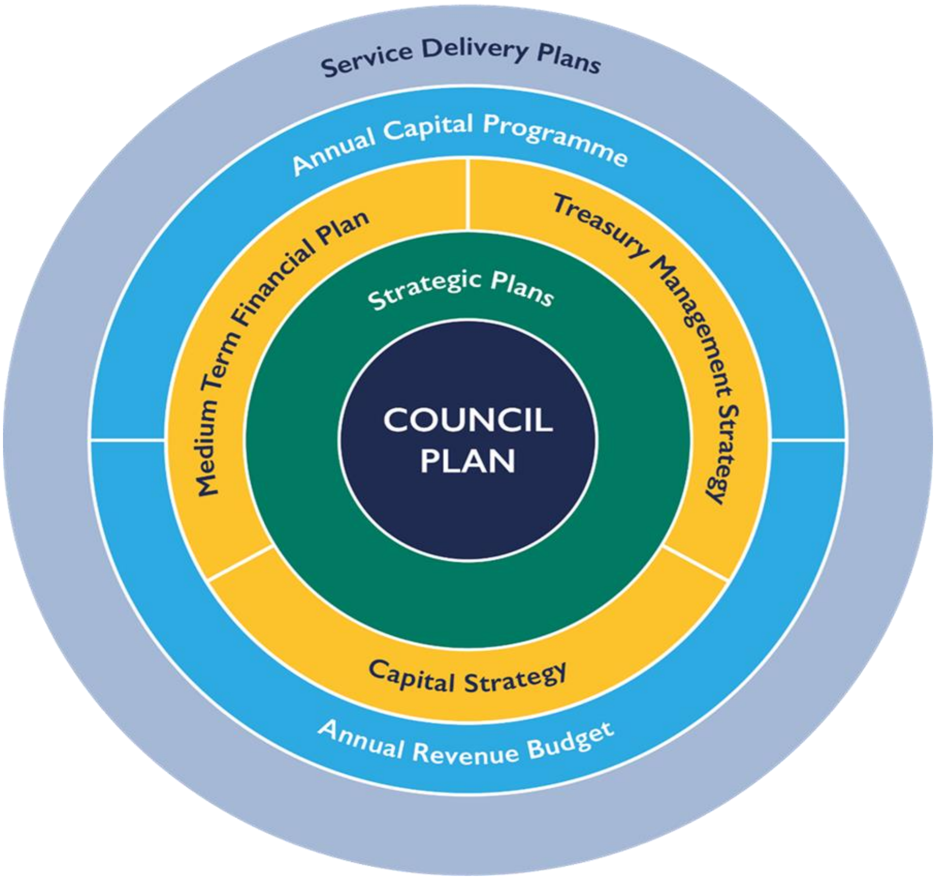
TREASURY MANAGEMENT STRATEGY STATEMENT

ANNUAL INVESTMENT STRATEGY, MINIMUM REVENUE PROVISION POLICY STATEMENT AND TREASURY MANAGEMENT POLICY STATEMENT 2025/26

1. INTRODUCTION

1.1 The Treasury Management Strategy Statement (TMSS) 2025/26 provides the framework for day-to-day and medium-term treasury management. It is completed with regard to the CIPFA Prudential Code 2021 and the CIPFA Treasury Code 2021.

1.2 The TMSS is a key part of the Council's strategic planning processes to help ensure that the Council is able to achieve its strategic objectives and vision. The Council's strategic circle below shows the Council Plan is central to the work of the Council. All the Council's strategic and operational plans must align with the Council Plan to deliver the services and priorities needed to achieve the strategic objectives of the Plan. The circle shows that the Treasury Management Strategy Statement, alongside the Capital Strategy and Medium-Term Financial Plan, are the key financial strategies to ensure that the Council's financial resources are managed in line with key legislation, CIPFA requirements and are focused on meeting the priorities of the Council. This helps ensure that the Council's finances are targeted at the right functions and services to achieve the Council's goals.



2. BACKGROUND

2.1. 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*."

2.2. Treasury management involves tasks which ensure that there is enough cash in the Council general account to pay day-to-day bills and the investment of surplus cash, over what is needed in the general account. These investments must be in highly secure accounts, such as UK banks with high credit ratings. The Council prioritises security of its funds, in line with the Code, and ensures that enough cash is instantly accessible so that the Council is able to pay suppliers, staff and benefits, at the required payment dates. The last consideration is yield, the Council invests to get the highest interest rate possible within the pool of organisations that are secure and meet the criteria in this strategy. The final element of Treasury Management is managing the Council's loan portfolio to ensure that the Council's borrowing is not too high and that the revenue costs of borrowing are affordable.

2.3. The contribution the treasury management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will, in effect, result in a loss to the Council's cash reserves.

3. ISLE OF ANGLESEY TREASURY MANAGEMENT POLICY STATEMENT

3.1 In addition to the corporate risk policies, register, actions and monitoring, the Council takes its responsibility for good stewardship of public funds seriously and all treasury management practices will have protection of public funds engrained. It is impossible to eliminate all risk, but all treasury management activities will be managed to reduce the risk Council funds are exposed to, as follows:-

3.1.1 Investment decisions will always prioritise security of the investment first. Liquidity is the second consideration, as the Council needs instant access to enough funds to pay day-to-day payments as they fall due. Finally, the Council will seek to maximise income earned on investments only if the investments are highly secure and if there is sufficient instant access to funds.

3.1.2 Bank deposits, or investments in banks or building societies, will only be placed in highly secure banks and building societies with high credit ratings in line with the criteria included in Appendix 7.

3.1.3 Loans to local authorities will be considered after due diligence checks have been completed.

3.1.4 Investments in AAA rated money market funds are permitted.

3.1.5 The Council will aim to keep a minimum of £10m in instant access accounts, if Council balances are sufficient.

3.1.6 The Council is committed to ensuring value for money in its treasury management activities, though within the context of protection of public funds.

3.1.7 The Council will internally borrow if there is sufficient cash balances, particularly when interest rates are rising, to reduce or delay interest payable.

3.1.8 If there is a borrowing need for eligible purposes, any borrowing should take into account whether rates are likely to rise or reduce in the medium-term. Short-term loans should mitigate interest payable if rates are likely to reduce in the short or medium-term, and longer-term loans should be considered if interest rates are forecast to increase in the medium to long-term.

3.1.9 Treasury management activity supports the achievement of the Council's key priorities and will be aligned with the Capital Strategy and the Medium-Term Financial Plan to ensure that investments are secure, accessible and interest receivable is optimised within secure investments. Borrowing will be based on the requirements of the Capital Strategy 2024/28 and annual programmes, but only if affordable, taking into account the financial scenario at the time and information in the Medium-Term Financial Plan, which is updated regularly.

3.1.10 Setting the Treasury Management Strategy cannot be undertaken in isolation, and consideration must be given to the economic situation, as this has an impact on investment interest rates, the cost of borrowing and the financial strength of counterparties**.**

4. EXTERNAL CONTEXT

4.1 A full summary of the economic outlook is set out in Appendix 2. Table 1 below shows the recent Bank of England base rate forecasts, inflation and PWLB rates provided by MUFG Corporate Markets, Limited. (MUFG).

Table 1
Forecast Bank Base Rate, Inflation and PWLB Rates March 2025 to December 2026

	Mar 2025	Jun 2025	Sep 2025	Dec 2025	Mar 2026	June 2026	Sept. 2026	Dec. 2026
Bank Rate (%)	4.50%	4.25%	4.00%	4.00%	3.75%	3.75%	3.75%	3.50%
Inflation (OBR October 2024)	2.60%	2.60%	2.60%	2.60%	2.30%	2.30%	2.30%	2.30%
5yr PWLB rate (%)	4.90%	4.80%	4.60%	4.50%	4.50%	4.40%	4.30%	4.20%
10yr PWLB rate (%)	5.10%	5.00%	4.80%	4.80%	4.70%	4.50%	4.50%	4.40%
25yr PWLB rate (%)	5.50%	5.40%	5.30%	5.20%	5.10%	5.00%	4.90%	4.80%
50yr PWLB rate (%)	5.30%	5.20%	5.10%	5.00%	4.90%	4.80%	4.70%	4.60%

4.2 The Bank of England's (BoE) target inflation, set by the Government, is 2%. Inflation started to creep up beyond this from August 2021, with the CPI rate reaching a high of 11.1% in October 2022 due to the impact of the invasion of Ukraine, which caused significant energy and food price increases. Inflation remained high for longer than anticipated, but started to decrease in April 2023, to 8.7%, with CPI reducing to 7.9% at the end of the first quarter of 2023/24. In 2024/25, inflation has reduced significantly, to the BoE target of 2% achieved in June 2024. Inflation rates continued to decrease in the second quarter, with CPI at 1.7% at 30 September 2024. While the forecasts of CPI for 2025 and 2026 are higher than the 2% target (see Inflation forecast by OBR, October 2024, above in Table 1), these rates are significantly better than in 2022 and 2023.

4.3 At the start of the pandemic, the base rate was reduced to its lowest point at 0.1% in support of the economy. In December 2021, the BoE increased the rate to 0.25%, and then increased the base rate at each meeting of the Monetary Policy Committee (MPC) between 0.25% to 0.75% at its highest increase. In August 2023, the MPC increased the base rate to 5.25%. The rate of 5.25% remained unchanged until 1 August 2024, when the base rate was reduced for the first time since 2020, to 5%, which was also the rate at 30 September 2024. The base rate has since reduced to 4.75%, and the markets are expecting a further cut on 6 February 2025 to 4.5%

4.4 The Council benefits from a higher base rate for investment of surplus cash, which has helped the Council earn more than £1m in interest receivable. However, loans to the Council are more expensive since the BoE started raising interest rates to try to control inflation. External borrowing is, therefore, delayed until cash balances can no longer sustain the use of Council balances to fund capital expenditure (internal borrowing).

5. THE COUNCIL'S CURRENT BORROWING POSITION

5.1 Borrowing PWLB – the Council's PWLB loan portfolio at 31 December 2024 is £117.693m as shown below in Table 2 below. The average rate across both maturing and annuity loans is 4.48%. The significant majority of loans are maturity loans which are repaid at the end of the loan period. Appendix 3 shows the repayment dates of the PWLB loans. No new PWLB loans were taken out during the year to 31 December 2024. This is due to the need to avoid borrowing while interest rates are increasing. Instead, Council cash balances have been used to fund capital expenditure. This is in line with MUFG advice on borrowing in the current economic climate. The opportunity cost of this is that there are less balances to invest, however, borrowing costs are higher than investment yields. To ensure the Council has enough cash to pay creditors and salaries, sufficient cash must remain in instant call accounts. Typically, the interest rates on these are much lower, so the Council is still able to make reasonable savings on interest payable while using cash balances.

Table 2
Public Works Loans Board (PWLB)

PWLB Loans at 31 December 2024			
	PWLB Maturity £'000	**PWLB EIP/ Annuity £'000**	**Total PWLB Loans at 31 December 2024 £'000**
Loan Outstanding	117,546	147	117,693
Average Life of Outstanding Loans (years)	28.64	3.77	28.61
Average rate (%)	4.47%	9.42%	4.48%

5.2 Borrowing Salix – Salix is a Welsh Government organisation which provides interest free loans and, more recently, grants for projects which support the environment and to help public sector bodies in Wales to work towards achieving their net zero target by 2030. The Council had £4.393m of interest free loans outstanding with Salix at 31 December 2024. These loans are repaid over a period of 8 or 10 years, depending on the agreement, with 2 repayments made per year, per loan. These loans have funded LED street lighting, LED lighting in schools and leisure centres and various other sustainable projects. Appendix 4 shows the payments due for each relevant financial year.

Table 3
Salix Loans at 31 December 2024

Salix Loans at 31 December 2024						
	Salix Loan 2 £'000	Salix Loan 3 £'000	Salix Loan 4 £'000	Salix Loan 5 £'000	Salix Loan 6 £'000	TOTAL £'000
Outstanding Balance	46	254	119	1,543	2,431	**4,393**
Repayment Date	2025/26	2027/28	2029/30	2031/32	2035/36	
Interest rate (%)	-	-	-	-	-	**-**

6. THE COUNCIL'S INVESTMENT BALANCES AS AT 31 DECEMBER 2024

6.1 The total balance of investments at 31 December 2024 was £22.541m, as shown in Table 4 below. The yield from these investments from 1 April 2024 to 31 December 2024 was £1.207m, with the total interest receivable on the below listed investments expected to be £1.552m for 2024/25. This figure is likely to be higher as new investments are made when these mature, however, cash balances are reducing as the financial year progresses, therefore, not all these investments will be viable to renew on maturity. The interest receivable will be shared on the appropriate basis between the Council Fund, the HRA, schools and external bodies the Council holds funds for, including the Trusts.

Table 4
Investments 1 April 2024 to 31 December 2024

Counterparty	Start Date	End Date	Interest Rate %	Investment Amounts 1 April to 31 December 2024 £	Investment Principal at 31 December 2024 £	Estimated Interest earned to 31 December 2024 £	Estimated Total Interest 2024/25 on these Investments £
Natwest Call Account	01/04/2024	31/03/2025	Variable	11,758,959	6,659,695	266,374	422,199
Nationwide Building Society	08/01/2024	08/04/2024	5.11%	5,000,000	-	63,700	63,700
Santander Uk Plc	09/02/2024	09/05/2024	5.19%	5,000,000	-	63,986	63,986
National Westminster	11/03/2024	11/06/2024	5.23%	5,000,000	-	65,912	65,912
Bank of Scotland Call Account - Lloyds	01/04/2024	31/03/2025	Variable	7,692,214	3,881,375	198,489	352,676
Goldmansachs International Bank	08/04/2024	08/10/2024	5.29%	5,000,000		132,612	132,612
Santander	09/05/2024	08/11/2024	5.07%	5,000,000	-	127,097	127,097
National Westminster	09/05/2024	09/08/2024	5.14%	5,000,000	-	64,778	64,778
National Westminster	11/06/2024	11/12/2024	5.23%	5,000,000	-	131,108	131,108
Santander Uk Plc	08/11/2024	10/02/2025	4.68%	5,000,000	5,000,000	33,978	60,263
Goldmansachs International Bank	08/10/2024	08/01/2025	4.78%	5,000,000	5,000,000	55,003	60,241
Bank of Scotland Call Account - Lloyds	16/12/2024	15/01/2025	4.75%	2,000,000	2,000,000	3,904	7,808
Total					**22,541,071**	**1,206,943**	**1,552,381**

7. IMPACT OF FUTURE PLANS ON BORROWING

7.1 Capital expenditure is partly funded from borrowing, therefore, the Capital Strategy and this strategy are closely linked. The capital expenditure summary 2025/26 to 2027/28 presents three options for capital expenditure. All three scenarios take into account the work needed on the Council's assets or whether replacement assets will be needed. The three options are presented as the base case, ambitious and ideal scenarios, with the ideal requirement being the amounts to bring all the Council assets to a high standard or new asset where replacements are needed. The capital expenditure in this strategy uses the first scenario –the base case, due to the significant funding shortfall for 2025/26 and, potentially, for the years beyond.

7.2 Table 5 below shows estimated expenditure and funding for the period 2023/24 to 2028/29. For 2025/26 onwards, this is the minimum level of capital investment due to significant funding issues.

Table 5
Estimated Capital Expenditure and Funding 2023/24 to 2028/29

	Actual 2023/24 £'000	Estimated 2024/25 £'000	Estimated 2025/26 £'000	Estimated 2026/27 £'000	Estimated 2027/28 £'000	Estimated 2028/29 £'000
Council Fund - excl. Investment Properties	27,924	39,162	22,207	8,315	7,196	7,061
HRA	19,806	27,841	25,438	26,266	11,368	10,969
Investment Properties	2,844	0	0	0	0	0
Total Expenditure	**50,574**	**67,003**	**47,645**	**34,581**	**18,564**	**18,030**
Capital Grants	29,936	41,670	29,677	14,543	5,351	5,351
Capital Receipts	98	940	500	0	0	0
Reserves & Revenue Contributions	16,376	16,573	7,893	8,983	7,962	8,337
Supported Borrowing	3,991	5,027	3,163	2,126	2,126	2,126
Unsupported Borrowng	38	2,777	6,412	8,929	3,125	2,216
Salix Loans	135	16	0	0	0	0
Total funding	**50,574**	**67,003**	**47,645**	**34,581**	**18,564**	**18,030**

7.3 An important factor to consider is the impact of borrowing on the Council's Capital Financing Requirement (CFR). The CFR is the measure of the Council's underlying borrowing need. Borrowing is not limited to external borrowing from PWLB but also the use of the Council's own cash balances (internal borrowing) which have been used to fund capital expenditure. While internal borrowing saves the Council in interest payable costs, the Minimum Revenue Provision (MRP) is charged on the basis of the underlying borrowing need (the CFR), not the actual borrowing. Table 6 shows the CFR for both the Council Fund and the HRA, after the MRP has been deducted. Table 7 shows the actual borrowing taken out by the Authority. The difference between the CFR and the actual borrowing is the amount of internal borrowing. This is also shown in Table 7.

Table 6
Capital Financing Requirement

	Actual 2023/24 £'000	Estimated 2024/25 £'000	Estimated 2025/26 £'000	Estimated 2026/27 £'000	Estimated 2027/28 £'000	Estimated 2028/29 £'000
CFR - Council Fund	108,542	111,141	117,333	119,949	121,352	122,725
CFR - HRA	38,151	38,083	37,057	42,118	49,718	51,409
Total CFR	**146,693**	**149,224**	**154,390**	**162,067**	**171,070**	**174,134**
Net movement in CFR	**2,583**	**2,530**	**5,166**	**7,677**	**9,003**	**3,064**

Table 7
Actual Borrowing and Internal Borrowing (Use of Cash Balances)

	Actual 2023/24 £'000	Estimated 2024/25 £'000	Estimated 2025/26 £'000	Estimated 2026/27 £'000	Estimated 2027/28 £'000	Estimated 2028/29 £'000
External Borrowing	122,410	122,163	124,705	132,899	141,789	146,756
Internal Borrowing	24,283	27,061	29,685	29,168	29,281	27,378
Total CFR	**146,693**	**149,224**	**154,390**	**162,067**	**171,070**	**174,134**

7.4 Capital expenditure will increase the CFR but only by the sum that is not funded from grants, capital receipts, reserves or revenue. The CFR will also reduce annually by the sum of the MRP which is charged to revenue. The level of the CFR is an important measure to ensure that the Council does not commit itself to unaffordable levels of borrowing.

7.5 In order to ensure that the Council has sufficient funds available to repay debt as it falls due, the Council is required to make a charge to the revenue account each year, and this charge is known as the MRP. Regulations require that the Council approves a MRP statement in advance of each financial year. The policy for 2025/26 is set out in Appendix 5. The Council's MRP policy was substantially revised in 2018, and again for the financial year beginning 1 April 2022. By making the MRP charge each year, the Council's cash balances are replenished and that, in turn, reduces the level of internal borrowing.

7.6 The Council may choose to pay more MRP in any given year. These overpayments of MRP (which, in the Council's case, are to ensure enough cash for loan repayments) can, if needed, be reclaimed in later years. Up until 31 December 2024, the total overpayments were £216k, and related specifically to the Salix loans where the MRP charged to the revenue account has been calculated on the basis of the life of the loan rather than on the life of the asset which was funded by the loan. This ensures that the Council has sufficient cash to repay the loans when they become due for repayment.

8. BORROWING STRATEGY

8.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the CFR) has not been fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent, as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy.

Against this background, and the risks within the economic forecast, caution will be adopted with the 2025/26 treasury operations. The Section 151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:-

- If it was felt that there was a significant risk of a sharp FALL in borrowing rates, then 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.
- MUFG's long-term (beyond 10 years) forecast is 3%. All PWLB certainty rates are currently significantly above this rate. Therefore, better value can be gained from short-term investments until the bank rates reduce.

8.2 External v Internal Borrowing

8.2.1 Current conditions indicate a need for a flexible approach to the choice between internal and external borrowing. However, it remains the case that there are certain limitations to externalise borrowing. Careful on-going consideration needs to be given to the difference between borrowing rates and investment rates to ensure the Council obtains value for money once an appropriate level of risk management has been attained to ensure the security of its investments.

8.2.2 In favour of internalisation, over the medium term, investment rates are expected to continue to be below long-term borrowing rates. This means that value for money considerations would indicate that value could best be obtained by avoiding new external borrowing and by using internal cash balances to finance new capital expenditure, or to replace maturing external debt (this is referred to as internal borrowing). This would maximise short term savings.

8.2.3 However, short term savings by avoiding new long term external borrowing in 2025/26 must also be weighed against the potential for incurring additional long term extra costs by delaying unavoidable new external borrowing, as PWLB long term rates are now higher. Additionally, the cash flow implications of internalising borrowing require regular review and will limit the potential extent of internalising borrowing.

8.3 Borrowing in Advance of Need

8.3.1 The Council will not borrow more than, or in advance of, its needs, purely, in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved CFR 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.

8.4 Debt Rescheduling

8.4.1 Rescheduling of current borrowing in our debt portfolio may be considered whilst premature redemption rates remain elevated, but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate.

8.4.2 All rescheduling will be reported to the Governance & Audit Committee at the earliest practicable meeting following its action.

8.5 Borrowing from other Financial Institutions

8.5.1 The PWLB is the Council's main source of borrowing, with some loans from the Welsh Government owned organisation, Salix, for funding of energy efficiency and low carbon projects. The PWLB certainty rate is gilts & 80 basis points (0.8%). Consideration may be given to borrowing from the below:-

- Local authorities;
- UK Municipal Bond Agency – pooled loans;
- Corporate Loans;
- Money Market Funds.

9. DEBT PROFILE

9.1 Appendix 4 shows the maturity information of the Council's borrowing. The existing borrowing is due to be repaid in various years up to 2068/69. The Council aims to ensure that the repayment date is arranged so as to smooth out repayments as far as possible, but priority will be given to the interest rate payable when determining the type of loan (maturity or annuity) and the length of the loan.

Table 8
Maturity Profile of PWLB and Salix Loans, 31 December 2024

Number of Years until Loan Matures	Principal £'000
<1	577
1 to 3	5,403
4 to 6	5,359
7 to 10	3,128
11 to 14	6,411
15 to 22	17,994
23 to 33	50,251
34 to 50	32,963
TOTAL	**122,086**

10. INVESTMENT STRATEGY AND CREDITWORTHINESS POLICY

10.1 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 Council aims to have an agile investment strategy appropriate to optimise returns. Accordingly, while most cash balances are required in order to manage the ups and 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.

