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To: All Members of the **AUDIT, STANDARDS AND RISK COMMITTEE**

The following papers have been added to the agenda for the above meeting.

They were not available for publication with the rest of the agenda.

Yours sincerely

Damian Roberts

Chief Executive

SUPPLEMENTARY PAPERS

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Surrey Heath Borough Council
Audit Standards and Risk
March 2024

Internal Audit Recommendations Update

Strategic Director/Head of Service	Gavin Ramtohal
Report Author:	Alex Middleton – Senior Auditor
Wards Affected:	n/a

Summary and purpose

To provide Members with an update on Internal Audit recommendations

Recommendation

The Committee is advised to RESOLVE that

- (i) the status of Internal Audit Recommendations be noted

1. Background and Supporting Information

1.1 The Council's Internal Audit service recommends areas for improvement following audit reviews of Council systems and activities by raising audit recommendations.

1.2 Each audit recommendation is classified into one of three classifications:

- **Essential** – normally requires immediate attention to address substantial weaknesses; exposes the Council to areas of high risk; risk of Council business objectives not being met; could result in significant financial loss; non-compliance with statutory guidance/legislation; possibilities of fraud
- **Desirable** - contributes to maintaining an effective control environment and ensures policies and procedures are met; helps to ensure Council Key Priorities and Values continue to be met; areas of medium risk; short to medium term implementation
- **Best Practice** – demonstrates best practice from across the industry and other public sector bodies; helps to improve overall control and efficiency; assists management to deliver services; medium to longer term implementation; areas of lowest risk.

- 1.3 Audit recommendations are monitored by the Audit team on a regular basis in order to check progress is being made. Service departments are instructed to provide updates on the status of their assigned recommendations every few months.
- 1.4 An update on audit recommendations raised over a rolling 18 month period is reported to the senior management team and to Members at every Audit Standards and Risk meeting.
- 1.5 The process of monitoring, escalating and reporting Internal Audit recommendations is laid down in the Council's Audit Charter and Audit Manual.
- 1.6 The actual number of audit recommendations raised and reported is dependent on the key findings from each audit assignment.

2. Reasons for Recommendation

- 2.1 Audit recommendations are reported to the senior management team and to Members periodically in accordance with the Audit Charter. Members have previously expressed a desire to be provided with an audit recommendations update, so this report fulfils this committee decision.

3. Proposal and Alternative Options

- 3.1 All audit recommendations raised within a rolling 18 month period are included in this update report, as well as any older recommendation that remains outstanding. Audits with no recommendations have not been logged on the spreadsheet, as there are no monitoring requirements.
- 3.2 All overdue recommendations have been followed up with Heads of Service who have been asked to provide updates on all of their overdue audit recommendations.
- 3.3 As at March 2024 all audit recommendations have been actioned/closed off (not including those that are not yet due).
- 3.4 Several recommendations are "in progress" but are not yet due. All of these recommendations were followed up with Service Heads to ensure progress is being made for each of these, and the updates have been provided in the spreadsheet for information.

4. Contribution to the Council's Five Year Strategy

- 4.1 Internal audit recommendations contribute to the Five Year Strategy by helping to identify weaknesses in control and governance, and by recommending continuous improvements in service delivery. Audit recommendations also help to ensure compliance with law and regulations.

5. Resource Implications

- 5.1 Any follow up work required by service departments to implement audit recommendations highlighted in this report.

6. Section 151 Officer Comments:

- 6.1 Any audit recommendation that is not implemented increases the risk to the Council, as well as exposing the authority to weaknesses in control and governance.

7. Legal and Governance Issues

- 7.1 Internal Audit recommendations contribute to legal and governance issues by ensuring compliance with the law and regulations, as well as highlighting significant governance issues and suggesting areas for improvement.

8. Monitoring Officer Comments:

- 8.1 Covered above

9. Other Considerations and Impacts

Environment and Climate Change

- 9.1 No significant issues

Equalities and Human Rights

- 9.2 No significant issues

Risk Management

- 9.3 Internal Audit recommendations support the Council's corporate risk management framework by identifying weaknesses in control and governance, and suggesting mitigating actions to reduce or alleviate those risks. Any significant risks identified by Audit may be subject to discussion at the Council's risk management group, and if necessary, added to the Corporate Risk Register.