10.2 Management of Risk

The Isle of Anglesey County Council is one of the smallest local authorities in Wales. It receives the second lowest settlement from Welsh Government, with Merthyr Tydfil receiving the lowest. The Council does not have the large council balances some of the larger authorities hold, though there are larger councils with similar balances or less. Management of risk is the primary consideration for all of the Council's investments.

10.2.1 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, with the Council's risk appetite being for low-risk investments only.

10.2.2 Minimum acceptable **credit criteria** (Appendix 7) 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.

10.2.3 **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.

10.2.4 Investments can be specified or non-specified (Appendix 7 defines these and provides further information. The Council, in line with its requirement for investing in low risk investments, will only invest in specified investments.

- **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 in excess of one year and / or are more complex instruments which require greater consideration by Members and officers before being authorised for use.

10.2.5 Lending limits (amounts and maturity) for each counterparty will be set through applying the matrix table as set out in the Creditworthiness section of this strategy.

10.2.6 This Council will set a limit for the amount of its investments which are invested for longer than 365 days (see Appendix 10).

10.2.7 The Council will only invest in counterparties outside the UK if the credit ratings are AAA or above and if there are exceptional circumstances, such as the creditworthiness of UK investments are compromised. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** (see Appendix 9).

10.2.8 This Council has engaged **external consultants** to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Council in the context of the expected level of cash balances and need for liquidity throughout the year.

10.2.9 All investments will be denominated in **sterling.**

10.3 Creditworthiness Policy

10.3.1 The primary principle governing the Council's investment criteria is the security of its investments. After this main principle, the Council will ensure that:-

- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.
- It will only invest in counterparties which have credit ratings as outlined in Appendix 7.

10.3.2 As an additional layer to the minimum credit rating criteria described above, this Council also employs the creditworthiness service provided by MUFG.

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

- All credit ratings will be monitored daily. The Council 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 the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

10.3.4 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. Accordingly, when setting minimum sovereign debt ratings, the Council will not set a minimum rating for the UK.

10.4 Country Limits

The Council has determined that, with the exception of the UK, it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria, as at the date of this report, are shown in Appendix 8. This list will be added to or deducted from by officers should ratings change in accordance with this policy. In practice, investments tend to be placed in UK banks for security reasons. The list is included for the unlikely event of there being an exceptional need to invest in highly secure counterparties in other countries. For example, in the event of UK banks losing their creditworthiness and failing the specific Counterparties Council's criteria.

11. GOVERNANCE AND CONTROL

11.1 The Prudential Code reflects a move towards self-regulation for local authorities, and effective corporate governance is one of the key elements to the successful implementation of the Code.

11.2 Corporate Governance includes the following elements:-

- A formal role for the Section 151 Officer;
- Setting and monitoring of Prudential and Treasury Indicators;
- A scheme of delegation and a process of formal approval;
- Reporting on Treasury Management matters to Members.

11.3 Role of the Section 151 Officer and Members

11.3.1 The Section 151 Officer is responsible for ensuring that matters relating to Treasury Management and Capital Financing are taken into account and reported to the Executive / full Council for consideration, and that procedures are established to monitor performance.

11.3.2 The Section 151 Officer must ensure that prudential indicators are set and monitored in order to demonstrate the legislative requirement that the Council's financial plans are affordable.

11.3.3 Members also play an important role in not just authorising the relevant decisions but also in scrutinising treasury management processes, decisions and performance. In order to undertake this role, 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. In order to support the scrutiny role of the members of the Governance & Audit Committee, the Committee's members received training in treasury management, delivered by the appointed treasury management consultants on 14 September 2022. Further training will be arranged when required. The training needs of treasury management officers are regularly reviewed and addressed.

11.3.4 The Council officers involved in treasury management activities have comprehensive knowledge and skills for managing the treasury management function. The Section 151 Officer plays a key role in Treasury Management and approves or rejects any investments proposed by the team. The Council also provides training to increase the knowledge and skills for those responsible for management, delivery, governance and decision making.

11.3.5 A formal record of the training received by officers central to the Treasury function will be maintained by the Resources Performance Team. Similarly, a formal record of the treasury management / capital finance training received by Members will also be maintained by the Head of Democratic Services.

11.3.6 The Treasury Management Scheme of Delegation and a fuller explanation of the role of the Section 151 Officer is set out in Appendix 9.

12. TREASURY MANAGEMENT ADVICE

12.1 The Council uses MUFG Corporate Markets Treasury Limited (MUFG) (formerly called Link Group) as its external treasury management advisors. In accordance with procurement regulations, the Council retendered this service during early 2021, for the period 1 April 2021 to 31 March 2025, with an option to extend for two years, with Link Group, Treasury Solutions being the successful tender.

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

13. PRUDENTIAL AND TREASURY INDICATORS

13.1 The Prudential and Treasury Indicators set out in Appendix 10 cover affordability, prudence and sets out limits for capital expenditure, external debt, the liability benchmark and the maturity structure of borrowing. It is for the Council to set the Prudential Indicators and it is important to not just consider the indicators for each individual year in isolation, but also to consider the past performance and the future forecasts. A fuller explanation of the purpose of each indicator is set out in Appendix 10.

14. REPORTING

14.1 The Council is required to receive and approve, as a minimum, five main reports each year, which incorporate a variety of polices, estimates and actuals.

- Prudential and Treasury Management Indicators and Treasury Strategy - the first and most important report (this report) is forward looking and covers:-
- the Treasury Management Strategy (how the investments and borrowings are to be organised), including treasury management indicators;
- an Investment Strategy (the parameters on how investments are to be managed);
- a Minimum Revenue Provision (MRP) Policy (how residual capital expenditure is charged to revenue over time);
- a Treasury Management Policy Statement (definition of the policies and objectives of the treasury management function); and
- the capital plans (including the associated prudential indicators).

14.2 Quarterly treasury management monitoring reports - these will update Members with the progress of the capital position, amending prudential indicators as necessary and whether the treasury strategy is meeting its objectives or whether any policies require revision.

14.3 An annual treasury year-end report - this is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

14.4 The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Governance & Audit Committee for the mid-year and year-end reports. The Executive will scrutinise the quarter 1 and quarter 3 reports, which were introduced by the Prudential Code 2021.

15. CONCLUSION

15.1 In summary, the Treasury Management Strategy Statement for 2025/26 continues the strategy of prudent approach to borrowing, in order to limit the revenue implications, and using internal borrowing where cash balances allow. The investment strategy continues the policy of ensuring the security and liquidity of deposits over yield.

15.2 It is envisaged that, over the lifetime of the strategy, that the continued use of reserves to contribute to fund the revenue budget and the use of the Housing Revenue Account to fund capital expenditure will reduce cash balances significantly. An increased level of borrowing will have to be undertaken in order to fund the Council's capital programme, whilst still maintaining sufficient cash balances to fund liabilities as they fall due.

APPENDIX 1

The CIPFA Treasury Management in the Public Services: Code of Practice – provided by MUFG Corporate Markets Treasury Limited (formerly Link Group)

The key principles of CIPFA's ***Treasury Management in the Public Services: Code of Practice (2021 Edition)***, as described in Section 4 of that Code are as follows:-

Key Principle 1:
Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

Key Principle 2:
Their policies and practices should make clear that the effective management and control of risks are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds.

Key Principle 3:
They should acknowledge that the pursuit of value for money in treasury management and the use of suitable performance measures are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that, within the context of effective risk management, their treasury management policies and practices should reflect this.

The Code then goes on to say that:-

"In framing these recommendations, CIPFA acknowledges the difficulties of striving for effective risk management and control, whilst at the same time pursuing value for money. This Code does not seek to be prescriptive about how this issue should be handled, particularly since it covers such a wide variety of organisations. However, where appropriate, the sector specific guidance notes give suitable advice. CIPFA recognises that no two organisations in the public services are likely to tackle this issue in precisely the same manner, but success in this area of treasury management is likely to be viewed, especially in value for money terms, as an indicator of a strongly performing treasury management function."

"It is CIPFA's view that throughout the public services the priority is to protect capital rather than to maximise return. The avoidance of all risk is neither appropriate nor possible. However, a balance must be struck with a keen responsibility for public money."

Accordingly, the Authority will adopt, as part of the standing orders, the following four clauses:-

1. The Authority will create and maintain, as the cornerstones for effective treasury management:-

- a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities; and

- suitable treasury management practices (TMPs) setting out the manner in which the Authority will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the Policy Statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the Authority. Such amendments will not result in the Authority materially deviating from the Code's key principles.

2. The County Council, Executive Committee and the Governance & Audit Committee will receive reports on the Authority's treasury management policies, practices and activities, including: an annual strategy and plan in advance of the year, a mid-year review report and an annual report after its close, in the form prescribed in the TMPs.

3. The County Council / Executive Committee are responsible for the implementation of the Authority's treasury management policies and practices in accordance with the Treasury Management Scheme of Delegation. The Section 151 Officer is responsible for the execution and administration of treasury management decisions, who will act in accordance with the Authority's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

4. The Authority nominates the Governance & Audit Committee to be responsible for ensuring effective scrutiny of treasury management strategy and policies.

Economics and Interest Rate update - produced by MUFG Corporate Markets Treasury Limited (formerly Link Group)

- The third quarter of 2024/25 (October to December) saw:
  - GDP growth contracting by 0.1% m/m in October following no growth in the quarter ending September;
  - The 3myy rate of average earnings growth increase from 4.4% in September to 5.2% in October;
  - CPI inflation increase to 2.6% in November;
  - Core CPI inflation increase from 3.3% in October to 3.5% in November;
  - The Bank of England cut interest rates from 5.0% to 4.75% in November and hold them steady in December.
  - 10-year gilt yields starting October at 3.94% before finishing up at 4.57% at the end of December (peaking at 4.64%).

The 0.1% m/m fall in GDP in October was the second such decline in a row and meant that GDP would need to rise by 0.1% m/m or more in November and December, for the economy to grow in Q4 as a whole rather than contract. With on-going concern over the impact of the October budget and drags from higher interest rates and weak activity in the euro zone, our colleagues at Capital Economics have revised down their forecast for GDP growth in 2025 to 1.3% (it was initially 1.8% in the immediate wake of the Budget.)

This quarter saw the composite activity Purchasing Manager Index (PMI) dip below the level of 50 that separates expansion from contraction for the first time since October 2023. Although December's composite PMI came in above this level, at 50.5, this was still consistent with the 0% rise in real GDP in Q3 being followed by a flat-lining, or potential contraction, in the final quarter of 2024. However, the economy is unlikely to be quite as weak as that given that the PMIs do not capture rises in government spending, but the data does underline the continued divergence in trends between the manufacturing and services sectors. The manufacturing PMI fell for its fourth consecutive month in December, from 48.0 in November to 47.3. That's consistent with manufacturing output falling by 1.5% q/q in the final quarter of 2024 after flatlining through the summer months. This weakness in the manufacturing sector was offset by a rebound in the services sector. The services PMI rose from 50.8 in November to 51.4 in December, which is consistent with non-retail services output growth increasing from +0.1% q/q to +0.3% for October - December. This suggests that more of the recent slowdown in GDP is being driven by the weakness in activity overseas rather than just domestic factors. Additionally, the services output prices balance rose for the third consecutive month, from 55.4 in November to 56.9, showing signs that price pressures are reaccelerating.

After rising by 1.4% q/q in July - September, the retail sector had a difficult final quarter of the year. Indeed, the bigger-than-expected 0.7% m/m fall in retail sales in October (consensus forecast -0.3% m/m) suggested that households' concerns about expected tax rises announced in the Budget on 30th October contributed to weaker retail spending at the start of the quarter. The monthly decline in retail sales volumes in October was reasonably broad based, with sales in five of the seven main sub sectors slipping. However, the potential for seasonally adjusted sales to rise in November - if October's figures were impacted by the timing of the school half term – combined with a rebound in consumer confidence and rising real incomes, points to some promise to the final quarter of 2024

The Government's October budget outlined plans for a significant £41.5bn (1.2% of GDP) increase in taxes by 2029/30, with £25bn derived from a 1.2% rise in employers' national insurance contributions. The taxes are more than offset by a £47bn (1.4% of GDP) rise in current (day-to-day) spending by 2029/30 and a £24.6bn (0.7% of GDP) rise in public investment, with the latter being more than funded by a £32.5bn (1.0% of GDP) rise in public borrowing. The result is that the Budget loosens fiscal policy relative to the previous government's plans - although fiscal policy is still being tightened over the next five years – and that GDP growth is somewhat stronger over the coming years than had previously been forecasted. By way of comparison, the Bank of England forecasts four-quarter GDP growth to pick up to almost 1¾% through 2025 (previously forecast to be 0.9%) before falling back to just over 1% in 2026.

December's pay data showed a rebound in wage growth that will likely add to the Bank of England's inflationary concerns. The 3myy rate of average earnings growth increased from 4.4% in September (revised up from 4.3%) to 5.2% in October (consensus forecast 4.6%) and was mainly due to a rebound in private sector pay growth from 4.6% to 5.4%. Excluding bonuses, public sector pay stagnated in October and the 3myy rate fell from 4.7% to 4.3%.

The number of job vacancies also fell again from 828,000 in the three months to October to 818,000 in the three months to November. This marks the first time it has dropped below its pre-pandemic February 2020 level of 819,000 since May 2021. Despite this, the Bank of England remains concerned about the inflationary influence of high wage settlements as well as the risk of a major slowdown in labour market activity.

CPI inflation has been on the rise this quarter, with the annual growth rate increasing from 1.7% in September to 2.3% in October, before rising further to 2.6% in November. Although services CPI inflation stayed at 5.0% in November, the Bank had expected a dip to 4.9%, while the timelier three-month annualised rate of services CPI rose from 5.0% to 5.1%. That shows that there currently isn't much downward momentum. Moreover, the wider measure of core CPI inflation rose from 3.3% to 3.5% in November. Both services and core inflation are currently at rates well above those consistent with the 2.0% target and are moving in the wrong direction. Capital Economics forecast that after dipping to 2.5% in December, CPI inflation will rise further in January, perhaps to 2.8%. Although CPI inflation is expected to be back at close to the 2.0% target by the end of 2025, given that a lot of the rise in inflation in the coming months will be due to base effects that won't persist, the potential for a broader set of tariffs to arise from the US as well as the constant threat of geo-political factors to impact energy and food prices suggest risks remain very much to the upside.

Throughout the quarter gilt yields have risen. The 10-year gilt yield increased from 3.94% at the start of October to 4.57% by the year end (and has subsequently risen to 4.64% early in 2025). As recently as mid-September 10-year gilt yields were at their low for the financial year, but since then, and specifically after the Budget at the end of October, yields have soared. Overall, the reaction to the UK Budget highlights how bond markets are both fragile and highly attentive to news about the fiscal outlook.

The FTSE 100 started off this quarter at 8,276, before finishing up at 8,121. In particular, UK markets have continued to fall further behind US equities, a trend which has accelerated since Trump's election victory in November, partly due to the UK stock market being less exposed to AI hype, and it being weighed down by its relatively large exposure to the energy and materials sectors.

MPC meetings: 7th November & 18th December 2024

- On 7 November, Bank Rate was cut by 0.25% to 4.75%. The vote was 8-1 in favour of the cut, but the language used by the MPC emphasised "gradual" reductions would be the way ahead with an emphasis on the inflation and employment data releases, as well as geo-political events.
- At the 18 December meeting, another split vote arose. Members voted 6-3 to keep Bank Rate on hold at 4.75%, but dissenters (Dhingra, Ramsden and Taylor) were keen for rates to be cut further as concerns over the slowing down of the UK economy took root, despite near-term inflation fears remaining.
- The MPC again stated that "a gradual approach" to rate cuts "remains appropriate" and that policy will "remain restrictive for sufficiently long".

2. Interest rate forecasts

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

The latest forecast, updated on 11th November, sets out a view that both short and long-dated interest rates will start to fall once it is evident that the Bank of England has been successful in squeezing excess inflation out of the economy, despite a backdrop of stubborn inflationary factors and a tight labour market.

Following the 30th October Budget, the outcome of the US Presidential election on 6th November, and the 25bps Bank Rate cut undertaken by the Monetary Policy Committee (MPC) on 7th November, we significantly revised our central forecasts for the first time since May. In summary, our Bank Rate forecast is now 50bps – 75bps higher than was previously the case, whilst our PWLB forecasts have been materially lifted to not only reflect our increased concerns around the future path of inflation, but also the increased level of Government borrowing over the term of the current Parliament.

If we reflect on the 30th October Budget, our central case is that those policy announcements will be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% y/y by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be 2.7% y/y (Q4 2025) and 2.2% (Q4 2026) before dropping back in 2027 to 1.8% y/y.

The anticipated major investment in the public sector, according to the Bank, is expected to lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.

There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises, and a tepid GDP performance.

Our central view is that monetary policy is sufficiently tight at present to cater for some further moderate loosening, the extent of which, however, will continue to be data dependent. We forecast the next reduction in Bank Rate to be made in February and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank's Quarterly Monetary Policy Reports (February, May, August and November). Any movement below a 4% Bank Rate will, nonetheless, be very much dependent on inflation data in the second half of 2025.

Regarding our PWLB forecast, the short to medium part of the curve is forecast to remain elevated over the course of 2025, and the degree to which rates moderate will be tied to the arguments for further Bank Rate loosening or otherwise. The longer part of the curve will also be impacted by inflation factors, but there is also the additional concern that with other major developed economies such as the US and France looking to run large budget deficits there could be a glut of government debt issuance that investors will only agree to digest if the interest rates paid provide sufficient reward for that scenario.

Moreover, Donald Trump's victory in the US President election paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of any further tax cuts and an expansion of the current US budget deficit.

Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks abound.

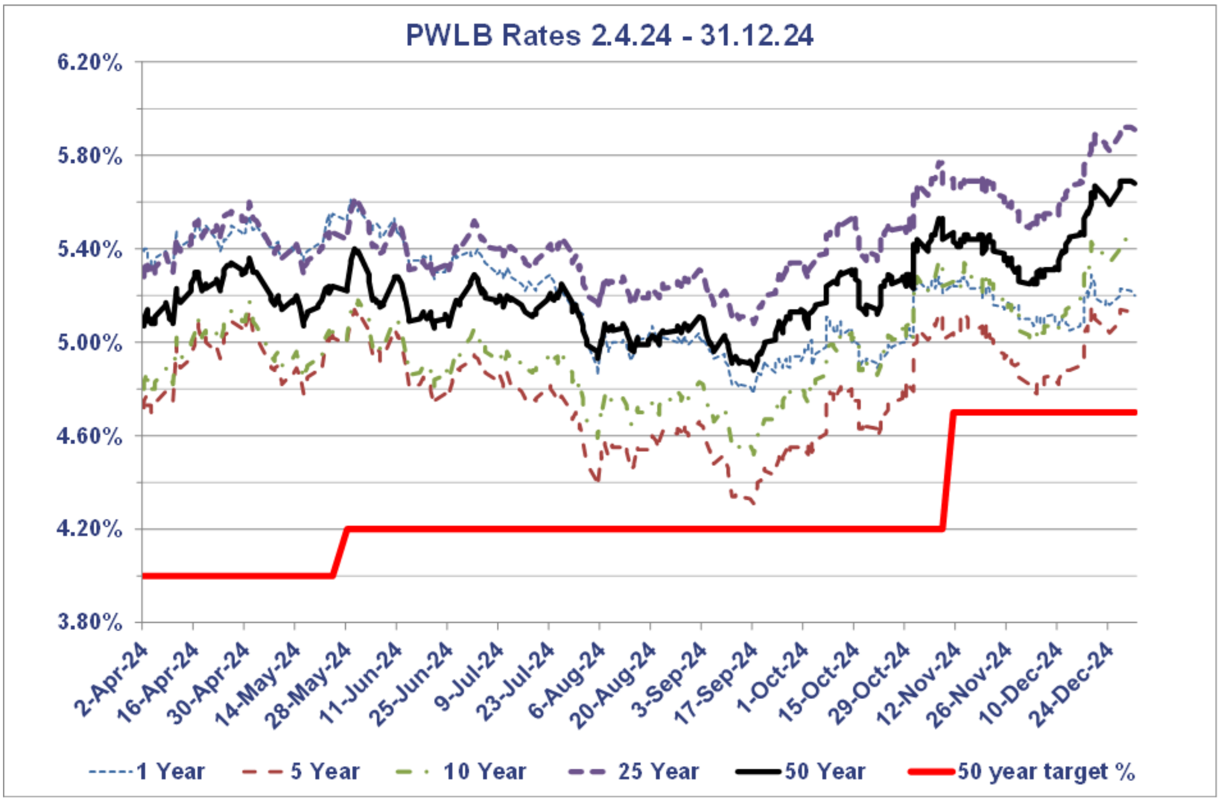
In summary, regarding PWLB rates, movement in the short-end of the curve is expected to reflect Link's Bank Rate expectations to a large degree, whilst medium to longer-dated PWLB rates will remain influenced not only by the outlook for inflation, domestically and globally, but also by the market's appetite for significant gilt issuance (£200bn+ for each of the next few years). As noted at the Link November Strategic Issues webinars, there is upside risk to that part of our forecast despite the Debt Management Office skewing its issuance to the shorter part of the curve.

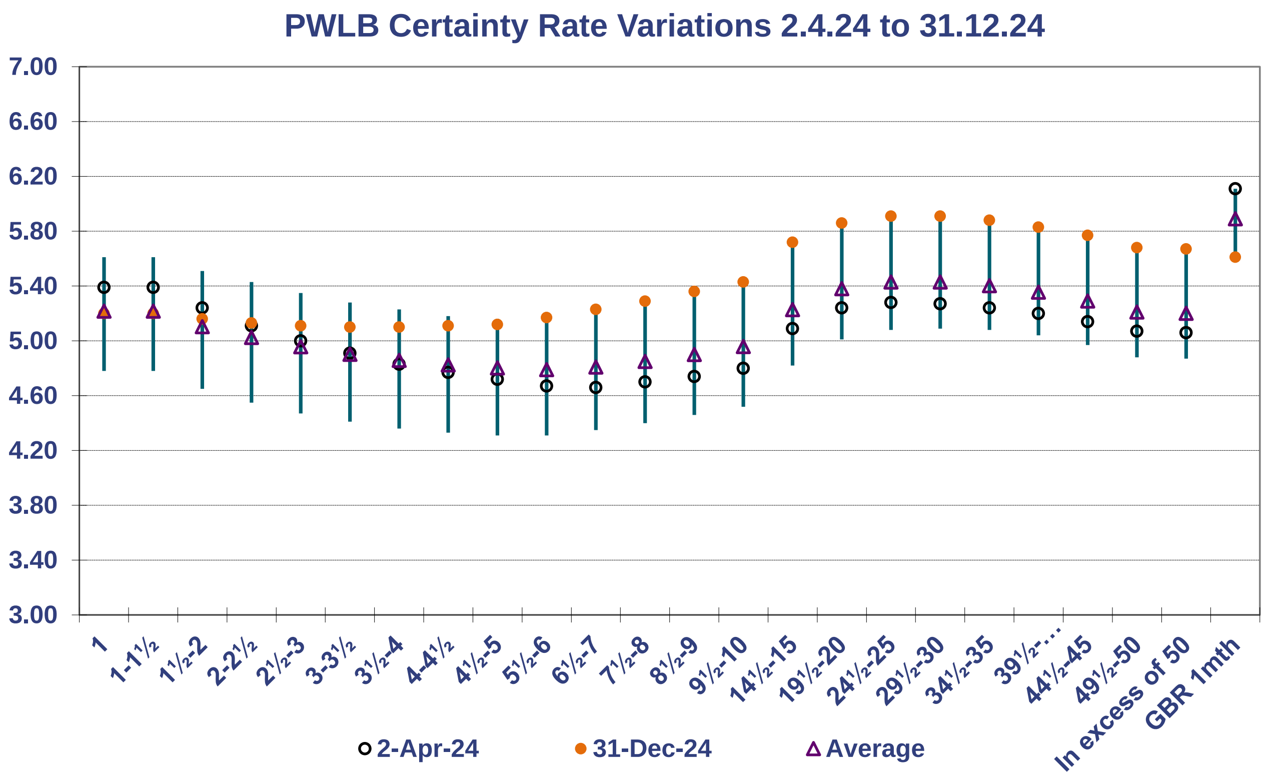
Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

- Money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.
- The Link forecast for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

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

PWLB RATES 2.4.24 to 31.12.24





HIGH/LOW/AVERAGE PWLB RATES FOR 02.04.24 – 31.12.24

	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2024	5.39%	4.72%	4.80%	5.28%	5.07%
31/12/2024	5.20%	5.12%	5.43%	5.91%	5.68%
Low	4.78%	4.31%	4.52%	5.08%	4.88%
Low date	17/09/2024	17/09/2024	17/09/2024	17/09/2024	17/09/2024
High	5.61%	5.16%	5.44%	5.92%	5.69%
High date	29/05/2024	19/12/2024	19/12/2024	19/12/2024	27/12/2024
Average	5.22%	4.80%	4.96%	5.43%	5.21%
Spread	0.83%	0.85%	0.92%	0.84%	0.81%

APPENDIX 3

PWLB Loans Repayment Dates at 31 December 2024

Financial year	Loan Maturity Date	Interest Rate %	Repayment Amount £
2026/27	01/04/2026	3.67	527,601
	30/09/2026	8.63	853,800
2026/27 Total			**1,381,401**
2027/28	01/04/2027	3.73	490,601
	19/08/2027	5.20	1,000,000
	30/09/2027	7.00	674,502
2027/28 Total			**2,165,103**
2028/29	01/04/2028	3.80	262,440
	01/03/2029	9.50	17,135
2028/29 Total			**279,575**
2029/30	01/04/2029	3.85	684,697
	09/05/2029	9.25	3,356
	06/06/2029	9.38	11,111
	01/09/2029	9.25	6,210
	30/09/2029	8.63	853,800
	06/12/2029	9.25	10,936
2029/30 Total			**1,570,110**
2030/31	01/04/2030	3.91	450,706
	09/05/2030	9.38	7,919
	01/09/2030	9.75	12,901
	09/11/2030	9.75	4,365
	06/12/2030	9.75	9,074
	01/03/2031	9.25	7,140
2030/31 Total			**492,105**
2031/32	01/04/2031	3.96	660,449
	30/09/2031	8.63	1,280,700
2031/32 Total			**1,941,149**
2032/33	01/04/2032	4.01	314,886
	06/06/2032	9.25	24,731
	06/12/2032	9.50	30,954
	01/03/2033	9.88	1,168
2032/33 Total			**371,739**
2033/34	01/04/2033	4.05	636,565
2033/34 Total			**636,565**
2034/35	01/04/2034	4.09	623,834
2034/35 Total			**623,834**
2035/36	01/04/2035	4.13	611,357
2035/36 Total			**611,357**
2036/37	01/04/2036	4.16	599,130
2036/37 Total			**599,130**
2037/38	01/04/2037	4.18	587,147
2037/38 Total			**587,147**
2038/39	01/04/2038	4.20	225,467
2038/39 Total			**225,467**

Financial year	Loan Maturity Date	Interest Rate %	Repayment Amount £
2039/40	15/04/2039	4.95	5,000,000
2039/40 Total			**5,000,000**
2040/41	15/04/2040	4.95	3,500,000
2040/41 Total			**3,500,000**
2042/43	01/04/2042	4.25	999,781
2042/43 Total			**999,781**
2043/44	01/04/2043	4.25	1,020,120
2043/44 Total			**1,020,120**
2044/45	01/04/2044	4.25	1,009,718
2044/45 Total			**1,009,718**
2045/46	01/04/2045	4.25	11,464,215
2045/46 Total			**11,464,215**
2050/51	16/01/2051	4.15	2,000,000
2050/51 Total			**2,000,000**
2052/53	19/05/2052	4.05	5,000,000
	12/10/2052	4.55	4,300,000
	09/11/2052	4.55	6,138,400
	20/11/2052	4.20	6,800,000
	11/12/2052	4.25	6,000,000
2052/53 Total			**28,238,400**
2054/55	06/05/2054	8.38	3,000,000
2054/55 Total			**3,000,000**
2055/56	15/11/2055	8.00	1,500,000
	15/12/2055	7.88	2,000,000
2055/56 Total			**3,500,000**
2056/57	15/04/2056	7.13	3,000,000
	10/10/2056	7.88	2,000,000
2056/57 Total			**5,000,000**
2057/58	15/04/2057	7.13	6,000,000
	15/10/2057	6.50	2,512,854
2057/58 Total			**8,512,854**
2059/60	22/06/2059	4.25	1,763,308
2059/60 Total			**1,763,308**
2064/65	25/03/2065	2.24	10,000,000
2064/65 Total			**10,000,000**
2066/67	30/03/2067	2.20	6,200,000
2066/67 Total			**6,200,000**
2068/69	16/01/2069	2.49	15,000,000
2068/69 Total			**15,000,000**
Grand Total			**117,693,078**

APPENDIX 4

Salix Loans Repayment Dates

Financial year	Salix Loan Repayments £
2025/26	577,033
2026/27	531,413
2027/28	531,413
2028/29	531,413
2029/30	454,613
2030/31	441,413
2031/32	441,413
2032/33	220,977
2033/34	220,977
2034/35	220,977
2035/36	220,977
Total	**4,392,618**

APPENDIX 5

Minimum Revenue Provision (MRP) Policy Statement 2025/26

The Council is required to pay off an element of the accumulated Council Fund and HRA capital spend funded by borrowing, each year (the Capital Financing Requirement - CFR) through a revenue charge (the minimum revenue provision - MRP),

The Welsh Government statutory guidance requires the Council to approve a MRP Statement in advance of each year. The guidance also states "if it is ever proposed to vary the terms of the original statement during the year, a revised statement should be put to the Council at that time". A variety of options is provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Policy Statement:-

From 1st April 2022, for all Council Fund and HRA capital expenditure funded by supported and unsupported borrowing (CFR), MRP will be charged on the asset life - annuity method at the Council's average interest rate on all of its loans at the end of each relevant year-end.

Capital expenditure incurred each year will not be subject to a MRP charge until the following financial year or, in some cases, at the discretion of the Section 151 Officer, the year after the asset becomes operational where the costs incurred on the asset are £5m or higher.
The estimated asset life of the asset would be determined in the year the MRP commences and would not change over the life of the asset. The estimated life periods will be set by the Section 151 Officer, based upon advice received from the relevant officers, and will have regard to statutory requirements and Welsh Government guidance in relation to MRP and asset life. Where land is purchased, the asset life will be based on the asset life of the asset placed on the land, which in the majority of cases will be 50 years, in line with the asset life for buildings.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. In addition, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

MRP Overpayments - Under the MRP guidance, any charges made in excess of the statutory MRP can be made, known as voluntary revenue provision (VRP).

The Council retains the right to make additional voluntary revenue provision (VRP) to reduce debt if deemed prudent for the Council Fund and / or the HRA

VRP can be reclaimed in later years if deemed necessary or prudent. In order for these amounts to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

Cumulative VRP overpayments made to date are £0.216m and £12.386m from the over-provision of MRP following the change in MRP policy in 2018.

Leased Assets into the Authority

MRP in respect of right of use assets leased into the Council or PFI (Private Finance Initiative) will, from 1 April 2024, be charged at an amount equal to the principal element of the annual repayment.

Capitalisation Directive

The Authority will apply the asset life method for any expenditure capitalised under a Capitalisation Direction.

Loans to Third Parties

In the exceptionally rare event of the Council providing a loan to a third party. For capital expenditure on loans to third parties where the principal element of the loan is being repaid in annual instalments. The capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP. Where no principal repayment is made in a given year, MRP will be charged at a rate in line with the life of the assets funded by the loan.

Specified and Non-Specified Investments

The Welsh Government 'Guidance on Local Government Investments' (effective from 1 April 2010) provides the definition of specified and non-specified investments.

Paragraph 5.1 of the 'Guidance' states that an investment is specified if all of the following apply:-

(a) the investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling; and

(b) the investment is not a long-term investment (*); and

(c) the making of the investment is not defined as capital expenditure by virtue of regulation 20(1)(d) of the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 [SI 3239 as amended]; and

(ch) the investment is made with a body or in an investment scheme of high credit quality (**); or with one of the following public-sector bodies:

- **(i)** the United Kingdom Government;
- **(ii)** a local authority in England or Wales (as defined in Section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland;
- **(iii)** a parish or community council.

The 'Guidance' also states that any investment not meeting the definition of paragraph 5.1 is classified as a non-specified investment.

During 2025/26, the Council does not intend to make any investments in foreign currencies, nor any with low credit quality bodies, nor any that are defined as capital expenditure by legislation (such as company shares). Non-specified investments will, therefore, be limited to (i) long-term investments; and (ii) deposits with the Council's own banker for transactional purposes if it fails to meet the basic credit criteria; in this instance, balances will be minimised as far as is possible

The table in Appendix 7 set out the investment criteria and limits for the categories of investments intended for use during 2025/26 and, therefore, form the basis for the approved lending list.

Any proposed revisions or amendments during the year to the categories of specified and non-specified investments to be used and / or to the associated credit rating criteria / investment limits will be subject to prior approval by the County Council.

Counterparty Criteria Investments

Category	Short Term Credit Rating (Fitch)	Short Term Credit Rating (Moody's)	Short Term Credit Rating (Standard & Poor's)	Long Term Credit Rating (Fitch)	Long Term Credit Rating (Moody's)	Long Term Credit Rating (Standard & Poor's)	Cash Limit	Time Limit
Bank and Building Societies (not nationalised or part nationalised)	F1+	P-1	A-1+	AAA	Aaa	AAA	£10m	5 years
	F1+	P-1	A-1+	AA	Aa2	AA	£10m	3 years
	F1+	P-1	A-1+	AA-	Aa3	AA-	£10m	364 days
	F1	P-1	A-1	A	A2	A	£7.5m	6 months
Nationalised / Part Nationalised UK Banks	n/a	n/a	n/a	n/a	n/a	n/a	£10m	364 days
NatWest Bank business account and cash manager – when amounts are held in the NatWest as part of operational banking. The following amounts and limits will apply to ensure adequate cash is available to pay bills as they fall due.	F1	P-1	A-1	A+	A1	A+	1) £20m to £25m 2) £15m to £20m 3) £10m to £15m	5 working days 1 month 2 months
UK Central Government (irrespective of credit rating)	n/a	n/a	n/a	n/a	n/a	n/a	No maximum	No maximum
UK Local Authorities*	n/a	n/a	n/a	n/a	n/a	n/a	£10m	364 days
Money Market Funds	n/a	n/a	n/a	AAA	AAA	AAA	£5m	6 months

**as defined in the Local Government Act 2003*

Notes and Clarifications

(1) Cash Limit

(i) The cash limits apply both to the individual counterparty and to the overall group to which it belongs (e.g. for the banks within the Lloyds Banking Group plc (being Bank of Scotland plc and Lloyds Bank plc), the investment limit applies to those banks individually and the banking group as a whole);

(ii) The overall cash limit for deposits over 364 days is £15m.

(2) Time Limit

(i) This up to and including the period indicated.

(3) Foreign Countries

(i) Investments in foreign countries will be limited to those that hold a sovereign credit rating of (Fitch) AAA or equivalent (from the agencies referred to in section 4.3 of this strategy) sovereign credit rating (based upon the lowest common denominator), and to a maximum of £5m per foreign country.

(ii) Investments in countries whose lowest sovereign rating is not AA or above will not be permitted. No country limit will apply to investments in the UK, irrespective of the sovereign credit rating.

(iii) Subsidiaries of foreign banking groups will normally be assessed according to the country of domicile of the parent organisation. However, Santander UK plc (a subsidiary of Spain's Banco Santander) will be classed as a UK bank due to its substantial UK franchises and the arms-length nature of the parent-subsidiary relationships.

(4) Credit Rating Downgrade

Should a credit rating downgrade place a counterparty below the minimum credit rating criteria for investment, the counterparty will cease to be used as soon as practicable.

If the Section 151 Officer wishes to continue investing with that counterparty, approval will be sought from the Chair of the Governance & Audit Committee plus one other member of the Chair's choosing, who both must approve the action. This will then be reported as appropriate at the next available opportunity.

Approved countries for investments [correct as at 25 November 2024]

This list is based on those countries which have sovereign ratings of AA- or higher (we show 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-

- U.K.

APPENDIX 9

Treasury management scheme of delegation

(i) County Council

- budget approval;
- approval of the annual Treasury Management Strategy Statement, Annual Investment Strategy and MRP Policy, annual Treasury Management Policy Statement and amendments thereto;
- approval of amendments to the Council's adopted clauses;
- receiving and reviewing monitoring reports on treasury management policies, practices and activities; and
- acting on recommendations received from the Governance & Audit Committee and / or Executive Committee.

(ii) Executive Committee

- budget consideration;
- approval of the division of responsibilities;
- approval of the selection of external service providers and agreeing terms of appointment;
- receiving and reviewing monitoring reports on treasury management policies, practices and activities and making recommendations to the County Council as appropriate; and
- acting on recommendations received from the Governance & Audit Committee.

(iii) Governance & Audit Committee

- Scrutiny of Treasury Management matters as required by CIPFA's Code of Practice on Treasury Management and the Council's Treasury Management Policy. This includes:-

  - scrutinising the annual Treasury Management Strategy Statement, Annual Investment Strategy, Annual MRP Policy, Annual Treasury Management Policy and Treasury Management Practices and making recommendations to the Executive Committee and County Council as appropriate;
  - scrutinising proposals for amendments to the annual Treasury Management Strategy Statement, Annual Investment Strategy, Annual MRP Policy, Annual Treasury Management Policy and Treasury Management Practices and to the adopted clauses and making recommendations to the Executive and County Council as appropriate;
  - receiving and scrutinising any other proposals relating to the Treasury Management which require a decision by the Executive or County Council; and
  - receiving and scrutinising the Treasury Management mid-year report and Treasury Outturn report monitoring reports on treasury management policies, practices and activities and make recommendations to the Executive and County Council as appropriate.

The Treasury Management role of the Section 151 Officer

The Section 151 (responsible) Officer's role includes:-

- recommending clauses, treasury management policy / practices 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;
- responsibility for the execution and administration of its Treasury decisions, including decision on borrowing, investment and financing, have been delegated to the Section 151 Officer, who will act in accordance with the Council's policy statements and TMP's;
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe;
- ensuring that the capital strategy is prudent, sustainable and affordable 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 the Authority;
- ensuring that the Authority has adequate expertise, either in house or externally provided, to carry out the above;
- creation of Treasury Management Practices (TMP) which specifically deal with how non treasury investments will be carried out and managed, to include the following:-
    - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
    - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
    - 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;
    - Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;
    - Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

APPENDIX 10

PRUDENTIAL INDICATORS FOR 2023/24 – 2028/29

	Prudential Indicators	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Affordability		**Actual**	**Estimate**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	Council Fund	3.16%	3.01%	2.61%	2.59%	2.54%	2.53%
	Housing Revenue Account (inclusive of settlement)	5.09%	6.04%	4.74%	6.28%	8.24%	8.83%
	Total	3.77%	3.62%	3.00%	3.43%	4.14%	4.41%
Prudence							
3	**Gross debt and the Capital Financing Requirement (CFR)**						
	Is the gross external debt < the CFR for the preceding year plus the estimates of any additional CFR for the current and the next two financial years?	✓	✓	✓	✓	✓	✓
Capital Expenditure							
4,5	**Estimates of [or actual] capital expenditure**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
	Council Fund	30,768	39,162	22,207	8,315	7,196	7,061
	Housing Revenue Account	19,806	27,841	25,438	26,266	11,368	10,969
	Total	**50,574**	**67,003**	**47,645**	**34,581**	**18,564**	**18,030**
6,7	**Estimates of [or actual] Capital Financing Requirement**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
	Council Fund	108,542	111,141	117,333	119,949	121,352	122,725
	Housing Revenue Account	38,151	38,083	37,057	42,118	49,718	51,409
	Total	**146,693**	**149,224**	**154,390**	**162,067**	**171,070**	**174,134**
8	**Authorised Limit**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
	General Borrowing	154,390	162,067	171,070	174,134	176,230	181,461
	Other long term liabilities	5,000	5,000	5,000	5,000	5,000	5,000
	Total	**159,390**	**167,067**	**176,070**	**179,134**	**181,230**	**186,461**

	Prudential Indicators	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
9	**Operational Boundary**	£'000	£'000	£'000	£'000	£'000	£'000
	General Borrowing	**144,390**	**152,067**	**161,070**	**164,134**	**166,230**	**171,461**
	Other long term liabilities	5,000	5,000	5,000	5,000	5,000	5,000
	Total	**149,390**	**157,067**	**166,070**	**169,134**	**171,230**	**176,461**
10	**Actual External Debt**	**122,410**	**122,163**	**124,705**	**132,899**	**141,789**	**146,756**
Treasury Management							
		out-turn	**estimate**	**proposal**	**proposal**	**proposal**	**proposal**
11	**The limit for total principal sums invested for periods longer than 364 days**	**15,000**	**15,000**	**15,000**	**15,000**	**15,000**	**15,000**
	(any long term investments carried forward from previous years will be included in each year's limit)						
12	**The upper limits for the maturity structure of fixed rate borrowing**						
	• under 12 months	<20%					
	• 12 months and within 24 months	<20%					
	• 24 months and within 5 years	<20%					
	• 5 years and within 10 years	<30%					
	• 10 years and above	No upper limit					

Information on Prudential & Treasury Management indicators

PRUDENTIAL INDICATORS

A) Affordability

1 & 2 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.

The estimates of financing costs include current commitments and the proposals in this budget report.

B) Prudence

3 Gross Debt and the CFR

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 2025/26 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.

C) Capital expenditure

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

This provides a summary of the Council's capital expenditure. It reflects matters previously agreed and those proposed for the forthcoming financial periods.

The extent to which such expenditure is to be financed will influence how the Council's Capital Financing Requirement Indicator will change.

4 & 5 Estimates of Capital Expenditure

This is the forecast Capital Expenditure from 2022/23 to 2025/26, and is based on the Capital Programme for 2022/23 and the Capital Strategy for 2025/26.

6 & 7 The Council's borrowing need (the Capital Financing Requirement)

Another 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 essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

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

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR and, therefore, the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £nil of such schemes within the CFR.

CH) External Debt

8. **The authorised limit for external debt**. A further key prudential indicator represents a control on the maximum level of borrowing. 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 determined under section 3 (1) of the Local Government 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.

The Section 151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans and the proposals in the budget report.

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

10. **Actual external debt.** The Council has to disclose the closing balance for actual gross borrowing in respect of the financial period just ended, together with the level of other long-term liabilities, and so the actual aggregate level of external debt at the Balance Sheet date.

TREASURY INDICATORS

11. **Limits for Long Term Treasury Management Investments.** This Indicator is seeking to support control of liquidity risk. The limits should be set with regard to the Council's liquidity needs and also reduce the potential need to have to make early exit from an investment in order to recover funds. The indicator relates solely to the Council's investments for treasury management purposes.

12. **Maturity Structure of Borrowing.** The Council is required to set gross limits on maturities for the periods shown and covers both fixed and variable rate borrowings. The reason being to try and control the Council's exposure to large sums falling due for refinancing.

13. **Liability Benchmark.** The new prudential indicator for 2025/26 is the Liability Benchmark (LB). The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years.

There are four components to the LB: -

1. **Existing loan debt outstanding**: the Council'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 MRP.
3. **Net loans requirement**: this will show the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

Glossary

CAPITAL EXPENDITURE
Capital expenditure is expenditure on the purchase of a non-current asset, which will be used in providing services beyond the current financial year, or expenditure which adds to, and not merely maintains, the value of an existing non-current asset. Examples include: the building of a new school, the purchase of IT equipment, a major refurbishment of a care home.

CAPITAL FINANCING
Funds that are available to pay for capital expenditure. There are various methods of financing capital expenditure including borrowing, leasing, direct revenue financing, usable capital receipts, capital grants, capital contributions, revenue reserves and earmarked reserves.

CAPITAL FINANCING REQUIREMENT
The total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need.

CAPITAL PROGRAMME
The capital schemes the Council intends to carry out over a specific period of time.

CAPITAL RECEIPTS
Capital receipts represent the proceeds from the disposal of land or other non-current assets. Proportions of capital receipts can be used to finance new capital expenditure, within rules set down by the government, but they cannot be used to finance revenue expenditure.

CIPFA
This is The Chartered Institute of Public Finance and Accountancy, the lead professional and regulatory body for local Authority accounting.

HOUSING REVENUE ACCOUNT (HRA)
The HRA is a separate account to the Council Fund, and includes the income and expenditure arising from the provision of housing accommodation by the Council.

INTEREST RECEIVABLE OR PAYABLE
The effective interest rate method is used to measure the carrying value of a financial asset or liability measured at cost less accumulated amortisation, and to allocate associated interest income or expense to the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to equal the amount at initial recognition. The effective interest is adjusted to the actual interest payment or receipt through the Movement in Reserves Statement to ensure only actual interest is charged to Council Tax. For financial assets and liabilities carried at cost because the effective rate of interest is the same as the carrying rate of interest, the carrying value is adjusted for accrued interest.

MINIMUM REVENUE PROVISION (MRP)
The minimum amount which must be charged to the revenue account each year in order to provide for the repayment of loans and other amounts borrowed by the Council.