Community Engagement

- 9.4 No significant issues

Annexes

Audit Recommendations Spreadsheet dated February 2024

Background Papers

Nil

Theatre	22/23	The theatre management should consider putting in place proper arrangements to account for car park income so that it can be validated	Desirable	Jun-22	30/09/2022	Y	actioned		Andy Edmeads/Eugene Leal
Debtors	22/23	It is recommended that the Environment & Community and Recycling & Refuse Services are reminded to inform Finance at the earliest opportunity for the relevant debtor invoices to be raised.	Desirable	Feb-23	28/02/2023	Y	The action has been shared with the relevant manager to ensure this is addressed moving forward.		All relevant Service Managers
Debtors	22/23	It is recommended that Finance send out reminder letters to debtors after the required 21 days of the due date of payment of debts, and if debts are not still paid to send the second reminder letter after 21 days of the 1 st reminder notice.	Desirable	Feb-23	30/09/2023	Y	actioned. Now covered by latest Debt policy published on warbler		Bob Watson/Michelle Smith
Debtors	22/23	It is recommended that when debts are not paid after reminder letter have been sent out Finance should document what further action that needs to be taken to recover the debts, in order for a full audit trail to be retained.	Desirable	Feb-23	30/09/2023	Y	Actioned. A monthly spreadsheets is now being retained showing the latest actions/status of each debt		Bob Watson/Michelle Smith
Debtors	22/23	It is recommended that Finance liaises with individual services to discuss what further recovery action should be taken after two reminder letters have been sent to customers for unpaid debts under £500.	Desirable	Feb-23	30/09/2023	Y	Actioned. There are now meetings with service departments to discuss debts and evidenced in the spreadsheet. Updated process in revised debt policy		Bob Watson/Michelle Smith
Debtors	22/23	Finance should agree the course of action to be taken on unpaid debts that have not been recovered by the CPA.	Desirable	Feb-23	30/09/2023	Y	Actioned. Now covered by the revised debt policy		Bob Watson/Michelle Smith
Debtors	22/23	It is recommended that a review of the success or otherwise of the CPA is undertaken including a cost benefit analysis. The Council could also consider benchmarking the performance of the existing arrangements with the CPA as the current contract is due to expire April 2023.	Desirable	Feb-23	30/09/2023	Y	Finance is reviewing the performance from CPA currently and have received statistics on performance. They have a meeting at the end of March to agree a way forward. It is unlikely Finance will be reviewing the CPA service because Bristow & Sutor, who are used use for Council Tax/ Business rate arrears have added sundry debts onto the contract free of charge. New arrangements will be up and running from April.		Bob Watson/Michelle Smith
Debtors	22/23	The records of debts referred to legal should be improved and kept up to date, including the date of referral.	Desirable	Feb-23	31/03/2023	Y	The Head of Service discussed with his legal team to action.		Bob Watson/Michelle Smith
Debtors	22/23	Action should be taken in a timely manner when debts remain unpaid and 2 LBAs have been issued. This would include seeking prompt instructions from individual service areas as to the next course of action that needs to be taken.	Desirable	Feb-23	31/03/2023	Y	The Head of Service discusses with his legal team to action.		Gavin Ramtohal
Debtors	22/23	It is recommended that going forward full and proper records are obtained for all hires. Sundry debtor invoices should not be raised where there is no record that a hire has actually taken place. This is to ensure the records are available for the service to chase debts.	Desirable	Feb-23	28/02/2023	Y	The action has been shared with the relevant manager to ensure this is addressed moving forward.		All service manager/Michelle Smith
Debtors	22/23	Officers should be reminded to complete a request for write off form every time they are require a sundry debt to be written off. Ideally this should be in digital format via joforn/held on Warbler. Desirable.	Desirable	Feb-23	30/09/2023	Y	Actioned		Gavin Ramtohal
Debtors	22/23	It is recommended that the Venue & Operations Manager is reminded to approve credit notes within their authorisation limits.	Desirable	Feb-23	28/02/2023	Y	The matter was raised with the current V&O Manager and was advised to pass credit notes over their current limit to the Recreation & Leisure Services Manager to approve.		Gavin Ramtohal
Land Charges	22/23	It is recommended that the LLC service needs to re-visit its cancellation policy to clarify appropriate timescales and or percentages of work completed and how much of the fees paid will be refunded.	Desirable	Jan-23	31/07/2023	Y	Cancellation policy updated Jan 2023. Details updated on web page		Gavin Chiniiah/Sarah Dillon