NET DEBT
The Net Debt is the Council's borrowings less cash and liquid resources.

PUBLIC WORKS LOANS BOARD (PWLB)
A Central Government Agency which provides loans for one year and/or more to authorities at interest rates only slightly higher than those at which the government can borrow itself.

REVENUE EXPENDITURE FUNDED BY CAPITAL UNDER STATUTE (REFCUS)
Expenditure which can be properly deferred (i.e. treated as capital in nature), but which does not result in, or remain matched with, a tangible asset. Examples of deferred charges are grants of a capital nature to voluntary organisations.

REVENUE SUPPORT GRANT
A grant paid by Central Government to authorities, contributing towards the general cost of their services.

SUPPORTED BORROWING
The Council borrows money to fund part of its capital programme. This borrowing is recognised by Central Government in its calculation of formula funding for the Council.

TEMPORARY BORROWING
Money borrowed for a period of less than one year.

UNSUPPORTED BORROWING
The Council can borrow additional money to the borrowing supported by Government to finance its capital expenditure as long as it is affordable and sustainable. This power is governed by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code, with which the Council fully complies.

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ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Governance and Audit Committee
Date:	11 February 2025
Subject:	Audit Wales Financial Sustainability Reports
Head of Service:	Marc Jones Director of Function (Resources) and Section 151 Officer MarcJones@anglesey.gov.wales
Report Author:	Marion Pryor Head of Audit and Risk MarionPryor@anglesey.gov.wales
Nature and Reason for Reporting: The Governance and Audit Committee's Terms of Reference has an explicit requirement for the Committee to oversee external audit, helping to ensure effective assurance arrangements are in place for both internal challenge and public accountability. (3.4.8.1.3) In doing so, the Committee will consider the external auditor's relevant reports (3.4.8.11.2), comment on the scope and depth of their work, ensuring it gives value for money, and will monitor their recommendations. (3.4.8.11.3)	

1. Introduction

1.1 Over the spring and summer of 2024, Audit Wales reviewed the financial sustainability of each of the 22 councils in Wales. They focussed on:

- the strategies to support councils' long-term financial sustainability;
- Councils' understanding of their financial position; and
- Council's reporting arrangements to support regular oversight of their financial sustainability

1.2 The outcome of this work was in the form of two reports, both published in December 2024: a national report, and a local report, which focussed on the work undertaken at each council.

1.3 Audit Wales's national report concluded that there are significant risks to the sustainability of local government finances which are likely to increase over the medium term without action to alleviate them.

1.4 The Auditor General acknowledged that this was a difficult message for the sector to receive but hoped that the report helped councils, the Welsh Government and those committed to the sector, to chart a path to a sustainable future.

1.5 Audit Wales said that some councils had stated that national issues or processes make financial planning more difficult. These included concerns relating to the local government funding formula and funding settlement, and the increasing responsibilities being placed on councils.

1.6 In publishing their local report, specifically regarding the work undertaken at the Isle of Anglesey County Council, Audit Wales concluded that overall, they found that the Council has good arrangement to respond to financial challenges in the short to medium term but has not formalised the planning and oversight of its longer-term financial sustainability. They set out in their full report why they reached this conclusion.

1.7 Audit Wales made one recommendation regarding the development of a longer-term financial strategy that would support the Council's understanding of its future financial position and to inform its transformation and prioritisation of services. The Council responded that it has a three-year financial strategy, approved in October 2024, and is developing a number of strategic plans which expand on the objectives set out in the Council Plan and how the financial strategy will contribute to the long-term financial sustainability of the Council.

1.8 Once this process is complete and the Welsh Government can provide the Council with a longer-term indication of future funding, this information will be brought together into a revised Medium Term Financial Strategy (MTFS) which will set out the Council's long term funding position and how the Council aims to address its long-term funding issues. The Council plans to complete this work by December 2025.

1.9 Audit Wales has also published an update to their Local Government Financial Sustainability Data Tool which includes comparative data on councils' levels of financial reserves and borrowing.

2. Recommendation

2.1 That the Governance and Audit Committee considers both reports and takes assurance from the Council's response that it understands its financial position and is developing a longer-term financial strategy, subject to a longer-term indication of future funding from Welsh Government.

Archwilio Cymru
Audit Wales

Financial sustainability of local government

December 2024

This document has been prepared as a summary of work performed in accordance with Section 17 of the Public Audit (Wales) Act 2004.

The Auditor General is independent of the Senedd and government. He examines and certifies the accounts of the Welsh Government and its sponsored and related public bodies, including NHS bodies. He also has the power to report to the Senedd on the economy, efficiency and effectiveness with which those organisations have used, and may improve the use of, their resources in discharging their functions.

The Auditor General also audits local government bodies in Wales and conducts local government value for money studies.

The Auditor General undertakes his work using staff and other resources provided by the Wales Audit Office, which is a statutory board established for that purpose and to monitor and advise the Auditor General.

Audit Wales is the umbrella brand of the Auditor General for Wales and the Wales Audit Office, which are each separate legal entities with their own legal functions. Audit Wales is not itself a legal entity. While the Auditor General has the auditing and reporting functions described above, the Wales Audit Office's main functions are to provide staff and other resources for the exercise of the Auditor General's functions, and to monitor and advise the Auditor General.

For further information, or if you require any of our publications in an alternative format and/or language, please contact us by telephone on 029 2032 0500, or email info@audit.wales. We welcome telephone calls in Welsh and English. You can also write to us in either Welsh or English and we will respond in the language you have used. Corresponding in Welsh will not lead to a delay.

Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

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Summary Report

Auditor General's foreword

The financial position of local government is unsustainable over the medium-term unless action is taken

1 From my position as the external auditor for most of the devolved Welsh public sector, I see the valued services that the local government sector provides to the people of Wales daily - waste collections, libraries, environmental health, education, social services and many more. Vital for citizens, these services are increasingly stretched by financial, demographic, and societal pressures.

2 To date, unlike in England, all Welsh councils have been able to balance their budgets and none has needed to submit a Section 114 report.[1] That is testament to the commitment of officers and councillors across Wales and the tough decisions already made. However, as the cumulative impact of financial restraint builds, we cannot assume that the future for the sector is sustainable. The position is fragile and sensitive to the competing and complex factors that affect council finances.

3 It is my role to highlight these risks and provide assurance over the arrangements councils have made. To that end, I have reviewed the steps that councils are taking and the arrangements they have in place to support their own financial sustainability.

4 Our work shows that, while councils generally know the scale of their funding gaps, they do not have longer term plans in place to address them. This leaves them vulnerable to short term decision making that may not represent value for money or be in the longer-term interests of local communities. That runs counter to the expectations of the Wellbeing of Future Generations Act, which places long-term thinking at the heart of organisational planning.

1 A section 114 report is issued to the Full Council where a council's Chief Finance Officer (Section 151 officer) believes the council has spent (or is committed to spend) more than the total resources available to it. It then places spending limits on the council.

5 Our examination also highlights the importance of good governance to financial sustainability. That means having clear strategic leadership, a detailed and well-communicated understanding of the financial position, and effective oversight and collaboration by elected councillors. In such an environment, value for money is more likely to be at the heart of decision making. I echo the view of my counterpart the UK Comptroller and Auditor General that promoting productivity and making public money work harder should be focuses for the whole public sector.[2]

6 I emphasised all these issues in my statement earlier in the year - From firefighting to future-proofing – the challenge for Welsh public services | Audit Wales. There, I described common themes that I see repeatedly from our work across the public sector. If addressed, public organisations could achieve more with what they already spend and so help shift from relentless firefighting of today's immediate challenges to the delivery of sustainable public services that are fit for the future.

7 Some councils are better placed than others to weather the financial challenges ahead. But given the scale of the funding gaps projected for local government in the coming years, all councils will need to keep up or increase the pace of change if they are to meet the urgency and scale of the challenge. The Welsh Government will also need to support the sector in meeting this challenge.

8 Put simply, local government is financially unsustainable over the medium term unless action is taken, by those who support and interact with the sector as well as councils themselves. Though a difficult message, I hope that this report helps councils, the Welsh Government and all of those committed to the sector, to chart a path to a sustainable future.

2 Comptroller and Auditor General, Here's how to make public money work harder, September 2024

Executive summary

Context

9 Over the spring and summer of 2024, we looked at the financial sustainability of each of the 22 councils in Wales. We focussed on:

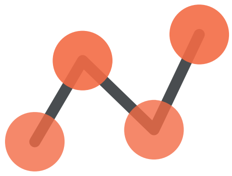
- the strategies to support councils' long-term financial sustainability;
- councils' understanding of their financial position; and
- council's reporting arrangements to support regular oversight of their financial sustainability.

10 This report provides some context on the financial challenges faced by councils and summarises our key findings from this work. We have also reflected on what all of this means for the future financial sustainability of councils and provide some reflections on how councils' future financial sustainability could be strengthened.

Key facts

Below are some key facts that illustrate how the financial pressures on council finances have grown over time

3.3% (£3 billion) – the real terms growth of gross council spending between 2008-09 and 2023-24.



-62% – the reduction in real terms council spending on community safety between 2008-09 and 2022-23

94%, **27%**, and **31%** – the real terms growth in council spending on children's, adult, and older peoples' social care between 2008-09 and 2023-24

-16.6% – the real terms reduction in usable reserves not protected by law between 2022-23 and 2023-24[3]

79% – the increase in children looked after by Welsh councils between 2003 and 2023

41% – the increase in schools spending on Additional Learning Needs between 2015-16 and 2022-23

-4.3% – the reduction in real terms funding for Welsh local government between 2025-26 and 2027-28 forecast by Cardiff University

3 This is a comparison of the 19 councils that had provided draft accounts for 2023-24 at the time of drafting. It excludes Blaenau Gwent CBC, Denbighshire CC, and Merthyr Tydfil CBC.

Key messages

Below is a summary of the key messages that are set out in this report.

There are significant risks to the sustainability of local government finances which are likely to increase over the medium term without action to mitigate them

11 Given the scale of the funding pressures facing local government, many councils require a step-change in approach to move beyond setting an annually balanced budget to achieving value for money and financial sustainability over the medium-term.

The public sector has faced a period of unprecedented financial pressures since 2008.

12 In real terms spending by councils decreased between 2008 and 2020. It rose slightly during the pandemic but overall growth in funding for councils remains well below the growth rate before 2008. This has required councils to make difficult choices throughout this period.

The pressure on local government funding over this time has affected councils and services differently

13 Some services have been ‘protected’ from budget reductions more than others, and for some service areas this has varied across councils. It is notable, however, that some significant falls in spending have been seen in the regulatory and preventative areas of council spending.

There are significant factors affecting councils’ financial sustainability that are beyond their control

14 Wider contextual challenges greatly influence demand for services and costs for councils. This has included, for example a large and unforeseen increase in inflation because of world events. To varying degrees these are beyond councils’ control. This makes mitigating their impact more difficult.

All councils in Wales have arrangements to understand their short and medium-term financial positions. Generally, however, they do not take a longer-term view of financial sustainability

15 Few councils have a comprehensive understanding of how they will close their projected budget gaps over the medium to long term – beyond the next two years. Whilst some councils have identified some of the savings required, there is a continued reliance on annual savings rounds, rather than longer-term transformation plans. This has meant a reliance on short-term savings, and/or short-term use of reserves.

16 This increases the risk over time that funding gaps will not be bridged, or that short-term solutions will not help councils to secure value for money over the longer term.

Councils have generally appropriate financial reporting arrangements for the short and medium term but assessing and monitoring the impact of financial decisions is a weakness

17 Most councils have arrangements in place to report on their short and medium-term financial position. This helps facilitate oversight and scrutiny of councils' financial position. The reporting and assessing of the actual impact of financial plans and decisions once implemented is however a weakness. Without understanding and monitoring the impact of financial decisions it is difficult for councils to understand the extent to which they are achieving value for money.

Practice examples

18 Our review aimed to promote practice examples that could help councils to improve their financial sustainability. We have drawn on some of what we observed at different councils during the review and included a checklist in the report for councils to consider against their own arrangements.

Many of the financial challenges faced by Welsh councils are common to the rest of the UK

19 Experience from across the UK offers potential for learning from elsewhere. We have outlined some of this learning, including key learning from the Section 114 reports that have been issued in England. This includes the importance of being aware and accepting of financial challenges, offering leadership to respond to them, and having proper governance arrangements to oversee the response.

We heard some concerns that national issues or processes make financial planning more difficult

20 These included concerns relating to:

- the funding formula used to distribute Welsh Government funding to local government;
- the timing of the local government funding settlement, and the lack of ‘muti-year’ settlements present in other spending areas: and
- additional responsibilities being placed on councils without commensurate funding being made available.

21 We have reported these to provide context and balance but have not explored or assessed these matters within the scope of this work.

Our audit approach

22 Our audit approach is set out in the appendices to this report, alongside a map that provides links to our local reports. This work is a continuation of our work on financial sustainability, most recently in 2021. Our work is also supplemented by our local government financial sustainability data tool. We have published the most recent update to this tool alongside this report. This update has added data for the 2023-24 financial year[4], as well as new indicators covering councils’ levels of borrowing.

4 Data in the tool for 2022-23 and 2023-24 is drawn from unaudited, draft financial statements.

Detailed Report

What does financial sustainability mean?

23 There is no common definition of financial sustainability within the public sector. Our understanding of what financial sustainability looks like is informed by our cumulative audit knowledge and experience, the work of key bodies like the Chartered Institute of Public Finance and Accountancy (CIPFA). It is also informed by the sustainable development principle as set out in the Well-being of Future Generations (Wales) Act 2015.

24 A council could be sustainable by delivering minimal services at the minimum standard that the law allows. This, though, would be unlikely to enable it to deliver all its objectives or meet the needs and expectations of its communities. Equally a council's financial plans could be unsustainable because it is trying to deliver services far above the reasonable expectations of service users, or because it has taken unnecessary commercial risks to deliver services.

25 Councils are independent of other public bodies with their own tax raising powers but are still fundamentally linked to the wider public sector. The Senedd and the Welsh Government place requirements on councils, whilst also providing most of their funding, as outlined below. The actions of public bodies in other sectors such as the police, fire and rescue services, and health bodies, can also impact on council services and spending. To be financially sustainable, a council needs to provide the services required of it, by law and expectation, within its available resources in the long-term. Part of this may involve re-defining what 'reasonable' expectations might be for service users as demand pressures, priorities and the funding position changes.

26 A sustainable council must also provide the assets and infrastructure to enable effective service delivery. This requires a balancing of capital investment and its sources, such as borrowing, as well as ongoing maintenance and future liabilities, against the impact of these financial decisions on revenue spending. Failing to invest in the short-term may cause increased costs in the medium to long-term.

27 Whilst councils can put arrangements in place and take decisions to improve their financial sustainability, some factors are outside of their control. These include the funding levels and funding model determined largely by the Welsh and UK governments, and changes in the wider economy. Though outside their control, councils still need to make informed assumptions about such factors to inform their financial planning.

Overall, we found that most councils have arrangements in place to support their short-term financial sustainability but have yet to fully develop their longer-term plans

How well do councils understand the financial position?

28 This national report reflects finding from the assessments we have undertaken in all 22 councils. It would not be sensible or helpful to use these findings to produce a 'league table' of financial sustainability. **Appendix 1** to this report, however, shows our main findings for each council. Individual council reports are published on the Audit Wales website.

29 All councils have arrangements that enable them to quantify their financial position and understand their financial pressures in the short and medium terms. However, most remain focused on the next two years, and few look beyond three years. In part, this reflects the annual balanced budgets that councils are required to set by law, which may encourage a focus on the short-term. Looking towards a longer period can help councils better understand the challenges they face, as well as supporting longer-term solutions that cannot be implemented in an annual cycle.

30 We found that reserves are not always used in a strategic manner. Reserves have been used, in some councils, as 'bridging' strategies to balance annual budgets rather than supporting longer-term transformation. Reserves can be an important tool in funding investments to support longer-term financial sustainability such as 'invest-to-save' or transformation projects. Reserves are also in effect an emergency fund for councils that can be used infrequently to fund unexpected financial pressures. Using them solely to fund in-year pressures without using them to support longer-term financial sustainability is unlikely to deliver value for money over the longer-term. However, we recognise that in some circumstances this may be unavoidable, particularly given the scale and pace with which financial pressures have developed in recent years.

31 Without clear long-term financial strategies, supported by detailed medium-term plans, the long-term strategic direction of councils towards securing financial sustainability is unclear. Corporate strategies and financial plans provide a framework for elected councillors, as well as the public, to understand decisions and actions. Where councils do not have longer term financial strategies, we cannot be assured that councils have arrangements to support long-term financial sustainability and therefore value for money.

32 To help improve their financial sustainability, some councils have sought advice to better understand their financial position. This has included benchmarking to understand spend per head with comparative councils. This can help councils identify opportunities to improve value for money through learning how other councils provide service and the costs of delivering them.

How well developed are councils' plans to meet the financial challenge over the medium term?

33 No council has a comprehensive understanding of how they will bridge their funding gaps over the length of their Medium-Term Financial Plans (MTFPs). Whilst some have a substantial proportion of savings identified, the majority remain focused on annual savings. In the long-term, it is unlikely that the historic approach of incremental cuts across a wide range of services will be sufficient given the levels of savings that councils have made since 2008.

34 Councils recognise that some service transformation is required to bridge their funding gaps, however, transformation plans are not consistently being developed. Some councils have identified transformation projects, their timescales, and their intended savings, which helps inform councillors of the potential solutions over a longer-period. Most councils are in the early stages of their current transformation plans, either forming governance arrangements or drawing up a list of potential options. Whilst it is not inevitable that all transformation will lead to savings, it is likely that the pace of transformation will need to be accelerated to help councils bridge their funding gaps over the medium-term.

Do councils have strong governance arrangements?

35 Most councils have arrangements in place to report their short and medium-term financial position to councillors. This helps to facilitate oversight of the financial position and inform decision-making.

36 However, most councils do not have arrangements in place to understand and assess the impact of financial decisions on an ongoing basis. Reporting the impact of decisions on council objectives and local communities enables councillors to understand if the intended impact of financial decisions has materialised. This in turn helps to identify if any corrective action needs to be taken, as well as informing assessments of the value for money of decisions. It can also provide learning to help inform future financial decisions.

Practice examples

37 We have drawn on some of the practice we observed at different councils during the review to develop a checklist for councils to consider against their own arrangements:

- using external advice – some councils have sought to supplement their understanding of their financial position through procuring detailed benchmarking data from external organisations. This has helped councils understand service spending relative to similar councils, as well as potential variation in the level of services they deliver. This can help councils to better inform where and how they might improve the value for money of their service delivery.
- promoting a collective approach to financial decision-making - many councils outlined how they have communicated to councillors that the budget is an ongoing process, rather than an annual event. This led to, for example, workshops and engagement sessions to discuss financial proposals. This can help build understanding of, and therefore support for, sometimes difficult decisions.
- making decisions easy to visualise – some councils have reported proposed budget savings to councillors in both cash terms and as a percentage of Council Tax. This can help councillors to better understand the impact of accepting or rejecting a saving on local council tax payers. In turn, this helps improve transparency and understanding of the impact on communities.
- analysing future demand – a few councils have undertaken research to understand the scale and nature of long-term predicted demand for services using internal and external data. This can help councils develop a detailed understanding of their budget gap, particularly for services with a significant projected rise in demand, such as adult social care.
- aligning financial and transformation plans – a few councils have developed transformation strategies aligned with their MTFPs to outline their approach to close the short, medium, and long-term budget gaps. This can help councils to communicate their intended approach to officers, councillors and other stakeholders. It also helps to provide a strategic framework for decision-making.
- having clear savings trackers – most councils track their savings implementation and report this to councillors for their oversight. Some councils risk rate individual savings to provide a clear indication on the likelihood of achieving them. Risk rating savings can improve scrutiny by making it clear where the delivery of savings is not on target and corrective action needs to be taken.

- clearly understanding long and short-term impacts of decision-making – most councils assess the impact of significant savings proposals. Some councils assess the impact on communities and the achievement of the well-being objectives, some over both the short and long-term. This can help to improve the quality of decision-making by providing councillors with a detailed understanding of the potential impact of decisions both now and in the future. Setting out options that have been considered to mitigate any negative impact can also help inform councillors when taking decisions on savings proposals.
- understanding and rationalising the asset base – councils own and invest in a range of buildings and other assets to deliver services. They have ongoing costs in maintenance that impact spending plans and effectiveness of services. Understanding the condition of already owned assets, in addition to understanding what is needed in the future, helps understand and plan for revenue and capital costs from buildings.

National findings

38 Our local reports have focused on the arrangements in place at each council to support financial sustainability. As explained above, most councils' funding is provided by the Welsh Government. Below we summarise themes raised by councils during our fieldwork that relate to Welsh Government.

Funding formula

39 Funding from the Welsh Government, known as the local government settlement, is determined by the application of a formula known as the Standard Spending Assessment (SSA). The SSA is designed to reflect the different costs of service delivery due to demography, geography, or socio-economic characteristics. Notional amounts of funding are allocated to specific service areas, although individual councils then determine how this funding is then allocated across service areas.

40 The SSA process is outlined in documents published by the Welsh Government annually.[5] These documents include both the sources of data, the indicators used, and the assessments that draw on the data and indicators. This is known as the 'Green Book'. The formulae for all services were independently reviewed before the 2001-02 settlement and there have been subsequent focused reviews of specific aspects of the formula, agreed following discussions through the finance sub-group, which includes councillor and officer representatives of councils. The Welsh Government publish papers annually that provide context and outline the annual process for their determination.

41 The indicators used in the formulae are split into three categories:

- main client groups – These are the main factors influencing cost, such as population or pupil numbers. In 2024-25, this represented 65% of indicators.
- deprivation – Indicators reflecting additional costs to support people with higher levels of deprivation. In 2024-25, this represented 28% of indicators.
- population dispersal - Indicators reflecting additional costs to support people in sparsely populated areas. In 2024-25, this represented 6% of indicators.

5 For example, Local government revenue and capital settlement: Background information for standard spending assessments 2024-25

42 The total funding available, the determination of how this is distributed, and the provision of any ‘top-ups’ to ensure all councils receive a baseline increase in funding are clearly political decisions for the Welsh Government. There are also elements of the settlement set out by law, such as Non-Domestic Rates distribution, and the settlement is also subject to the approval of the Senedd. We have not audited the detail of the formula, its source data, nor its effectiveness as part of this review.

43 Inevitably, there is a range of views across Wales on the merits of this system that often correlates with how funding is allocated. Those who receive proportionally greater levels of funding from the Welsh Government, in general, had less to comment on during our fieldwork.

44 However, we heard a number of concerns relating to the SSA though our fieldwork, these included:

- the SSA produces too much difference between neighbouring councils;
- the SSA has an emphasis on funding for services for children rather than older people, despite services for older people often resulting in higher costs due to social care costs; and
- that some data used within the SSA is not sufficiently up to date.

45 We have not audited these assertions. Some relevant information is, however, already provided by the Welsh Government. For example, the 2024-25 SSA documents acknowledged that some data relating to settlement and dispersion was based on the 1991 and 2001 censuses, whilst others also used data from 2001 and 2011. Some elements of the formula are updated more frequently. We have not reviewed the impact that such examples might have, however it is clearly important that Welsh Government has assurance over the validity and accuracy of data that is used to inform decisions on funding allocations.

Length and timing of the settlement

46 Council officers outlined the strain on capacity and individuals that the timing and duration of the local government settlement can have. Where funding is different to the anticipated level or changes between the provisional and final allocation, this can require significant amendments to local plans. In the three settlements before publication, the average change in settlement was a 0.3% increase. Annual volatility in funding levels can add further uncertainty to these amendments.

47 Pre-pandemic, the settlement was typically published in October and finalised in December. This allowed councils time to inform their local budget setting. Since 2019, the provisional settlement has been in December with finalisation in February or March. This reduces planning time for councils and has meant councils have decided their annual budgets ahead of knowing the amount of funding they would receive. This increases the risk of additional funding being allocated without a proper assessment of its impact, or the unplanned use of reserves if funding is below the budgeted level. Both scenarios increase the risk of funding not being used in a planned way to secure value for money over the longer-term.

48 In addition, the timing of specific grants was also felt to increase the pressure on officers and financial planning. For example, when it is uncertain if additional funding will fund nationally agreed pay rises or changes in pension contribution rates, this makes financial forecasting more challenging.

49 In some previous years, the Welsh Government provided councils with a multi-year indication of overall council funding. This has not consistently been provided and was not in the current year. Some interviewees have said that the lack of clarity on indicative funding is a barrier to effective financial planning.

50 We recognise that some factors that influence the timing of the local government financial settlement are beyond the control of the Welsh Government. The timetable and decisions of fiscal events in the UK Parliament have a significant impact on the budget setting process in Wales. This can limit the extent to which Welsh Government can provide clarity on future settlements, grants, and their timing.

51 Councils can draw on publicly available information to help forecast future funding levels. For example, the Wales Governance Centre provided projections for council budgets up to 2027-28 in October 2023. Councils also draw on a comparison of financial assumptions, such as anticipated pay rises, made by different councils through the Society of Welsh Treasurers. We saw all councils use evidence like this to varying extents. Forecasts can be helpful to enable councils to develop different options, so they are prepared to respond to financial pressures once funding levels are confirmed or unforeseen events occur. This can help to mitigate against uncertainty over the future budget position and help councils to prepare for a range of scenarios.

Additional responsibilities

52 Some interviewees felt that additional funding has not been provided by the Welsh Government despite the additional responsibilities placed upon councils through new legislation.

53 As outlined above, services (or levels of services) provided by councils are either provided due to the council choosing to (a ‘discretionary’ service) or because it is required to by law (a ‘statutory’ service). Legal duties are included in Acts passed by the Senedd or the UK Parliament. However, for statutory services, Councils have the option to shape these services where service levels are not prescribed.[6]

54 As new Acts are passed it can mean new duties are placed on councils. Legislation can also have unintended consequences that result in additional costs for councils. For example, where it results in private sector service providers deciding to stop providing a service and councils have to fill a gap in provision as a ‘provider of the last resort.’ The most frequently cited area where interviewees felt that legislation has led to increased costs related to housing services.

6 For example, class sizes in primary schools are required by Regulations to be no more than 30 pupils so a council could not increase classes sizes above this.

The wider UK context

Pressure on council finances is not unique to Wales and this offers insight into potential causes and indicators of financial sustainability

55 When, in the view of the Chief Finance Officer[7], a council has spent (or is committed to spend) more than the total resources available to it, the officer must (in consultation with other senior officers) report this to councillors and to and to the auditor (in Wales, the Auditor General). This is known as a Section 114 report.[8] This then limits any new spending the council can make. To date, no such reports have been made in Wales.

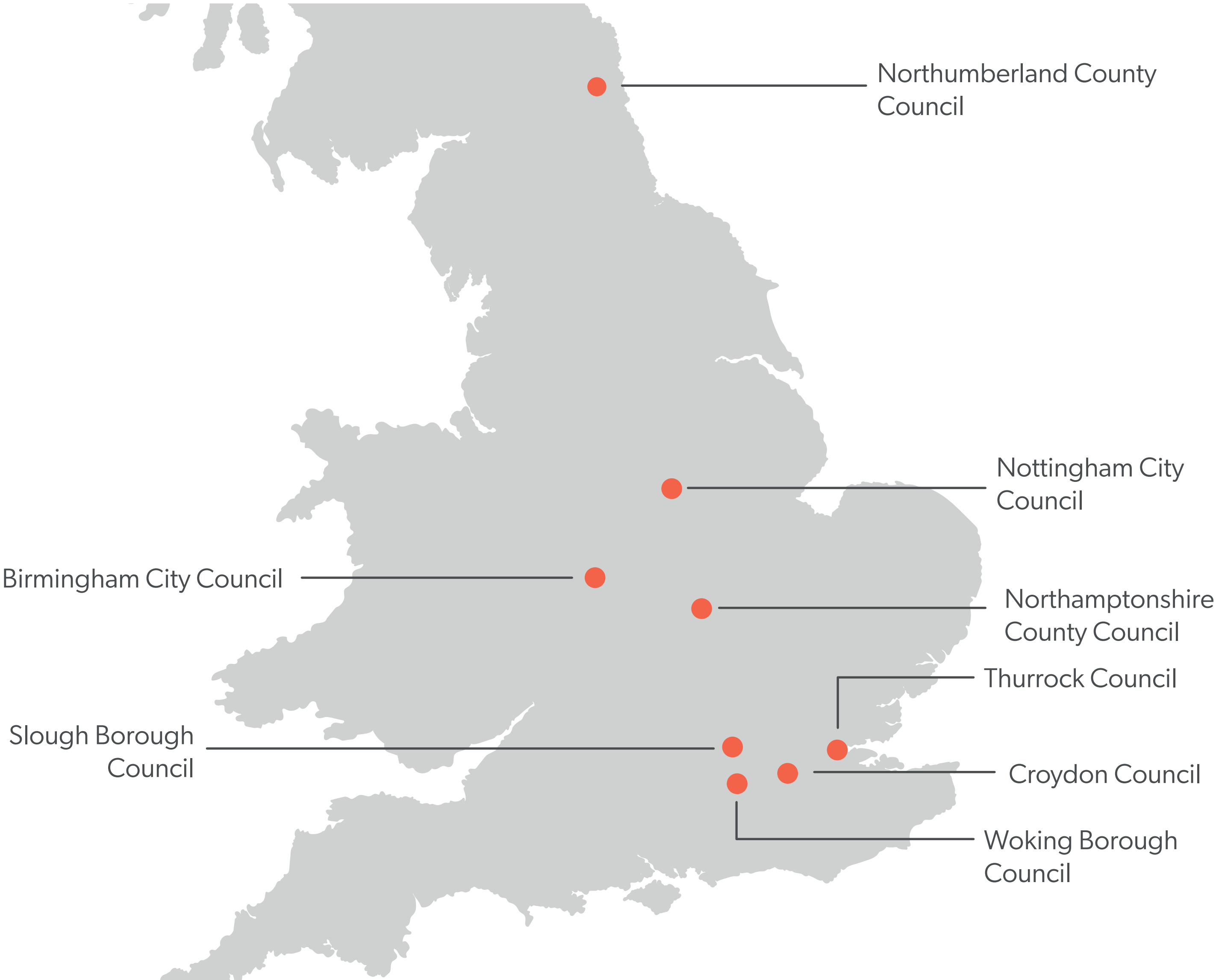
56 Since 2018, in England 11 reports have been made due to councils being unable to balance the budget (**Exhibit 1**).

7 This is commonly referred to as a Section 151 officer as the role is required by s151 of the Local Government Act 1972.

8 s144 of the Local Government Finance Act 1988. This also applies where the S151 officer believes a council will incur unlawful spending.

Exhibit 1: council areas in England that have made a Section 114 report

This map shows the eight councils in England that have made a Section 114 report.



Source: Audit Wales

57 Although in each case there were differing local influences, the Chartered Institute for Public Finance and Accountancy (CIPFA) identified four common themes:

Exhibit 2: common themes of Section 114 reports

An unwillingness to see the reality of the situation	Ignoring the warnings about the financial position, both internally and externally, to avoid recognising that the current plan was not working.
An absence of leadership	Being unable to take difficult decisions – both by officers and councillors. This means less problem solving and scrutiny of proposals.
Inadequate governance processes	A significant lack of oversight by councillors, particularly by governance and audit committees. A lack of skills contributes to this.
Weak financial management	Weak and insufficient processes that lack accountability, sustainability, and transparency. This can be indicated by a substantial decline in reserves, which limits solutions to problems when they arise.

Source: CIPFA

58 CIPFA have produced resources to support councils, such as Building Financial Resilience, in addition to outlining a roadmap to avoiding Section 114:

- the savings process should be effective and engaging, with budget holders involved in identifying and delivering savings;
- the risks around commercial activities must be clearly understood, with effective oversight of council-owned companies;
- councillors must receive training on financial matters, improving their understanding of complex issues;
- governance arrangements should be strengthened and include the ability to speak truth to power;
- internal audit should review the effectiveness of financial rules and processes, and knowledge of and compliance with financial regulations;
- the quality of financial management should be assessed, particularly for larger organisations;
- independent assurance on the annual governance statement can ensure it is effective; and
- a financial resilience review may be obtained.

59 This structure could be used as a basis for councils to review their own position, alongside our local reports. For example, Denbighshire County Council have used the common themes and roadmap to develop a self-assessment to inform its Governance and Audit Committee of the risk of requiring a Section 114 report. It intends to make this an annual assessment to support its arrangements and oversight by councillors.

60 Councillors through their scrutiny and decision-making are an important part of a governance framework that supports financial sustainability. This could include scrutinising the robustness of financial plans or proposed decisions, as well as needing to take difficult decisions to support financial sustainability. This aligns with the Principles for Good Governance in the Public Sector

61 Financial sustainability and the uncertainty associated with funding models has been identified as an issue by auditors in other parts of the UK.

62 For example, in England the National Audit Office (NAO) has reported[9] on the impact of financial uncertainty and resilience on councils delivering value for money. The NAO's findings are very similar to our own, including:

- councillors holding off making difficult decisions in the hope that the settlement would be more positive than expected;
- a lack of time to review savings options to make good rather than quick decisions;
- a tendency to be overly cautious and cut services rather than to plan for efficiencies over the medium term; and
- the tendency to build up reserves in-year in the expectation that they will be needed to balance the next budget.

63 The NAO have also produced a good practice guide for leaders and decision-makers in an uncertain environment to help consider value for money, as well as strategic planning and budgeting.

64 Audit Scotland have concluded that council budget gaps in 2024-25 were 'unsustainable'.[10] They reported similar themes to Wales, such as the challenging timetable of budget setting and the importance of clarity in financial plans. They have also recently set out that[11] 'the unprecedented financial and service demand pressures mean there is an urgent need for the local government sector to transform how it operates if it is to sustainably maintain services'.

9 For example, Local government finance in the pandemic, March 2021 and The local government finance system in England: overview and challenges, November 2021

10 Audit Scotland, Local government budget 2024-25, May 2024

11 Audit Scotland, Transformation in councils, October 2024

65 Audit Scotland have developed key transformation principles (**Exhibit 3**), in addition to setting out barriers to, and potential structures to support, transformation. This work includes features that may be applicable to Wales, such as emphasising community involvement, collaboration, and prevention. It also underlines the importance of innovation.

Exhibit 3: transformation principles

This exhibit sets out principles for council transformation published by Audit Scotland.

Vision	Have a clear vision that sets out the intended end state of any transformation activity, focused on: • delivering large-scale recurring savings or generating income for the council, contributing to its longer-term financial sustainability; • improving outcomes for citizens in line with council priorities; • taking a whole-system approach to see and realise opportunities both within councils and more widely; • meeting the needs of the people who use services and reduce inequalities; and • focusing on preventative activity, where applicable, to reduce the demand for services and to make them sustainable in the longer term.
Planning	• Be clear on the scale of the change required and ensure transformation plans are sufficiently ambitious to credibly respond to the scale of the challenge. • Commit staff with appropriate skills, time, and resources to ensure transformation occurs at the scale and pace required and that there is enough capacity for the changes to be embedded. • Be clear about the timescales, costs, outcomes, and anticipated impacts of transformation projects. • Show urgency and progress projects at pace without compromising appropriate governance on projects
Governance	• Have a clear process for monitoring, evaluating, and reporting progress. • Put in place effective governance and escalation processes so that the transformation activities are well managed in their own right, but also able to be given priority alongside other business-as-usual activities

Collaboration	• Develop better working relationships with communities and/or partners to achieve a sustainable model of service delivery. • Actively consider the opportunities offered by regional or national sectoral collaboration, or by integrating services locally with partners, or by supporting individuals and communities to achieve desired outcomes in place of an existing service. • Learn from good practice across the country and beyond.
Innovation	• Implement new ways of thinking, including innovation, creativity and a desire, willingness, and action to change and do things in new and different ways that achieve the outcomes needed. • Embed the right culture and behaviours to manage change and help maximise the contribution of all the team.

Source: Audit Scotland

What does this mean for councils in the future?

There are significant risks to the sustainability of council finances which are likely to increase over the medium term without action to mitigate them

Securing value for money will be even more important to support financial sustainability

66 Later in this report we illustrate the scale of the funding pressures facing local government and how councils are responding to this challenge. We also set out some issues for Welsh Government to reflect on above.

67 In view of wider financial and economic trends the funding position for councils may not significantly improve over the medium-term. For example analysis by Cardiff University in October 2023 forecasted a 4.3% reduction in real terms funding for local government between 2025-26 and 2027-28. The WLGA have estimated a £559 million budget gap for 2025-26, which they forecast to rise significantly with a further £1 billion of additional anticipated demand in the following two years.

68 If these projections prove accurate, it heightens the need for councils to put in place proper arrangements for securing value for money in their financial and wider strategic planning. Given the potential scale, this will mean a step-change in approach for some councils and a much clearer emphasis on moving beyond setting an annually balanced budget to financial sustainability over the medium-term.

The sustainable development principle provides a framework to support financial and strategic planning

69 The sustainable development principle provides a framework against which councils can develop their financial plans and strategies. It can also provide a framework for assessing individual proposals or decisions designed to support a council's financial sustainability. Some potential impacts of not applying the principle are set out below against the five ways of working (**Table 1**):

Table 1: examples of the potential impact of not applying the sustainable development principle

This table sets out the potential impacts of not applying the sustainable development principle in relation to each of the five ways of working.

Way of working	Examples of the potential impact of not applying the sustainable development principle
Long-term	• Reserves are used in the short-term to balance annual budgets in a way that prevents them from being used for longer-term investment that could secure better value for money. • The long-term impacts of savings proposals are not properly considered, potentially leading to higher costs and reduced outcomes for service users over the longer-term. • Medium- and longer-term investment requirements are not funded/ prioritised in the short term, for example in relation to. developing capacity, infrastructure specific skills.
Prevention	• Linked to the examples above under ‘long-term’, not investing in preventative initiatives increases the demand for and cost of providing more acute services. It also leads to reduced outcomes for service users.
Integration	• Financial plans are not integrated with a council’s other plans and strategies or those of its partners. Or not understanding the relationship between resourcing/ savings decisions across different areas of the business. This results in duplication of effort and missing opportunities to secure multiple benefits, and may may hamper progress towards longer term ambitions, as defined in Well-being Objectives.
Involvement	• Those with an interest in financial plans or individual decisions are not involved in the decision-making process. This increases the likelihood that a council takes decisions that do not take account of their needs and therefore does not secure value for money.
Collaboration	• Opportunities to work collaboratively within and between councils and other partners are not explored. As a result, opportunities to improve value for money through economies of scale, greater resilience and improved outcomes may be missed.

Source: Audit Wales

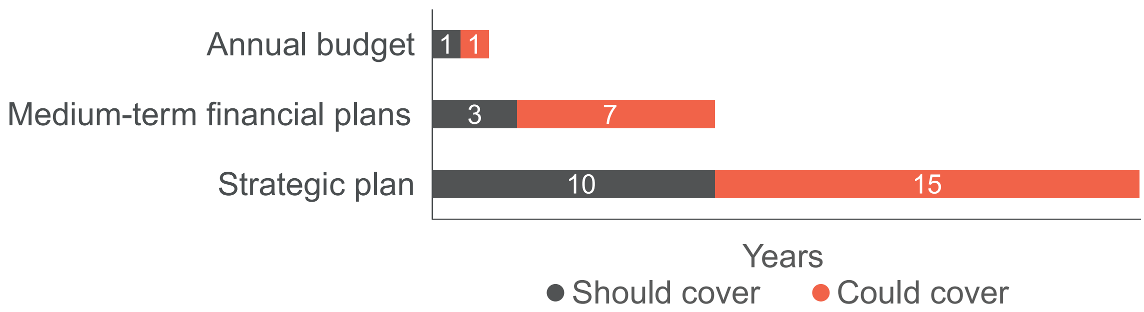
70 Embedding the sustainable development principle more clearly in financial planning could help councils to develop a longer-term, more holistic approach to financial sustainability that is informed by on-going involvement activity. This is particularly important if the scale of the financial challenges requires more fundamental changes to service delivery through for example greater collaboration, transferring assets to community groups or ceasing to provide some services at all.

A longer-term approach to financial planning and decision-making

71 In our review, we have adopted CIPFA's definitions of timescales in financial planning. Medium-term financial plans are expected to set the direction over at least three years, building on the annual budget setting process. This is within a longer-term strategic plan that builds on the three-year view to at least a decade (**Exhibit 4**). Generally, we found that councils in Wales are not taking this longer-term approach.

Exhibit 4: timescales in financial planning

This exhibit shows the timescales in different types of financial plans should cover and the suggested timescales they could cover in the view of CIPFA.



Source: CIPFA

72 The timescales set out by CIPFA go beyond electoral cycles and the annual budget process. We recognise the challenges associated with applying such timescales to decision making, however, it is necessary if longer term financial sustainability is to be secured.

Overview of council finances and funding

73 In this section we set out the recent financial context within which councils are operating and how this has impacted on funding for services.

74 The Welsh Government is the largest funder of Welsh councils. Though varying from year to year, since 1999-2000, around 72% of council funding has come from the Welsh Government, with business rates and council tax accounting for some 12% and 16% respectively.[12]

75 After the 2008 global financial crisis, the spending power of local government plateaued and then fell. Councils relied on a range of measures to manage their financial position, including increasing Council Tax levels, the use of reserves, and reductions in spending. By law, councils must set a balanced annual budget.

76 During the Covid-19 pandemic[13], additional funding was made available to support councils. This included specific grants for homelessness, offset falls in business rates, and general assistance funding. This funding helped councils maintain and adapt services during the pandemic, it also helped councils to increase their levels of reserves to a varying extent.

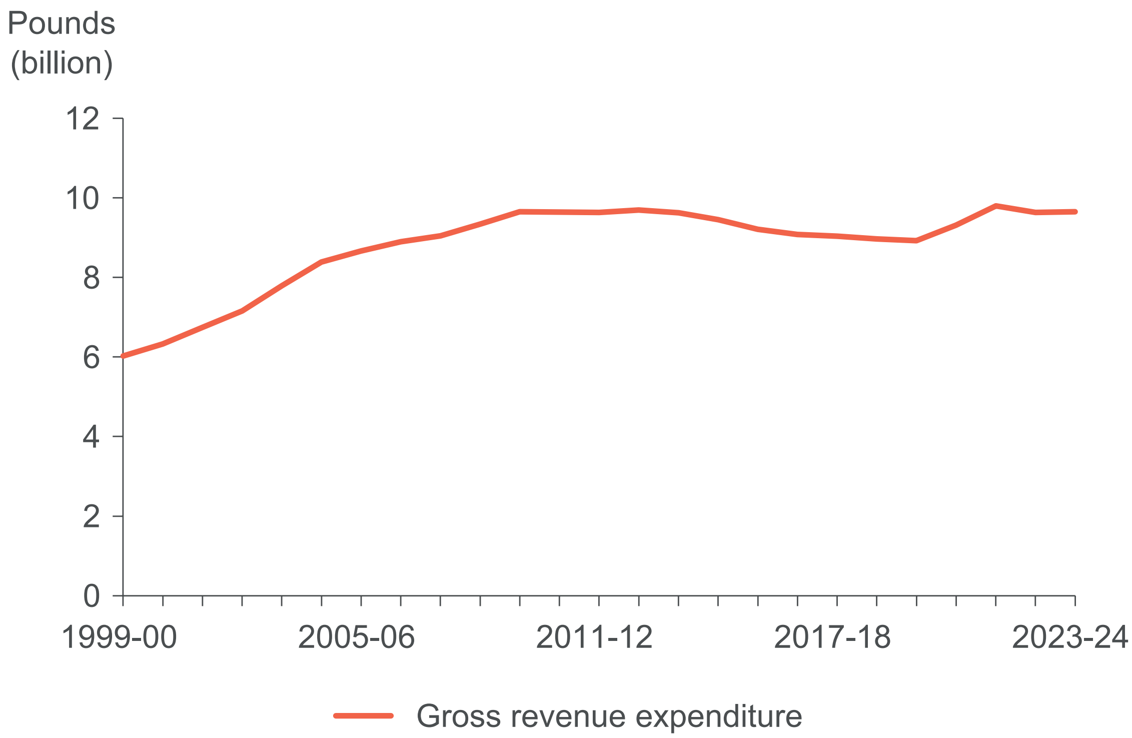
77 Between 2005-06 (the earliest year comparative data is available) and 2022-23, real-term council spending increased by 11% (**Exhibit 5**). In comparison, over the same period the Welsh NHS programme budget grew by 60% in real terms.[14]

12 Audit Wales analysis of Welsh Government, Council revenue outturn data

13 During the pandemic, we commented on the financial impact on councils twice in October 2020 and September 2021. We also published A Picture of Local Government in September 2021.