Land Charges	22/23	It is recommended that service performance including search turnaround times are considered for reporting to CMT and/or Members. This is to ensure the performance of the LLC service is monitored on a regular basis.	Desirable	Jan-23	31/07/2023	Y	KPIs loaded into box and shared with head of service monthly		Gavin Chiniiah/Sarah Dillon
Payroll	22/23	All Terms of Engagement should be signed by applicants.	Desirable	Feb-23	na	Y	Already actioned. All Terms of Engagement have been signed by applicants using Box Sign. The issue related to the version that was provided.		Julie Simmonds
Payroll	22/23	Clarification should be sought as to whether certain contractual payroll items should be included in Employment Contracts.	Desirable	Feb-23	na	Y	Already actioned. Applicants need to sign either Essential car user allowance agreement letters or Golden Hello agreement letters using Box Sign which are issued separately to the Employment Contracts, as the terms are subject to change.		Julie Simmonds
Payroll	22/23	It is recommended that CMT be reminded of the requirement to review and respond to the establishment checks on a timely basis, and be reminded of the benefits of doing so. Desirable	Desirable	Feb-23	30/09/2023	Y	CMT have noted this issue, its also been flagged in the 2023 audit.		Julie Simmonds
Payroll	22/23	HR should ensure that approvers of overtime claims can be fully identified within iTrent screens and reports.	Desirable	Feb-23	30/06/2023	Y	HR have tweaked the records that can be reviewed in iTrent meaning that the 30 day overwrite should no longer be an issue.Theyve also adjusted the workflows and worked with the service provider		Julie Simmonds
Democratic Services	22/23	Democratic Services should work with report authors/service departments to ensure that agenda items are provided in sufficient time to enable the publication rules to be met.	Desirable	Jul-22	30/09/2022	Y	It is acknowledged that the onus on providing reports and/or agenda items rests with report authors and individual service departments themselves, so audit advises that Democratic Services works with services to ensure as far as possible the publication rules are met.	Regular reminders are sent	Rachel Wallis
Democratic Services	22/23	It is recommended that Audit staff be given access to the Management Development module in Uniform. This would enable Auditors to navigate the system and review related documents/paperwork when conducting an audit test, and would place less reliance of services providing audit records directly.	Desirable	Jul-22	30/11/2022	Y	in place now for future audits	This will be checked with any future audits that require the use of this software.	Rachel Whillis/Planning/ICT
Democratic Services	22/23	It is recommended that Members should make every effort to attend mandatory training provided by the Council. Democratic Services should raise this with respective party group leaders.	Essential	Jul-22	30/11/2022	Y	Democratic Services reviewed training records and improvements made. A review of the relevant section of the Constitution will also be carried out to ensure that the information contained is up to date and reflects training practices.		Rachel Whillis
Democratic Services	22/23	It is recommended that the Democratic Services Manager works with the Council's Monitoring Officer to agree a four-year training programme with Councillors to cover their period of office.	Essential	Jul-22	30/05/2023	Y	actioned. Member Fayre and induction programme rolled out		Rachel Whillis
Revenues	22/23	It is recommended that council tax refunds are only authorised by revenue officers with the appropriate authority. The Revenues & Benefits Manager should increase the authorisation limits where necessary for designated officers.	Desirable	Jan-23	na	Y	Agreed action: Since the audit the Revs and Bens Manager has provided additional authorised signatory forms to meet this recommendation, so it has now been actioned.		Robert Fox
Revenues	22/23	It is recommended that refunds for business rates are approved by Revenue officers within their delegated powers. Desirable	Desirable	Jan-23	na	Y	Agreed action: Since the audit the Revs and Bens Manager has provided additional authorised signatory forms to meet this recommendation, so it has now been actioned.		Robert Fox
Revenues	22/23	It is recommended that whilst Post Room staff support the Revs and Bens team with uploading council tax and business rates account information, care is taken to ensure all information is indexed to the correct account on the enterprise system.	Desirable	Jan-23	31/07/2023	Y	Closer working arrangements have now been developed between the Revenues and Benefits team and the Post Room to ensure greater co ordination across the two functions		Robert Fox