14 Audit Wales analysis of Welsh Government, NHS expenditure pre-2010 data and post-2010 data

Exhibit 5: gross revenue expenditure by all councils in real terms, 1999-2000 to 2022-23 (June 2024 prices) (£billions)



Source: Audit Wales analysis of Welsh Government council revenue outturn data

78 Council Tax levels are determined by each council. When setting levels of Council Tax, councils must consider a range of factors. For example, the financial impact on residents, the financial position of the council, and the needs of service users. In real terms, between 1999-2000 and 2023-24 the Welsh average band D Council Tax level rose by 66% or £812.[15] The share of council spending funded by Council Tax has remained broadly similar over time. In 1999-2000, Council Tax funded around 16% of gross spending by councils nationally and some 18% in 2023-24.[16]

79 **Table 2** shows how funding per head of population varies between councils and each type of funding source. This is included for contextual information rather than a conclusion on the circumstances or decisions relating to any individual council.

15 Welsh Government, Average band D council tax

16 The proportion of local spending funded by Council Tax varies between councils.

Table 2: council tax required, Revenue Support Grant (RSG), and Redistributed Non-domestic rates (RNDR) per head of population by council, 2023-24 (Pounds)

Council	Council Tax required	RSG and Top-up funding	Redistributed non-domestic rates	Total
Gwynedd	£780	£1,585	£329	£2,693
Blaenau Gwent	£574	£1,747	£327	£2,648
Denbighshire	£672	£1,612	£324	£2,607
Merthyr Tydfil	£582	£1,700	£325	£2,606
Neath Port Talbot	£611	£1,609	£327	£2,547
Isle of Anglesey	£707	£1,455	£329	£2,492
Rhondda Cynon Taf	£533	£1,634	£320	£2,487
Ceredigion	£716	£1,432	£337	£2,484
Conwy	£732	£1,399	£337	£2,468
Powys	£765	£1,366	£335	£2,466
Carmarthenshire	£630	£1,454	£326	£2,411
Torfaen	£560	£1,525	£321	£2,405
Caerphilly	£474	£1,603	£324	£2,401
Pembrokeshire	£662	£1,374	£327	£2,364
Bridgend	£648	£1,380	£325	£2,353

Council	Council Tax required	RSG and Top-up funding	Redistributed non-domestic rates	Total
Newport	£517	£1,459	£310	£2,287
Flintshire	£665	£1,291	£326	£2,282
Swansea	£582	£1,375	£320	£2,277
Wrexham	£597	£1,329	£323	£2,248
Vale of Glamorgan	£703	£1,188	£318	£2,208
Monmouthshire	£826	£967	£330	£2,123
Cardiff	£546	£1,239	£308	£2,094
Wales	£620	£1,422	£323	£2,365

Source: Audit Wales analysis of Welsh Government mid-year population estimates, Council Tax, and government support data

Notes: Whilst non-domestic rates are collected locally by councils, they are redistributed by the Welsh Government as part of the annual funding settlement. Consequently, some councils are net beneficiaries or net contributors to the funding 'pool'.

Top-up funding is additional funding provided to ensure councils receive a minimum percentage increase set by the Welsh Government.

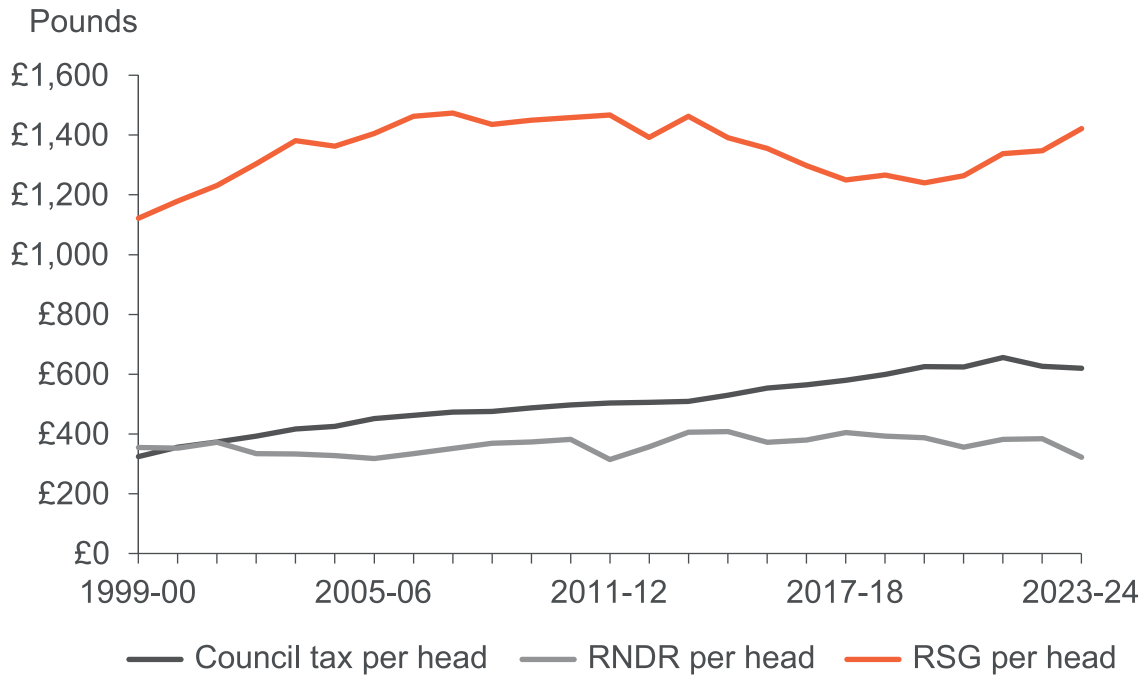
Council tax requirement includes Town and Community Council and Police precepts that are outside of the control of Principal Councils.

80 In real terms, between 1999-2000 and 2023-24 the average band D Council Tax level rose by 66% or £812.[17]

81 The share of council spending funded by Council Tax has remained broadly similar over time. In 1999-2000, Council Tax funded around 16% of gross spending by councils and some 18% in 2023-24.

17 Welsh Government, Average band D council tax

Exhibit 6: council tax, RSG, and RNDR per head in real terms based on mid-year population estimates, 1999-2000 to 2023-24 (Pounds)



Source: Audit Wales analysis of Welsh Government population, council tax, and government support data

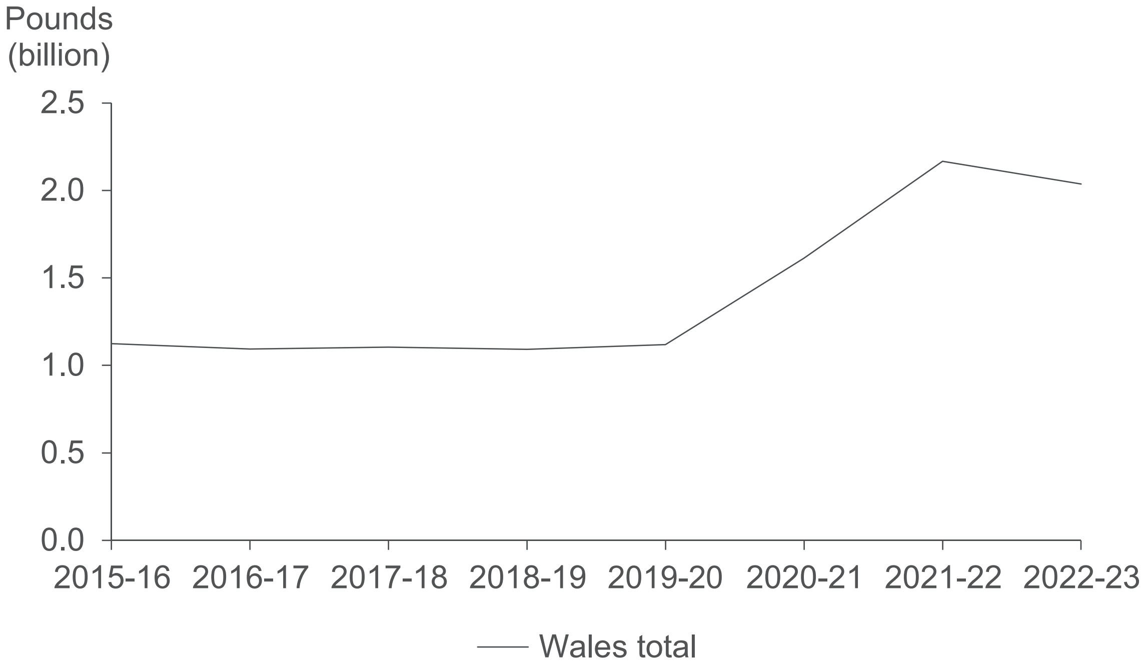
82 Councils can balance their spending by utilising different types of reserves. There are three main types of reserve:

- usable and general reserve – this is a reserve that can be used as a council wants and has not been set aside for a specific purpose.
- usable and earmarked reserve – this is a reserve that can be used as a council wants but has been set aside for a specific purpose, such as the future costs of an asset. In practice using these reserves to supplement revenue expenditure may be problematic if not being used for their original purpose.
- unusable reserve – this is a type of reserve that is not cash-backed so cannot be freely used, either due to law or its accounting basis, such as a revaluation reserve. This can be a requirement of international accounting standards or law.

83 Reserves can only be used once and are a finite resource. For this reason, they are often seen as a last resort or a form of insurance for councils. This makes the sustainable usage and replenishment of reserves a key indicator of financial sustainability.

84 Our analysis shows that levels of usable reserves not restricted by law[18] were largely consistent over time before increasing significantly during the pandemic (**Exhibit 7**). For Wales overall, usable reserves not restricted by law increased from around £1.1 billion in 2019-20 to more than £2.1 billion in 2021-22. Though reducing in 2022-23, usable reserves still amounted to more than £2 billion or 27% of the total cost of services. This is a significant resource to draw upon. However, the position of individual councils, and the extent to which earmarked reserves can easily be re-purposed, varies considerably. In 2022-23, earmarked reserves accounted for 87% of the total usable reserves not restricted by law held by councils.

Exhibit 7: total usable reserves not restricted by law held by Welsh councils, 2015-16 to 2022-23 (£billions)



Source: Audit Wales analysis of council accounts

18 We define this as ‘those reserves that can be applied to the provision of services, either by incurring expenses or for capital investment, irrespective of whether there are restrictions on exactly what the resources can be applied to’. This is the total of the general fund, earmarked reserves and schools’ balances. It excludes Housing Revenue Account reserves, capital receipts and capital grants unapplied.

85 The level of usable reserves as a proportion of the net cost of services, as well as other financial indicators, varies considerably across councils. Our local government financial sustainability data tool compares the level of reserves across local government bodies since 2015-16. In 2022-23, seven councils held usable reserves not restricted by law amounting to less than 20% of the net cost of services. Based on draft accounts provided to us for 2023-24 at the time of publication, two councils have a usable reserves not restricted by law amounting to around 10% of the net cost of services. A further five councils have below 20% of the net cost of services in usable reserves not restricted by law.

Table 3: change in usable reserves not restricted by law between 2022-23 and 2023-24 (£millions)

Council	Usable reserves 2022-23 £million	Usable reserves 2023-24 £million	Change (%)	Usable reserves as a proportion of net cost of services 2022-23	Usable reserves as a proportion of net cost of services 2023-24
Blaenau Gwent	47	Not available	Not available	30%	
Bridgend	103	76	-26%	30%	21%
Caerphilly	165	134	-19%	39%	29%
Cardiff	163	151	-7%	19%	17%
Carmarthenshire	170	149	-12%	38%	30%
Ceredigion	56	51	-9%	32%	25%
Conwy	43	43	2%	16%	15%
Denbighshire	65	Not available	Not available	27%	
Flintshire	50	38	-23%	15%	11%
Gwynedd	123	118	-4%	40%	36%

Council	Usable reserves 2022-23 £million	Usable reserves 2023-24 £million	Change (%)	Usable reserves as a proportion of net cost of services 2022-23	Usable reserves as a proportion of net cost of services 2023-24
Isle of Anglesey	40	39	-5%	24%	21%
Merthyr Tydfil	38	Not available	Not available	27%	
Monmouthshire	27	19	-30%	14%	9%
Neath Port Talbot	91	74	-19%	25%	19%
Newport	129	121	-6%	40%	33%
Pembrokeshire	83	81	-2%	28%	25%
Powys	64	69	8%	20%	20%
Rhondda Cynon Taf	225	215	-4%	36%	32%
Swansea	179	158	-12%	31%	27%
Torfaen	42	41	-4%	19%	17%
Vale of Glamorgan	95	75	-21%	30%	22%
Wrexham	38	37	-3%	12%	11%
Wales	2,037			27%	

Source: Audit Wales analysis of unaudited accounts

Note: At the time of publication, not all 2023-24 accounts had been received. Where not received the entries are noted in the above table

Public expectations and communications

86 Councils balance financial pressures against the expectations of their communities. This can be challenging. Whilst no survey collates resident expectations or satisfaction across Wales, data is collated in England. For example, in a June 2024 survey whilst most citizens were satisfied with their councils (55%) only 38% believed they delivered value for money. This suggests an expectation gap between what residents pay for services and their view of the services they receive.

87 Councils also face the challenge that at any point in time many council taxpayers may not directly receive the services that account for a significant proportion of council spending, such as social services and education. This presents a communications challenge for councils to explain why and how their funding is allocated and gain public support for what may be unpopular financial decisions. For example, where this means potentially reducing or removing services, or increasing charges for them.

Since 2008 some services have seen significant cuts to spending whilst others have increased

88 As Councils have faced pressure on their overall income, spending in some services has decreased (**Exhibit 8**).

Exhibit 8: example services with proportional changes in real terms net spending by Welsh councils, 2008-09 to 2023-24 (June 2024 prices)

This graphic shows the real terms change in service spending by councils between 2008-09 and 2023-24.

Children and family social services +94%
Flood defences and drainage +92%
Coast protection +91%
Business support +74%
Older persons social care +31%
Adult social care (under 65s) +27%
Waste management +15%
Schools +8%

Community safety -62%
Development control -45%
Culture and heritage services -41%
Libraries -41%
Planning -41%
Trading standards - 38%
Highways and roads -37%
Housing -21%

Source: Audit Wales analysis of Welsh Government data

89 Services that provide regulatory or preventative services have often been cut to prioritise funding for short-term needs and/or statutory services. We recognise that prioritising funding for preventative services can be challenging. However, over the longer-term investing in preventative services can improve financial sustainability through providing better value for money as well as improving outcomes for residents.

Councils identified several common and significant financial challenges

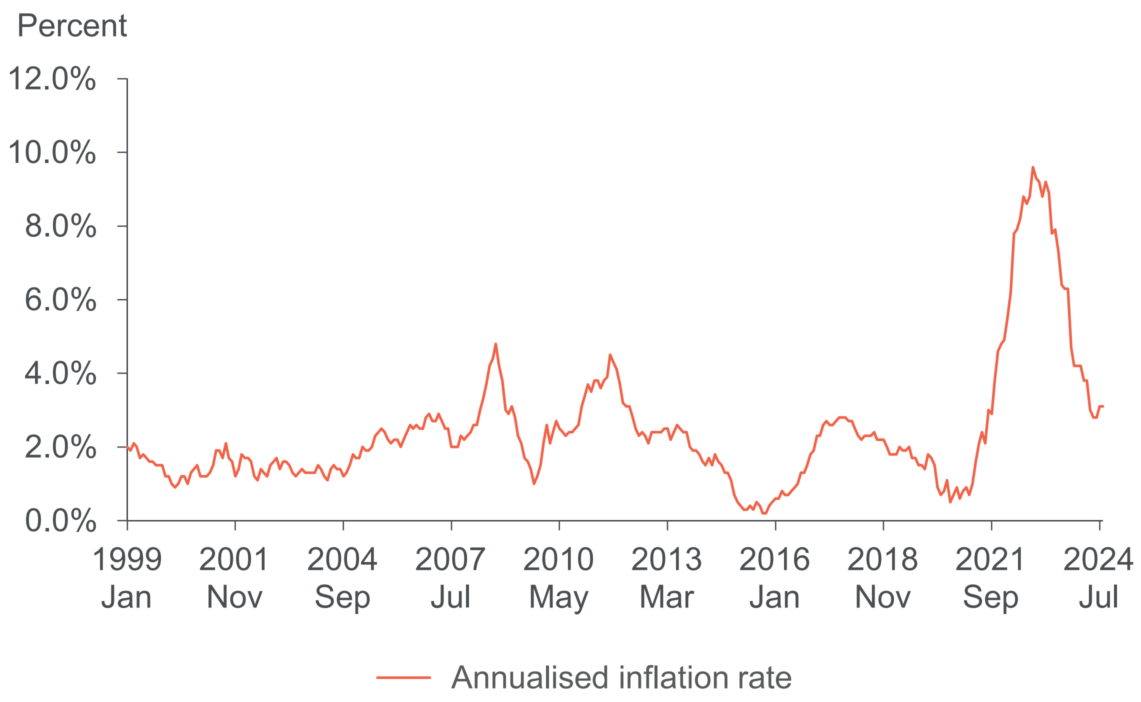
90 During our fieldwork councils outlined some of the key financial challenges that are impacting on their financial sustainability. We have outlined some of these below. It is not an exhaustive list and the extent to which these affect individual councils will vary.

Inflation and the cost-of-living crisis

91 Inflation, the rate that prices increase each year, was relatively consistent at around 2% through the 2000s (**Exhibit 9**). It rose dramatically in late 2021, contributing to a much higher cost-of-living and increasing the cost of local government service delivery.

Exhibit 9: consumer Price Index including owner-occupied housing costs (CPIH) annual rate for all items, January 1999 to June 2024

This graph shows the trend in the annual percentage change in the inflation rate since January 1999.



Source: Office for National Statistics (ONS)

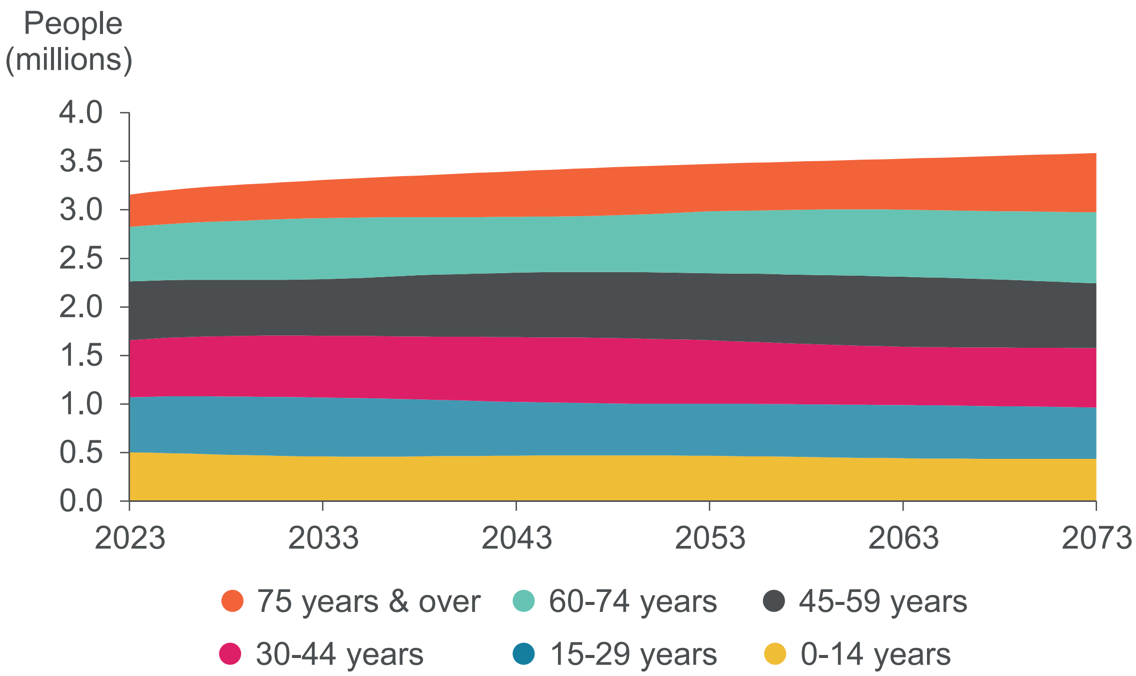
92 Councils faced the same pressures on their own spending as a result of rising prices, seeing large increases in energy costs, for example. So as many residents were looking to councils for additional support, councils themselves were under even greater financial pressure.

Social care

93 Population projections indicate that life expectancy is expected to continue to increase, along with the proportion of older people in the population. This is likely to increase pressure on public services such as social care services (**Exhibit 10**).

Exhibit 10: Welsh national population projections, 2023 to 2073 (2021 based)

This shows the increase in the Welsh population between 2023 and 2073, broken down age categories.



Source: ONS

94 The increased demand for some service associated with an ageing population is also greater for some councils due to internal population movements. This can include young people moving to urban areas for work or education, but also older people moving to more rural or seaside areas for retirement. This can make it more difficult for councils to predict the demand for services.

95 Between January 2023 and June 2024, the number of adult residents receiving either residential or domiciliary care or reablement increased by 6.6% to 32,062.[19] In recent years, spending on social care has accelerated due to increases in both demand and complexity. As shown in Exhibit 8, social care spending for children, adults, and older people has increased by 94%, 27%, and 31% respectively in real terms since 2008-09.

96 Later this year the Auditor General will publish findings following his review of emergency and urgent care flows from hospital and its impact on both councils and health boards.

97 Councils are responsible for caring for some children within their social care provision. Once a child has been in care for over 24 hours they are classed as Children Looked After (CLA). The number of CLA has gradually increased over time. By 2023, Welsh Government data showed that 7,210 CLA were cared for by councils – an increase of 79% since 2003.[20]

98 A quarter of CLA in 2023 were housed in Wales but outside their council area, and a further 6.5% were housed outside of Wales altogether. Insufficient capacity can mean that councils incur extra costs as it is a competitive market with a finite number of placements. Placing children out of county can have a detrimental impact on those children as well as increasing costs for councils. We have heard anecdotally from councils that sudden, emergency placements can have significantly high costs – particularly in cases with complex needs.

99 The Welsh Government's Programme for Government includes a commitment to remove profit from the CLA sector. As part of this policy[21], it aims for fewer children to enter the care system and to restrict companies who can provide accommodation to those who are not-for-profit. We heard concerns from councils about the possible impact of the policy on capacity and costs. The Wales Centre for Public Policy (WCPP) has identified[22] a range of potential implications of the policy, which are likely to impact on councils.

19 Welsh Government social care dashboard data

20 Welsh Government, Children looked after at 31 March by local authority

21 Welsh Government, Removing profit from the care of children looked after, July 2024

22 WCPP, Expert opinion on eliminating profit from the care of children looked after, May 2024

Housing

100 Councils have a range of housing and homelessness prevention duties. In real terms, despite spending from council revenue budgets[23] on housing decreasing by 21% since 2008-09, housing has been consistently the third largest spending area for councils after education.[24]

101 Temporary accommodation is used to provide interim housing for residents facing homelessness. This can often take the form of hotels or hostels due to insufficient council-owned properties to meet demand. The costs of providing this accommodation can therefore also be subject to wider market competition. As of May 2024, 11,591 individuals were temporarily housed by councils in Wales, of which 3,003 were children.[25]

102 This is a significant cost pressure that can be difficult to predict due to its sensitivity to the wider rental market and economy. In the year to August 2024, the ONS found that private monthly rents increased by 8.5% in Wales.[26] This followed changes to private rental regulations in December 2022 under the Housing (Wales) Act 2014. Both have been cited by council officers as adding additional pressure on their services, as well as increased costs in supporting residents in private rental properties.

103 The Auditor General is undertaking a local government study focused on temporary accommodation and plans to report on this early in 2025.

Education

104 In general, councils provide funding to individual schools, which then set a budget. These are known as delegated school budgets. Where schools have unspent funding, they can create reserves that are commonly referred to as 'school balances'. During fieldwork, we heard concerns about the impact of required savings and the resulting decrease in school balances. In 2023-24, school balances continued to reduce sharply to a total of £115 million nationally – equivalent to £253 per learner.[27] Consequently, 21% of schools held negative balances and required additional support from councils.

23 This excludes Housing Revenue Accounts (HRAs) where a council has retained its own housing stock.

24 This is partially due to social care classification by age.

25 Welsh Government, Homeless individuals temporarily accommodated at the end of the period by local authority

26 ONS, Private rent and house prices, UK: September 2024

27 Welsh Government, Reserves held by schools in Wales at 31 March 2024

105 Additional Learning Needs (ALNs), where a person has a learning difficulty or disability that requires additional support, is a key cost pressure for schools. The additional learning system was reformed following legislation in 2018. Changes have been phased in since 2021/22 with all school pupils in the new arrangements by 2025/26. The term ‘ALN’ has replaced the former term ‘Special Educational Needs’ (SEN) but the definition is essentially the same.

106 Since 2021, the proportion of students in council-funded schools has declined sharply. The proportion of students with SEN/ALNs halved from 22.6% to 11.2% between 2013/14 and 2023/24.[28] However, despite a fall in demand, costs have continued to increase. There is uncertainty over the cause of the reduction.

107 Net expenditure from delegated school budgets on ALN increased by 13.4% in real terms between 2013-14 and 2023-24. This formed a total of 4.8% delegated schools’ net expenditure in 2023-24 – up from 4.3% in 2013-14.[29] Spending on ALN from council budgets has risen over the same period by 20.7%. This would support the view that despite a decline in the proportion of students identified with ALN, the costs and complexity of providing support to learners with ALN is a significant challenge for schools to meet. The Auditor General will review ALN as a future national study.

108 SEN costs are a key budget pressure for councils across the UK. For example, the UK Government has made ‘safety valve’ agreements with 38 councils since 2020-21 to support SEN services. This effectively ‘writes-off’ service deficits, subject to conditions agreed between the council and UK Government. No such arrangements are in place in Wales.

109 Councils have legal responsibilities over home to school transport for some learners. The assessment process and thresholds for providing transport are set out in law and primarily relate to the distance between home and the nearest suitable school.Learners entitled to these services cannot be charged. Councils can vary local policy to cover more students and can charge for this discretionary service, for example for transport to religious or Welsh-medium schools that are not the nearest suitable school. Councils net spending on home to school transport has grown by 25% between 2013-14 and 2023-24 in real terms.

28 Welsh Government, Schools’ census results

29 Audit Wales analysis of Welsh Government, Education revenue outturn expenditure

Capital investment

110 Councils must balance capital investment to achieve objectives and service delivery alongside financial sustainability. Capital programmes can include the improving or building of assets, such as roads, office buildings, or schools.

111 As with revenue spending, councils can use different funding sources for their capital programme. Unlike revenue budgets, councils can also borrow money. Each borrowing source has distinct types and scales of risk, making active consideration and oversight of capital programmes critical for financial sustainability. Considering the revenue budget implications of capital investment is important in ensuring financial sustainability over the long-term.

112 We have recently added borrowing data to our local government data tool to add insight into this area. In cash terms, total borrowing between 2020-21 and 2022-23 grew slightly by 4% to total £6.3 billion. Borrowing varies in scale between councils, reflecting their capital programmes and risk appetite (**Table 4**).

Table 4: total council borrowing and as a percentage of net cost of services and usable reserves not restricted by law, 2023-24

Council	Total borrowing (£ millions)	Borrowing as a proportion of the net cost of services	Borrowing as a proportion of usable reserves not restricted by law
Blaenau Gwent*	190	107%	405%
Bridgend	122	33%	160%
Caerphilly	321	70%	239%
Cardiff	903	99%	596%
Carmarthenshire	413	82%	276%
Ceredigion	112	56%	221%
Conwy	250	84%	577%
Denbighshire*	232	107%	395%
Flintshire	339	93%	885%
Gwynedd	109	33%	93%
Isle of Anglesey	125	68%	323%

Council	Total borrowing (£ millions)	Borrowing as a proportion of the net cost of services	Borrowing as a proportion of usable reserves not restricted by law
Merthyr Tydfil*	127	89%	331%
Monmouthshire	180	85%	955%
Neath Port Talbot	272	68%	368%
Newport	190	52%	158%
Pembrokeshire	179	56%	221%
Powys	338	97%	487%
Rhondda Cynon Taf	288	43%	134%
Swansea	685	117%	435%
Torfaen	111	47%	272%
Vale of Glamorgan	150	43%	201%
Wrexham	522	158%	1419%

Source: Audit Wales analysis of unaudited accounts

Note: At the time of publication, not all 2023-24 accounts had been received. Consequently, 2022-23 figures have been used for Blaenau Gwent, Denbighshire, and Merthyr Tydfil.

113 Capital expenditure by councils has gradually increased in real terms to just over £1.8 billion in 2023-24. It has grown faster than revenue spending over the period since 1999-2000. The Auditor General will undertake a local government study focused on capital planning in 2024-25.

Exhibit 11: capital expenditure outturn by Welsh councils in real terms, 1999-2000 to 2023-24 (2023-24 prices)

This graph shows the trend in capital spending over time.

Source: Audit Wales analysis of Welsh Government, Council capital outturn expenditure

Note: 2015-16 appears inflated due to the Housing Revenue Account subsidy buyout, which had a real terms value of around £1.2 billion.

Environmental sustainability

114 Climate change and other environmental issues directly affect council spending in three main ways. Firstly, policy can require investment in response, such as the introduction of recycling targets. Council waste management spending has increased by 15% since 2008-09.

115 Secondly, it encourages councils to invest in infrastructure to reduce carbon emissions to meet the national net-zero target. As we previously outlined[30], there remains significant uncertainty in the ability of the public sector to meet this target and one key element of this is getting to grips with the finance needed.

30 Audit Wales, Public Sector Readiness for Net Zero Carbon by 2030, July 2022

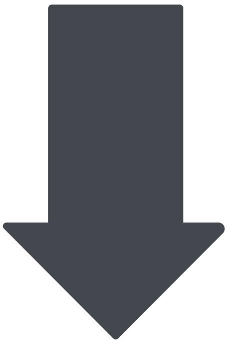
116 Thirdly, councils must react to the more frequent direct impacts of climate change. For example, Storms Ciara, Dennis, and Jorge in 2020 led to 3,120 domestic and non-domestic properties being flooded, leading to damage estimated at £81 million.[31] As well as impacting the local economy, these events can require emergency responses, like emergency housing and support, in addition to addressing damage to council property. As the impact of climate change becomes more severe and frequent, the pressure on council finance is only likely to increase. This may increase the need for preventative spending, such as on flood defences.

31 Natural Resources Wales, February 2020 Floods in Wales, October 2020

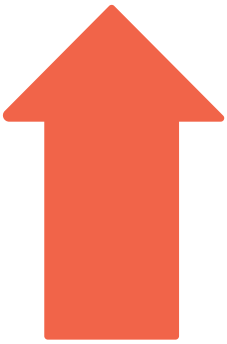
Financial sustainability on a page

Exhibit 12: financial sustainability graphic

This graphic shows the pressures on council financial sustainability and potential approaches to respond to them.



- Cumulative savings impact since 2008
- Growing demand and expectations
- Annual budget setting requirements
- Difficult decisions being required
- Issues beyond the control or influence of councils
- Finite reserves
- Feasibility of Council Tax rises



- Acceptance of the understood financial position
- A clear, communicated financial strategy
- Wide buy-in and support for the approach
- Realistic, long-term planned savings plans
- Clearly assessed and mitigated risk management
- An open dialogue for oversight
- Learning from elsewhere and together
- Meaningful application of the sustainable development principle

Source: Audit Wales

Our local reports

Exhibit 13: local financial sustainability reports issued by Audit Wales

Source: Audit Wales

Local report findings

In this section we set out our main and sub-conclusions from each of our local reports.

Blaenau Gwent County Borough Council

The Council has appropriate arrangements in place to support its financial sustainability, but these will only be effective if it works at pace to identify, approve and implement sufficient savings to reduce its medium-term funding gap in a sustainable way.

We found this because:

- although the Council's strategy for financial sustainability focuses on long term approaches, it has had to use reserves and consider less sustainable short-term savings options to meet the immediate financial challenge.
- the Council understands its medium-term financial position and the factors which influence it although there is some uncertainty over the longer term.
- clear responsibilities and informative budget monitoring reports support effective oversight of the Council's financial position but it's not clear how the Council's strategic approach to financial sustainability might impact local communities.

Bridgend County Borough Council

The Council understands its financial position with good arrangements to support its financial sustainability which it flexes and adapts but is at the early stage of developing its long-term approach.

We found this because:

- the Council is developing its longer-term approach to support its financial sustainability, which is underpinned by good arrangements to involve officers and councillors, but it has not identified how it will meet all its projected funding gap.
- the Council has a good understanding of its key budget pressures and key risks to its financial sustainability. The Council is taking action to address its budgetary pressures by introducing arrangements to manage and monitor individual risks and budget pressures.
- the Council has robust arrangements to ensure councillors are regularly informed of the Council's financial position and outlook, and for councillors to provide oversight and challenge. The Council is agile in changing its arrangements in response to increased risk to its financial sustainability.

Caerphilly County Borough Council

The Council understands its medium-term financial position and has a clear, but untested approach to improve its financial sustainability. However, its arrangements for reporting and oversight, and modelling of future service demands are limited.

We found this because:

- the Council has a clear strategic approach to improve its financial sustainability, but it has not identified how it will meet its medium-term funding gap. In the short-term, the Council has used reserves and temporary savings to meet its immediate financial challenge while it embeds its longer-term approach.
- the Council understands its medium-term financial position, but the modelling of future service demands is less well-developed, which could impact the accuracy of the identified budget gap.
- there is limited reporting, councillor oversight and scrutiny of the Council's financial position and its impact.

Cardiff Council

The Council has reasonable arrangements to support its financial sustainability with a clear understanding of its financial position and regular reporting to coun-cillors but is in the early stages of developing its change programme to help it meet its significant funding gap.

We found this because:

- the Council is in the early stages of reviewing its service delivery and operating model, developing a change programme to improve its long-term financial sustainability.
- the Council has a clear understanding of its financial position and the scale of its future financial challenges, which it will use to underpin its change programme to meet these challenges.
- the Council has effective reporting arrangements to enable councillors to have oversight of the Council's financial position, but the Council does not always report clearly on the impacts of its financial decision-making.

Carmarthenshire County Council

The Council's embedded transformation approach provides a strategic framework to positively support its financial resilience.

We found this because:

- a combination of the Council's budget strategy, medium-term financial planning and embedded longer term transformation approach sets out a strategic framework for its long-term financial sustainability.
- the Council has a clear understanding of its key budget pressures and costs over the medium-term.
- the Council's financial reporting is clear but is not regularly integrated with reporting on delivery of its corporate objectives

Ceredigion County Council

The Council has arrangements in place to support its present financial sustainability but lacks a long-term strategy to support this.

We found this because:

- The Council has taken decisions to support its financial sustainability over the short to medium-term but does not have a comprehensive long-term financial strategy.
- The Council's Medium Term Financial Strategy is presented during the mid-point of the financial year to ensure early engagement with Members prior to detailed budget setting processes. Assumptions are updated during the budget setting process to provide an up-to-date assessment of likely budget requirements.
- Longer-term monitoring of the Council's financial sustainability is impacted by its lack of a long-term comprehensive financial strategy. There are arrangements in place however to support regular budgetary oversight through its current reporting.

Conwy County Borough Council

Although the Council has arrangements to support its financial sustainability these arrangements are not effective in addressing the scale of its budget gap and low reserves, which provide a significant risk to its long-term sustainability without transformational change.

We found this because:

- the Council has a clear and well-informed strategy which is communicated effectively, but the scale of the identified savings required and the low level of reserves puts its strategy at risk.
- the Council has a clear understanding of its financial position, which includes some service areas with rapidly expanding demand and cost.
- the Council has a range of reporting arrangements which allow scrutiny and assurance for councillors.

Denbighshire County Council

The Council engages well with councillors and officers when setting its budget but it currently lacks an approach to find sufficient savings or an implemented transformation plan to bridge its funding gap.

We found this because:

- the Council has a clear strategy for its medium-term financial sustainability, which is well communicated to councillors and officers, but has weaknesses in how it currently identifies efficiencies and is at an early stage of longer-term transformation.
- the Council's understanding of its financial position is clear, supported by assumptions and identified risks. The Council is aware that its recent use of reserves is unsustainable going forward.
- the Council needs to ensure that its scrutiny and monitoring arrangements provide clarity across the responsible Committees and will need to review the effectiveness of recently introduced reporting and tracking arrangements.

Flintshire County Council

The Council's arrangements do not provide assurance that it can identify strategic transformation in the short and medium-term of the scale required by its financial position. This, combined with its low level of reserves and spiralling costs in some service areas, puts the Council's financial sustainability at serious risk.

We found this because:

- although the Council has engaged councillors well, it has taken a short-term approach to detailed financial planning that has led to weaknesses in identifying and assessing savings, which it has not looked to address.
- the Council has a clear understanding of its financial position and pressures.
- the Council has good arrangements for regular and detailed reporting to councillors on its financial position, but these have been unable to impact its financial position.

Gwynedd Council

There was a significant increase in the number of Council departments overspending in the last two financial years, and it has developed arrangements to review its budgets. It is yet to set out how it will address future funding gaps.

- the Council is yet to implement a long-term strategy to support its financial sustainability.
- the Council's Medium-Term Financial Plan identifies likely financial gaps it will face over the next three years. However, it needs to develop and formalise arrangements to oversee its long-term sustainability – including progress in addressing its projected funding gap.

Isle of Anglesey County Council

The Council has good arrangements to respond to financial challenges in the short to medium term, but has not formalised the planning and oversight of its longer term financial sustainability.

- the Council has not formalised a strategy for its long-term financial sustainability.
- the Council understands its financial position over the short to medium term and has a track record of managing key budget pressures and has delivered services in line with its budget in each of the last five years.
- the Council has arrangements to support regular oversight of its financial sustainability over the short to medium term. However, it needs to develop and formalise arrangements to support oversight of its long-term financial sustainability.

Merthyr Tydfil County Borough Council

There are significant risks to the Council's financial sustainability as it does not currently have a plan to address its medium-term funding gap and does not have a long-term approach to improve its financial sustainability.

We found this because:

- the Council continues to take a short-term approach to addressing its financial position and lacks capacity at a senior officer level to develop a long-term approach to improve its financial sustainability.
- the Council has a good understanding of its service pressures and models reasonable assumptions to inform its budget, but it does not adjust its assumptions over the medium-term which could impact the accuracy of the identified budget gap.
- there is regular budget monitoring reporting to senior officers and senior councillors, but the Council does not report on delivering its savings and without a long-term financial approach it cannot monitor or report on its impact.

Monmouthshire County Council

Although the Council is developing a longer-term approach to financial planning, it is yet to identify how it will close its future funding gap. Given its low reserves levels, the Council will need to work at pace to implement its financial strategy and strengthen its financial resilience.

We found this because:

- although the Council's new financial strategy demonstrates its commitment to strengthening financial sustainability over the medium term, it currently lacks robust plans to close its identified funding gap.
- the Council has a clear understanding of its financial position and recognises the need to strengthen its use of data to better understand and mitigate longer-term cost pressures.
- the Council's reporting arrangements support clear and regular oversight of its current financial position, but reporting on the long-term impact of financial decisions is less well-developed.

Neath Port Talbot County Borough Council

The Council has arrangements in place to support its financial sustainability in the short term but lacks a documented longer-term financial strategy to support more transformative change and inform councillors' future spending decisions.

We found this because:

- the Council does not have a financial strategy to support its financial sustainability over the longer-term.
- the Council has a good understanding of its financial position.
- the Council's financial reporting arrangements support regular oversight of its in-year budget position but not its financial sustainability in the longer-term.

Newport City Council

The council has sound financial arrangements to support its financial sustainability, including a developing transformation plan and effective oversight arrangements, but it has not fully identified how it will close its budget gap over the medium and long-term.

We found this because:

- the Council does not have a fully developed long-term approach to support its financial sustainability. But there are sound arrangements to manage its short-term financial position.
- the Council has a good understanding of its current financial position and the key risks to its future financial sustainability.
- the Council's reporting arrangements support regular oversight of its financial position and risks. These provide a good foundation for oversight and scrutiny of the plan to enable the Council's long-term financial sustainability as it develops.

Pembrokeshire County Council

The Council has arrangements in place to support its financial position in the short-term but lacks a longer-term plan to close its identified funding gap.

We found this because:

- the Council does not have a longer-term strategic approach to secure its financial sustainability and close its identified funding gap.
- the Council has a good understanding of its financial position but overspends in key service departments since 2023 are challenging its financial sustainability.
- the Council's financial reporting arrangements support regular oversight of its in-year budget and savings positions and provide an update on its MTFP.

Powys County Council

The Council has not yet adopted a long-term approach to secure its financial sustainability, but is developing one.

We found this because:

- the Council has not yet adopted a long-term approach to secure its financial sustainability, but is developing one. The Council is finalising a long-term strategic transformation approach to secure its financial sustainability and close its identified funding gap.
- the Council's understanding of its future financial challenge is based on reasonable assumptions and a well-developed understanding of its short and medium-term pressures and risks.
- the Council's reporting arrangements support clear and regular oversight of its current financial position, but it does not report explicitly on the impact of its financial strategy on its corporate objectives nor on local communities.

Rhondda Cynon Taf County Borough Council

The Council has appropriate arrangements to support its financial sustainability which provides a platform to address longer term budget challenges.

We found this because:

- the Council has clear arrangements to manage its financial position in the short term and is developing transformation programmes to address recurring cost pressures, but has not yet modelled the collective impact these programmes will have on its budget gap over the medium to long term.
- the Council's approach is underpinned by a good understanding of its financial position and the factors which impact it, including recurring cost pressures in particular service areas.
- the Council provides regular reports to councillors to enable them to understand its financial position. However, the Council's reporting approach does not give councillors clear sight of the impact all budget decisions have had on services, local communities and the achievement of corporate objectives.

Swansea City and County Council

The Council has reasonable arrangements to support its financial sustainability, but there are weaknesses in the delivery and monitoring of the savings programme to support these.

We found this because:

- the Council is beginning to develop a long-term approach to improve financial sustainability through its transformation programme, supported by its Medium-Term Financial Plan, but progress delivering required savings has been slower than anticipated, presenting risks to the Council.
- the Council has a good understanding of its medium-term financial position, but the use of reserves in response to service overspend and risks around capital financing weaken its long-term financial sustainability.
- the Council has arrangements to regularly monitor its financial position, but it does not report progress with individual savings or fully identify the impact of savings proposals to enable effective oversight of its financial sustainability.

Torfaen County Borough Council

The Council has appropriate arrangements in place to support its financial sustainability and is focused on developing and implementing actions that will generate sufficient savings to address its identified budget funding gap in a timely and sustainable way.

We found this because:

- the Council has appropriate arrangements in place, with its identified funding gap in the short to medium term to be addressed by the strategic use of reserves and efficiency measures, and with actions in development to support its longer-term financial sustainability.
- the Council's financial strategy is supported by a clear understanding of its short to medium term financial position, although there is some uncertainty over the longer term.
- the Council regularly reports its financial position, enabling oversight by officers and councillors, and the Council has the opportunity to consider and report the impact of its financial strategy on communities through its annual delivery plan.

Vale of Glamorgan County Borough Council

Whilst having arrangements for the short to medium term, the Council lacks a long-term plan and regular assessments of the impact of decisions to support its long-term financial sustainability.

We found this because:

- the Council has arrangements in place to manage its financial resilience in the short to medium-term, but its longer-term approach is less certain due to being at an early stage in its transformation agenda.
- although the Council understands its financial position, a limited evidence base and a mixed track record in delivering savings means this understanding may be limited in depth and accuracy.
- the Council has clear arrangements for reporting its financial position, but this does not include an understanding of the impact of delivering on its objectives nor how it affects the longer-term.

Wrexham County Borough Council

The Council has identified significant financial pressures and does not yet have an agreed plan to meet the funding gap.

We found this because:

- whilst the Council is clear upon the magnitude and urgency of its financial challenges, it does not yet have a plan for sufficient savings or strategic approach to transform services to secure its medium-term financial sustainability.
- the Council has clear arrangements for managing its budget and financial savings.

Appendices

1 Audit approach and methods

1 Audit approach and methods

Audit objectives

Through this national summary and our local reports, our objectives were to:

- provide assurance that councils have proper arrangements to support their financial sustainability.
- explain how councils are councils are managing with limited resources and the extent to which they assess the impact of their decisions on service delivery and citizens, now and in the future.
- using the national summary output, explain the extent to which councils are considering the sustainable development principle in their financial planning and decision making.
- using the national summary output, inspire improvement by citing examples of good practice in managing and promoting financial sustainability where appropriate.

Approach and scope

We used a system-orientated approach to examine arrangements to support financial sustainability in our local reports. For our national summary, we combined this with a problem-orientated approach to explore issues and their prevalence.

In preparing our approach, we met with the Society of Welsh Treasurers and the Welsh Government. We retained our independence throughout our work.

We completed our fieldwork locally between March and July 2024, which informed our national evidence gathering over the same period and further into August.

Locally, we reviewed each council's strategic approach to support its financial sustainability, its understanding of its current financial position, and its arrangements for reporting and oversight of its financial sustainability. We reviewed arrangements that each council has to support its financial sustainability. We did not review of each council's wider financial management or individual financial decisions.

Our audit criteria were based on our cumulative audit knowledge and drawing on publications produced by CIPFA.