Revenues	22/23	It is recommended that the Council takes the appropriate action to seek approval from the BID company in order to pursue unpaid BID levy payments through enforcement action using Agents/Bailiffs, and to adopt a suitable timeframe for this to be carried out.	Desirable	Jan-23	31/07/2023	na	Superseded by latest Revenues audit in summer 2023	Robert Fox
Revenues	22/23	It is recommended that the BID Levy Operational Agreement is signed by all parties to the agreement.	Desirable	Jan-23	31/07/2023	na	Superseded by latest Revenues audit in summer 2023	Robert Fox
Revenues	22/23	The Annual Collection Fee should be paid to the Council in respect of the BID, and if not done so already, a bill submitted to the BID detailing services provided.	Essential	Jan-23	31/07/2023	na	Superseded by latest Revenues audit in summer 2023	Robert Fox
Revenues	22/23	The Council should bill for additional services under the BID agreement, ie. Enforcement action cases and changes to accounts, and ensure it is paid for these services.	Essential	Jan-23	31/07/2023	na	Superseded by latest Revenues audit in summer 2023	Robert Fox
Cash	22/23	The bank mandate arrangements for the Santander bank accounts which are currently in progress should be finalised and put in place.	Desirable	Aug-22	30/09/2022	Y	Completed Nov 22 (Santander required further checks so took longer than expected)	Michelle Smith
Capital	22/23	It is recommended that Democratic Services undertakes a full count of all election services equipment held in store to bring the asset register up to date.	Desirable	Jun-22	31/12/2022	Y	Addressed. The Asset Inventory should only be including assets over a de-minimus value, as per Financial Regulations, instead of low value stock. As preparation for the PPC elections in 2024 this will provide an opportunity to update service records for stock and any assets held. A stock take will be considered as one of the tasks of the new member of the team starting in December 2023.	Rachel Wallis
Capital	22/23	Going forward and in line with the Council's Fin Regs, it is recommended that Democratic Services maintain a full record of any new purchases made in year, as well as any deletions or removals from their inventory.	Desirable	Jun-22	31/12/2022	Y	Addressed. The Asset Inventory should only be including assets over a de-minimus value, as per Financial Regulations, instead of low value stock. As preparation for the PPC elections in 2024 this will provide an opportunity to update service records for stock and any assets held. A stock take will be considered as one of the tasks of the new member of the team starting in December 2023.	Rachel Whillis
Capital	22/23	It is recommended that Democratic Services collaborates with the Council's finance team so that insurable equipment can be identified from the asset register and included in the Council's all-risk spreadsheet for insurance purposes.	Desirable	Jun-22	31/12/2022	Y	The items reviewed as part of the audit were more stock than election assets and as such are lower in value, and most will not need to be added to the all risks insurance records.	Rachel Whillis
Capital	22/23	It is recommended that relevant budget holders for capital projects must update finance on a timely basis with updates of activities or developments undertaken with their respective projects, and to indicate whether their budgets were under or overspent.	Essential	Jun-22	31/12/2022	Y	Tested again in 2023 and arrangements have improved	A Flynn/G Ramtohal
Health & Safety	22/23	Environmental Health should ensure that all service departments are managing risks fully, by undertaking an appropriate risk assessment. If nothing else this is to show compliance with the Management of H&S at Work Regulations.	Essential	Apr-23	30/09/2023	Y	H&S is working with services to ensure this takes place	Heads of Service/Internal Audit
Health & Safety	22/23	Risk assessments should include hazards such as lone working, post COVID issues, manual handling, PPE equipment, dealing with aggressive or violent customers, working at height. All risks should be scored or ranked and mitigation controls should be included.	Desirable	Apr-23	30/09/2023	Y	H&S is working with services to ensure this takes place	Heads of Service/Internal Audit
Health & Safety	22/23	All risk assessments should be reviewed by the Council's H&S Advisor periodically, and the service should update their risk assessment at least every 3 years.	Desirable	Apr-23	30/09/2023	Y	Risk assessments form part of our H&S audits of service departments, which have been evidenced in the audit reports provided.	Internal audit
Health & Safety	22/23	Environment Health should ensure that all relevant staff undergo and complete the required DSE assessment within a reasonable period of time and full records retained.	Desirable	Apr-23	31/05/2023	Y	We have full records of staff who have undertaken DSE training. The system sends out reminders to staff who are required to take the training, and we follow up these reminders by sending chasing email to staff.	H&S Advisor
Health & Safety	22/23	Council fire wardens and first aiders information is out of date and should be reviewed. Council notices as well as information published in Warbler displaying who the Council's fire wardens and first aiders are should be brought up to date and correctly signposted.	Desirable	Apr-23	N/A	Y	Agreed. The recommendation has been actioned. However, there is no legal requirement to display fire wardens and first aiders information on walls.	N/A
Health & Safety	22/23	Going forward the Environment & Community Service should collect accident statistics from main third-party providers in addition to Council direct activities.	Desirable	Apr-23	31/05/2023	Y	Statistics from most of the third-party providers have now been provided. The Council is presently awaiting statistics from Montague Evans. And now been received	H&S Advisor
Health & Safety	22/23	The HR Manager should consider whether a representative of the HR Service should attend future H&S Committee meetings, as that would benefit the Council.	Desirable	Apr-23	N/A	Y	Agreed. HR has a representative that now attends the H&S meetings.	N/A
Health & Safety	22/23	The H&S Advisor should follow up with Parking Services to ensure the service has implemented the action points identified from the H&S audit.	Desirable	Apr-23	31/05/2023	Y	Currently the fixed wire electrical test and new fire alarm system are being installed and the work should be completed by 6 th December.	H&S Advisor
Health & Safety	22/23	The H&S Advisor should consider including due dates for all action points arising out of H&S reviews, in order for improvements to be monitored.	Desirable	Apr-23	N/A	Y	Agreed. This recommendation has since been actioned.	N/A
Insurance	22/23	It is recommended that Corporate Property provide an explanation for the £12,000 variance between the invoiced and journalled amounts in respect of the insured commercial properties for 21/22	Desirable	Apr-23	31/05/2023	Y	The £12k variance has now been fully investigated between Finance and Property staff, and the differences have been highlighted and addressed. Variances weren't recharged in the GL at the time	Accountants/Property Asset Manager
Insurance	22/23	It is recommended that suitable cover is provided for the insurance duties currently undertaken by the Facilities Team Leader	Desirable	Apr-23	31/05/2023	Y	Now addressed. This activity normally sits within Facilities which has been boosted with the Technical Services manager now in post. The new structures within the property and finance teams now help to provide cover for this area of activity.	Chief Accountant/Head of I&D
Insurance	22/23	It is recommended that concerns regarding insurance invoiced amounts are properly investigated and resolved by the relevant officers and any discrepancies are recorded	Desirable	Apr-23	31/07/2023	Y	This is now being undertaken as part of the accounts process. Any new procedures have been communicated to the team.	Chief Accountant/Head of I&D
Insurance	22/23	It is recommended that insurance invoices for the Council commercial properties are dealt with in a reasonable time to enable the Assistant Accountant (systems) to properly account for these transactions in a timely manner	Desirable	Apr-23	31/07/2023	Y	This is now being undertaken as part of the accounts process. Any new procedures have been communicated to the team.	Chief Accountant/Head of I&D
Insurance	22/23	It is recommended that the Council's Insurance Officer ensures Sutton BC provides Finance with details of progress made for claims under investigation, and also to provide updates on the status of any claim being negotiated in a reasonable time	Desirable	Apr-23	31/05/2023	Y	Actioned. The finance team is now working closer with Sutton to close down outstanding claims. There are now regular meetings in place to discuss claims	Chief Accountant/Insurance Officer/Head of I&D
Insurance	22/23	It is recommended that the Facilities Team Leader in conjunction with Council officers should review service department asset registers and bring them up to date with the all-risk spreadsheet to ensure all Council assets over an agreed minimum value are recorded and covered for insurance purposes.	Desirable	Apr-23	31/07/2023	Y	The matter has since been discussed between colleagues in finance and Sutton and a sensible way forward has been agreed. The Council has also agreed that the all risks information provided to Sutton is satisfactory to be able to renew its insurance policy for 24/25. It will also provide a consistent approach going forward with additional resource in the finance team to coordinate this activity with service departments	Insurance Officer/Head of I&D/Facilities Manager