Methods

In preparing this national summary, we compiled evidence and findings from our local reports that used the following methods:

- interviews – at each council we interviewed:
  - Chief Executive Officer
  - Section 151 officer
  - lead officer for transformation
  - leader of the council
  - cabinet lead for finance
- document review – we reviewed documents from each council including each Medium-Term Financial Plan (MTFP), financial strategies, financial reports, and committee minutes.
- data analysis – we analysed financial data, both publicly available and provided by councils. Where financial figures are presented in real terms, we have used June 2024 deflators issued by HM Treasury to account for the impact of inflation.

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Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.

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Financial Sustainability Review – Isle of Anglesey County Council

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We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

Contents

Summary report

Why we did this audit

Our audit duties

1 The Council has to put in place arrangements to get value for money for the resources it uses, and the Auditor General has to be satisfied that it has done this.

2 We undertook this audit to help discharge the Auditor General's duties under section 17 of the Public Audit (Wales) Act 2004. It may also inform a study for improving value for money under section 41 of the 2004 Act, and/or an examination undertaken by the Auditor General under section 15 of the Well-being of Future Generations Act (Wales) 2015.

Our objectives for this audit

3 To provide assurance that councils have proper arrangements to support their financial sustainability.

4 To explain councils' financial position and the key budget pressures and risks to their financial sustainability.

Why financial sustainability is important

5 A combination of factors including the rising cost of delivering services and increased demand for some services is placing significant pressure on local government finances.

6 Despite these pressures, councils are still required to set a balanced budget whilst delivering a number of statutory services. Councils also provide a range of non-statutory services that communities rely on.

7 In this context, it is important that councils develop a strategic approach to their financial sustainability over the longer term to help them to secure value for money in the use of their resources.

What we looked at and what does good look like[1]

8 We reviewed the Council's strategic approach to support its financial sustainability, its understanding of its current financial position, and its arrangements for reporting and oversight of its financial sustainability. This audit was limited to a consideration

[1] Defined as 'what should be' according to laws or regulations, 'what is expected' according to best practice, or 'what could be', given better conditions.

of the arrangements that the Council has put in place to support its financial sustainability. It was not a review of the Council's wider financial management, or of the individual financial decisions that the Council has made or intends to make.

9 We recognise that some factors which will impact on councils' financial sustainability will be beyond the scope of this audit, as this audit focused on the arrangements that councils are putting in place. However, where we identified common issues through our fieldwork that go beyond the arrangements that councils have put in place, we will report on these in our planned national summary report.

10 We also recognise the unprecedented financial challenges that councils have faced for many years and are likely to continue to face for at least the medium term. This includes the public sector funding pressures that followed the financial crisis in 2008 and the impact of the pandemic both at the time and its continued aftereffects. More recently councils have also faced significant real-terms reductions in spending power as a consequence of the fastest increase in inflation for decades. Alongside all of these events there have also been significant increases in the demand for some services, including for example the impact of an ageing population and the resulting increased demand for some services. These factors are largely outside the control of any individual council.

11 Against this longer-term background of financial challenges councils have needed to respond to more recent challenges at pace and we understand that inevitably in many, if not all councils, some of the specific details of how financial pressures will be tackled over the medium-term are still to be determined. This report sets out our view on the Council's financial arrangements, and where appropriate where we think these could be strengthened to help improve the Council's financial sustainability over the medium-term. Our report should be viewed in the context of these wider and longer-term financial pressures.

12 The audit sought to answer the overall question – **Does the Council have proper arrangements to support its financial sustainability?** To do this we looked to answer the following questions:

- Does the Council have a clear strategy for its long-term financial sustainability?
- Is the Council's financial strategy supported by a clear understanding of its financial position?
- Do the Council's reporting arrangements support regular oversight of its financial sustainability?

13 The audit criteria that we used to assess the Council's arrangements against each of our questions is set out in **Appendix 1**. This has been informed by our cumulative knowledge, as well as drawing on some publications produced by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Our audit methods and when we undertook the audit

14 Our findings are based on document reviews and interviews with a sample of councillors and senior officers. The evidence we have used to inform our findings is limited to these sources. We undertook this work during April to May 2024.

15 We are undertaking this work at each of the 22 principal councils in Wales and, as well as reporting locally to each council, we also intend to produce a national report.

What we found

16 Overall, we found that the Council has good arrangement to respond to financial challenges in the short to medium term, but has not formalised the planning and oversight of its longer term financial sustainability. We set out below why we reached this conclusion.

17 The Council has not formalised a strategy for its long-term financial sustainability.

18 The officers and councillors we interviewed recognise that demographic changes, coupled with increasing demand and budgetary pressures, are likely to impact on where and how it provides services in the future. Officers intend to use data to understand how demographic trends will impact on the Council in the longer-term. However, the Council is not formally planning beyond the two-year horizon set out in its Medium-Term Financial Plan 2025-26 – 2026-27 (MTFP). A clear, robust and agreed financial strategy is important to identify how the Council will respond to anticipated funding pressures. The Council acknowledges, in line with good practice, the need to reintroduce a three-year MTFP.

19 The Council is yet to identify the savings it intends to make to close its funding gaps in the next two years. Its MTFP notes that it is projected to have a funding shortfall of £7.365 million in 2025-26 and a further £0.733 million in 2026-27.[2] It has not identified any significant efficiency savings to reduce budget requirements, and its MTFP notes that any future savings can only be generated by reducing or ceasing service provision. However, beyond comparing council tax rates, we found little evidence of the Council looking elsewhere to inform its approach and how its current service provision compares with other bodies. Without a longer-term strategy that sets out how the role of the Council may change in future and where it

[2] To help calculate its projected funding shortfalls, the Council has informally benchmarked its assumptions with other councils. Some of its key assumptions (e.g. revenue support grant, and general inflation) are more optimistic than other councils across Wales.

needs to prioritise its resources, the Council risks reducing capacity in key areas and undermining its ability to adapt and respond to long-term challenges.

20 The Council has made planned use reserves to address short-medium term funding gaps. The Council used £3.78 million of reserves to balance the 2023-24 budget, and £4.425 million in 2024-25. Senior officers acknowledge that resources available to fund a budget deficit from reserves are limited, and acknowledge the need develop a longer-term sustainable solution.[3]

21 The Council understands its financial position over the short to medium term and has a track record of managing key budget pressures and has delivered services in line with its budget in each of the last five years.

22 Officers and councillors articulate a good understanding of the Council's financial position. Positively the Council has invested in initiatives to reduce certain pressures. The Council has undertaken several schemes to reduce costs including the creation of placements for children within the county, investment in preventative services and identifying opportunities to increase service income. While the Council has made planned efficiencies there is acknowledgement that these have not been strategically pulled together to ensure a framework for forward thinking and strategic decision making by members where the long term impact of decisions can be modelled and understood.

23 The Council has arrangements to support regular oversight of its financial sustainability over the short to medium term. However, it needs to develop and formalise arrangements to support oversight of its long-term financial sustainability.

24 The roles of senior officers, councillors and key committees in monitoring the Council's financial position over the short-medium term are clearly set out. However, arrangements to support oversight of long-term financial sustainability need to be given greater consideration. Clear, regular and transparent reporting arrangements are important to enable effective oversight of the Council's financial position, the action it is taking to ensure its financial sustainability and the impact of this on its local communities.

[3] At £40.39 million, the Council's total usable revenue reserves (not protected by law) as a proportion of the net cost of services was 23.7% at the end of 2022-23, down from 30.1% the previous year. The average across Wales in 2022-23 was 27.4%.

Our recommendations for the Council

Exhibit 1: our recommendations for the Council

Recommendations	
R1	The Council's Medium Term Financial Strategy is limited to two years and has not approved a financial strategy that identifies the long-term financial pressures and its strategic approach to meet these challenges. To address this, the Council should develop a longer term financial strategy that supports its understanding of its future financial position and informs its transformation and prioritisation of services.

Appendix 1

Audit questions and criteria

Exhibit 2: overall question: Does the Council have proper arrangements to support its financial sustainability?

Level 2 questions	Criteria
Does the Council have a clear strategy for its long-term financial sustainability?	• The Council has clearly set out its strategic approach to support its financial resilience over the short, medium, and long term. • The Council has a medium-term financial plan. • The Council's strategic approach is widely understood and supported by senior officers. • The Council has considered a wide range of options to improve its long-term financial sustainability, including comparison with other bodies. • The Council has identified all the savings it intends to make to meet its funding gap over the medium term, supported by well-evidenced plans based on reasonable assumptions. • The Council's strategy includes the strategic use of reserves to manage its savings programme over the medium term. • The Council has modelled the anticipated impact of its financial strategy over the medium term (eg potential service reductions and council tax levels on local communities).
Is the Council's financial strategy supported by a clear understanding of its financial position?	• The Council has calculated its funding gap over the short to medium term based on reasonable assumptions. • The Council has benchmarked its assumptions with appropriate comparator bodies. • The Council has a good understanding of its key budget pressures in the medium and long term. • The Council has a track record of successfully addressing key budget pressures. • The Council has identified the key risks to its financial sustainability and has put in place mitigations.

Level 2 questions	Criteria
Do the Council's reporting arrangements support regular oversight of its financial sustainability?	• It is clear who is responsible for monitoring the Council's financial position, including its sustainability over the medium to long term. • The Council regularly reports its financial position to members to enable oversight and scrutiny. • The Council has arrangements to transparently report the impact/anticipated impact of its financial strategy on the achievement of its corporate objectives and on local communities to members and other stakeholders. • The Council's savings plan includes what has been agreed, how much progress has been made in implementation, and links to both its budget and medium-term financial plan. • The Council regularly reports progress in delivering planned savings to members to enable oversight and scrutiny.

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We welcome correspondence and telephone calls in Welsh and English.
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.

Management response form

Archwilio Cymru
Audit Wales

Report title: Financial Sustainability Review – Isle of Anglesey County Council

Completion date: December 2024

Document reference: 4484A2024

Ref	Recommendation	Management response Please set out here relevant commentary on the planned actions in response to the recommendations	Completion date Please set out by when the planned actions will be complete	Responsible officer (title)
R1	The Council's Medium Term Financial Strategy is limited to two years and has not approved a financial strategy that identifies the long-term financial pressures and its strategic approach to meet these challenges. To address this, the Council should develop a longer term financial strategy that supports its understanding of its future financial position and informs its	The Council's most recent MTFS was presented to the Executive in September 2024 and covers a 3 year period up to 2027/28. The Council is in the process of developing a number of strategic plans which expand on the objectives set out in the Council Plan and how the strategy will contribute to the long term financial sustainability of the Council. Once this process is completed and the Welsh Government is in a position to provide the Council with a longer term indication of future funding, all of this information will be brought	September 2024	Director of Function (Resources) / Section 151 Officer

Ref	Recommendation	**Management response** Please set out here relevant commentary on the planned actions in response to the recommendations	**Completion date** Please set out by when the planned actions will be complete	**Responsible officer (title)**
	transformation and prioritisation of services.	together into a revised MTFS which will set out the Council's long term funding position and how the Council aims to address its long term funding issues.	December 2025	Leadership Team

ISLE OF ANGLESEY COUNTY COUNCIL	
Report to	Governance and Audit Committee
Date	11 February 2025
Subject	Review of Forward Work Programme for 2024-25 v5
Head of Service	Marc Jones Director of Function (Resources) and Section 151 Officer MarcJones@anglesey.gov.wales
Report Author	Marion Pryor Head of Audit and Risk MarionPryor@anglesey.gov.wales
Nature and Reason for Reporting A Forward Work Programme for 2024-25 is provided to the members of the Governance and Audit Committee to assist them in fulfilling the Committee's Terms of Reference.	

1.0 INTRODUCTION

1.1 A Forward Work Programme is attached at Appendix A, along with a training programme at Appendix B.

1.2 The programme has been developed considering the Committee's terms of reference and its responsibilities under the Local Government and Elections (Wales) Act 2021.

2.0 RECOMMENDATION

2.1 That the Governance and Audit Committee:

- considers whether the Forward Work Programme proposed for 2024-25 meets the Committee's responsibilities in accordance with its terms of reference.

Appendix A – Forward Work Programme 2024-25

Core Function	27 June 2024	18 July 2024	19 September 2024	27 November 2024	05 December 2024	11 February 2025	8 May 2025
Composition and arrangements (3.4.8.2)	Review of Committee's Terms of Reference (3.4.8.2.1)						Annual Review of Committee's Terms of Reference (3.4.8.2.1) Private meeting with internal and external audit without officers present (3.4.8.2.6) (3.4.8.10.15) (3.4.8.11.5)
Accountability arrangements (3.4.8.3)	Action Log Review of Forward Work Programme 2024-25 (3.4.8.3.2) Annual Chair's Report 2023-24 (3.4.8.3.1/2) Update on the Governance and Audit Committee Effectiveness Review Action Plan (3.4.8.3.2)	Action Log Review of Forward Work Programme 2024-25 v2 (3.4.8.3.2)	Action Log Review of Forward Work Programme 2024-25 v3 (3.4.8.3.2)		Action Log Review of Forward Work Programme 2024-25 v4 (3.4.8.3.2) Update on the Governance and Audit Committee Effectiveness Review Action Plan (3.4.8.3.2)	Action Log Review of Forward Work Programme 2024-25 v5 (3.4.8.3.2)	Action Log Review of Forward Work Programme 2024-25 (3.4.8.3.2)

Core Function	27 June 2024	18 July 2024	19 September 2024	27 November 2024	05 December 2024	11 February 2025	8 May 2025
Governance (3.4.8.4)		Draft Annual Governance Statement 2023-24 (3.4.8.4.1/2/3) (3.4.8.6.1/2/3) (3.4.8.8.2)		Final Annual Governance Statement 2023-24 (3.4.8.4.1/2/3) (3.4.8.6.1/2/3) (3.4.8.8.2)	~~Annual Report of the Partnership and Regeneration Scrutiny Committee 2023-24 (3.4.8.4.4) (provisional)~~		Annual Scrutiny Report 2024-25 (3.4.8.4.4)
Treasury Management (3.4.8.5)			Annual Report 2023-24 (3.4.8.5.1/2/3/4)		~~Mid-year Report (3.4.8.5.3)~~	Strategy and Prudential Indicators 2025-26 (3.4.8.5.1/3/4) Mid-year Report (3.4.8.5.3)	
Value for money (3.4.8.6)	*Annual Internal Audit Report 2023-24 (3.4.8.10.6/7/8/9/ 12/14/15) (3.4.8.6.3)*	*Draft Annual Governance Statement 2023-24 (3.4.8.4.1/2/3) (3.4.8.6.1/2/3)* *Draft Statement of Accounts 2023-24 (3.4.8.12.1/2) (3.4.8.6.1/2/3)*		*Final Annual Governance Statement 2023-24 (3.4.8.4.1/2/3) (3.4.8.6.1/2/3)* *Final Statement of Accounts 2023-24 (3.4.8.12.1/2) (3.4.8.6.1/2/3)* *Audit of Accounts Report (3.4.8.11.2/3) (3.4.8.6.3)*		~~*Annual Audit Summary 2024 (3.4.8.11.2/3) (3.4.8.6.3)*~~ *Financial Sustainability Review (Local Report) (3.4.8.11.2/3)* *Financial Sustainability Review (National Study) (3.4.8.11.2/3)*	*Annual Audit Summary 2024 (3.4.8.11.2/3) (3.4.8.6.3)*

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Core Function	27 June 2024	18 July 2024	19 September 2024	27 November 2024	05 December 2024	11 February 2025	8 May 2025
Assurance Framework (3.4.8.7)			Annual Information Governance (SIRO) Report 2023-24 (3.4.8.7.1/2/3) ~~Annual ICT Security Report 2023-24 (3.4.8.7.1/2/3)~~ ~~Annual Health & Safety Report 2023-24 (3.4.8.7.1/2/3)~~		Annual Information Governance in Schools Report 2023-24 (3.4.8.7.1/2/3) Annual ICT Security Report 2023-24 (3.4.8.7.1/2/3) Annual Health & Safety Report 2023-24 (3.4.8.7.1/2/3)		
Risk Management (3.4.8.8)			~~Climate Change Update (3.4.8.8.3) (provisional)~~		~~Strategic Risk Register Update (3.4.8.7.1/2) (3.4.8.8.1)~~ Managing the Risks of Climate Change and Becoming Net Zero Update (3.4.8.8.3)		Annual Review of Risk Management Framework (3.4.8.7.1/2) (3.4.8.8.1) Strategic Risk Register Update (3.4.8.7.1/2) (3.4.8.8.1)
Countering Fraud and Corruption (3.4.8.9)		~~Annual Counter Fraud, Bribery and Corruption Report 2023-24 (3.4.8.9.4/5/6)~~	Annual Counter Fraud, Bribery and Corruption Report 2023-24 (3.4.8.9.4/5/6)			Counter Fraud, Bribery and Corruption Strategy 2025-28 (3.4.8.9.2/3)	

Core Function	27 June 2024	18 July 2024	19 September 2024	27 November 2024	05 December 2024	11 February 2025	8 May 2025
		National Fraud Initiative 2022-24 Outcomes – Progress Report (3.4.8.9.6)	*Annual Concerns, Complaints & Whistleblowing Report 2023-24 (3.4.8.9.1) (3.4.8.14.2)*				
Internal Audit (3.4.8.10)	Annual Internal Audit Report 2023-24 (3.4.8.10.5/6/7/8/11/14/15) (3.4.8.6.3) Internal Assessment of Conformance with the Public Sector Internal Audit Standards (3.4.8.10.1/8/11/13)	Internal Audit Update Report (3.4.8.10.9/10) (3.4.8.6.3)	Internal Audit Update Report (3.4.8.10.9/10) (3.4.8.6.3 Outstanding Issues / Risks / Opportunities (3.4.8.10.9/10)		Internal Audit Update Report (3.4.8.10.9/10) (3.4.8.6.3)	Internal Audit Update Report (3.4.8.10.9/10) (3.4.8.6.3)	Internal Audit Update Report (3.4.8.10.9/10) (3.4.8.6.3) Outstanding Issues / Risks / Opportunities (3.4.8.10.11) Annual Internal Audit Strategy 2025-26 (3.4.8.10.1/2/4/5) Review of Internal Audit Charter (3.4.8.10.2/12)
External Audit (3.4.8.11)	Work Programme and Timetable – Quarterly Update (Q4 2023) (3.4.8.11.2/3)		Work Programme and Timetable – Quarterly Update (Q1 2024) (3.4.8.11.2/3)	Audit of Accounts Report (3.4.8.11.2/3) (3.4.8.6.3) (3.4.8.12.4)	Work Programme and Timetable – Quarterly Update (Q2 2024) (3.4.8.11.2/3)	~~Work Programme and Timetable – Quarterly Update (Q3 2024) (3.4.8.11.2/3)~~	Work Programme and Timetable – Quarterly Update (Q3 2024) (3.4.8.11.2/3)

Core Function	27 June 2024	18 July 2024	19 September 2024	27 November 2024	05 December 2024	11 February 2025	8 May 2025
	Annual Audit Plan 2024 (3.4.8.11.1/3)				*National Reviews and their Related Recommendations (3.4.8.11.3) (3.4.8.13.1)*	~~Annual Audit Summary 2024 (3.4.8.11.1/2/3) (3.4.8.6.3)~~ Financial Sustainability Review (Local Report) (3.4.8.11.2/3) Financial Sustainability Review (National Study) (3.4.8.11.2/3)	Work Programme and Timetable – Quarterly Update (Q4 2024) (3.4.8.11.2/3) Annual Audit Summary 2024 (3.4.8.11.1/2/3) (3.4.8.6.3)
Financial Reporting (3.4.8.12)		Draft Statement of Accounts 2023-24 (3.4.8.12.1/2/3/5) (3.4.8.6.1/2/3)		Final Statement of Accounts 2023-24 (3.4.8.12.1/2/3/5) (3.4.8.6.1/2/3)			
Other regulators and inspectors (3.4.8.13)					National Reviews and their Related Recommendations (3.4.8.11.3) (3.4.8.13.1)		
Complaints Handling (3.4.8.14)			Annual Concerns, Complaints & Whistleblowing Report 2023-24 (3.4.8.14.1/2)		Annual Letter of the Public Services Ombudsman for Wales 2023-24 (3.4.8.14.1)		

Core Function	27 June 2024	18 July 2024	19 September 2024	27 November 2024	05 December 2024	11 February 2025	8 May 2025
			~~Annual Letter of the Public Services Ombudsman for Wales 2023-24 (3.4.8.14.1)~~				
Self-assessment (3.4.8.15)		Review of the Draft Annual Corporate Self-assessment report 2023-4 (3.4.8.15.1/2/3)					
Performance Panel Assessment (3.4.8.16)[1]							
Auditor General Special Inspection (3.4.8.17)[2]							

[1] At least once during an electoral cycle a panel performance assessment will take place in the period between ordinary elections of councillors to the council. The council may choose to commission more than one panel assessment in an electoral cycle, but it is not a requirement of the legislation. (The Local Government and Elections (Wales) Act 2021). The council must make a draft of its response to the panel performance assessment available to its Governance and Audit committee, which must then review the draft response and may make recommendations for changes to the response to the panel assessment.

[2] If the Auditor General carries out a special inspection (as it considers the Council is not, or may not, be meeting its performance requirements, and a report is sent to Council, as soon as reasonably practicable after receiving such report, the Council must make it available to the Governance and Audit Committee.

Appendix B – Training Programme (3.4.8.2.10)

Committee-specific training

Area	Date last provided	Medium	Provider	Date provided / scheduled	Attendance
Introduction to Artificial Intelligence and Risk Mitigation	Not applicable	Briefing Session	Mathew Henshaw, Chief Digital Officer	11/02/25	
Understanding Local Authority Accounts for Councillors	June 2023 August 2023				
Treasury Management (3.4.8.5.2)	September 2023				
Effective Chairing Skills	October 2023				
Countering Fraud and Corruption	December 2023				
Risk Management	March 2024				

Mandatory training

Area	Medium	Provider	Date Provided / Scheduled
General Data Protection Regulations (GDPR)	eLearning	Internal	Available any time
Cyber Ninjas for Councillors[3]	eLearning	Internal	Available any time
Basic Safeguarding Awareness (Group A)	eLearning	Internal	Available any time
Violence Against Women, Domestic Abuse and Sexual Violence (optional for lay members)	eLearning	Internal	Available any time
Prevent (optional for lay members)	eLearning	Internal	Available any time
Modern Slavery (optional for lay members)	eLearning	Internal	Available any time

[3] The Cyber Ninjas module is again live on the Members Dashboard of Learning Pool. As a requirement of the grant funding, the Training & Development team will be required to report on quarterly progress, and will be raising further awareness with members shortly.