Insurance	22/23	It is recommended that a working group is established to review the assets insured, and the status of all claims made against the Council during the year	Desirable	Apr-23	31/05/2023	Y	Actioned. The finance team is now working closer with Sutton to discuss insurance matters, including more regular meetings. A working group is no longer needed.	Chief Accountant/Insurance Officer	
Creditors	22/23	Purchase orders should be raised in advance of the supply of goods and or services where possible and approved by the relevant budget holder or service managers. Items should be goods receipted when delivered and before invoices are received.	Desirable	May-23	31/12/2023	Y	Actioned by CFO. Email to WMT and wider management in July 2023 reinforcing the key guidelines for purchasing, along with Civica requisitioning guidelines, creditor payment processes and other arrangements.	Strategic Director F&CS	
Creditors	22/23	It is recommended that Finance should check authorisation levels on the Civica financial system periodically. This is to avoid service officers being assigned authorisation levels on Civica that are not in line with their job roles.	Desirable	May-23	31/07/2023	Y	a reconciliation between civica, authorised signatory database and credit card portal has taken place and any errors have been flagged and corrected	Senior Accountant	
Treasury	22/23	It is recommended that all loans are supported by way of senior officer approval, such as a signed loans agreement letter or similar.	Desirable	May-23	31/05/2023	Y	Chief Accountant or other senior officer in the accountancy service signs the borrowing paperwork for any new or rolled over loan going forward. An example of the paperwork to be signed was provided by the Chief Accountant.	Chief Accountant	
Cash	23/24	The Post Room Team Leader and the Customer Services Manager should consider agreeing a way forward with the Council's Health & Safety Officer regarding the panic button issue in the post room.	Desirable	Jul-23	31/10/2023	Y	H&S have completed a risk assessment of the area and in consultation with FM arrangements for a panic button to be fitted in the Post Room is going ahead. There will be a receiver at main reception as well as in the Contact Centre to alert colleagues if activated.	Customer Services Manager/Post Room Team Leader	
Cash	23/24	The Post Room and Customer Services Managers should consider relocating the panic button to a better location	Desirable	Jul-23	31/10/2023	Y	H&S have completed a risk assessment of the area and in consultation with FM arrangements for a panic button to be fitted in the Post Room is going ahead. New location has been agreed via the risk assessment process	Customer Services Manager/Post Room Team Leader	
Cash	23/24	The post room staff should consider obtaining from the FM Officers the key that is used to re-set the panic button	Desirable	Jul-23	31/10/2023	Y	H&S have completed a risk assessment of the area and in consultation with FM arrangements for a panic button to be fitted in the Post Room is going ahead. There will be a receiver at main reception as well as in the Contact Centre to alert colleagues if activated.	Customer Services Manager/Post Room Team Leader	
Cash	23/24	Going forward Finance should ensure that signatories should be promptly removed from the bank mandate when they leave the Council.	Desirable	Jul-23	N/A	Y	actioned by Finance staff	N/A	
Revenues	23/24	Council tax refunds should only be authorised by Revenue Officers within their designated approval limits. Going forward the Revenues and Benefits Manager should consider increasing officer approval limits where necessary.	Desirable	Sep-23	31/10/2023	Y	This has already been part actioned. Other approval limits will be reviewed by 31/10/23.	Revs & bens Manager	
Revenues	23/24	It is recommended that the Council ensures that BID levy payments are paid by charities which do not meet the BID levy exemption criteria and should be removed from the listing.	Desirable	Sep-23	31/10/2023	Y	These are exceptions agreed by the BID and as such are outside the Council's control. The new billing period has also picked up these issues.	Revs & bens Manager	
Revenues	23/24	It is recommended that the Revenues service removes any business that are no longer trading in the Surrey Heath BID geographical area and reviews and updates the BID properties listing.	Desirable	Sep-23	31/10/2023	Y	These are exceptions agreed by the BID and as such are outside the Council's control. The new billing period has also picked up these issues.	Revs & bens Manager	
Revenues	23/24	It is recommended that the Council and the BID company work together to resolve any debt recovery issues including suitable time frames that are practical and so that the Council is able to instruct Enforcement Agents when debts remain unpaid.	Desirable	Sep-23	31/03/2024	in progress		The Council's revenues manager and recoveries team leader have met with the new BID manager and are working out a protocol for recovery. The BID want to review any debts that are referred for recovery action before they are pursued through use of liability order and enforcement agents. Waiting on the BID to develop a protocol that can be included in the SLA	S151 officer
Revenues	23/24	Debt recovery action should be undertaken consistently on all unpaid BID levy payments in line with the BID SLA/Operating Agreement.	Desirable	Sep-23	31/03/2024	in progress		As above, although the SLA is still not signed by the BID. They are deliberately delaying signature to try and avoid paying the Council what is owed to the Council for administration and previous debt recovery fees. Leader and Chief Executive are dealing with the BID Chair.	S151 officer/CEX
Revenues	23/24	It is recommended that the Council agrees with the BID Company the annual collection fee amount and that the collection fee is paid to the Council. Any back payments in respect of previous year collection fees should also be paid to the Council.	Essential	Sep-23	31/03/2024	in progress		The SLA proposed a fee, the Council proposed a reduced fee. The BID still have not paid previous admin fees despite being invoiced by the Council. Request the Committee's permission to commence full enforcement action.	S151 officer
Revenues	23/24	It is recommended that the Council and the BID should both sign the BID Levy Operational Agreement so that its terms and conditions are made binding on all parties to the agreement.	Desirable	Sep-23	31/03/2024	in progress		The SLA was drafted by external consultants (MOSAIC); the Council reviewed it and proposed some amendments (in the BID's favour). This has not yet been signed, by the BID – see above. Leader and Chief Executive are dealing as the Chair of the BID will not engage with the Council's Chief Finance Officer. Request permission from the Committee to pursue outstanding invoices with the BID.	S151 officer/CEX
Revenues	23/24	It is recommended that the Council and the BID agree the total fee amount due to the Council for in year amendments to liable parties and that this figure be billed to the BID Company for payment as per the draft Operating Agreement.	Essential	Sep-23	31/03/2024	in progress		As above – SLA proposed by Mosaic had this, but it is pointless agreeing anything if the BID refuse to pay and the Finance team are instructed not to take recovery action.	S151 officer
Revenues	23/24	It is recommended that the Council and the BID agrees the total fee amount due to the Council in respect of debt recovery and enforcement action taken on unpaid BID levy payments as per the BID agreement.	Essential	Sep-23	31/03/2024	in progress		Amount has been identified. The BID Chair is insisting that there are unpaid funds due to the BID hence why they are withholding payment. They have not however ever specified an amount or a reason. The finance and revenues team have reconciled the collection account (in and out) and the ledger and apart from some timing differences the accounts are reconciled. The BID has been offered the opportunity to have an independent audit of the accounts, but has so far not commissioned this. Leader and Chief Executive are dealing – see above.	S151 officer/CEX
Treasury	23/24	The Council/finance department should be encouraged to take advantage of the treasury training services and other services on offer by the Link Group, appraisal of the capital programme and City Watch, as part of the treasury agreement. Consideration could be given to offering the training to Members if necessary. The Council has already paid for these services as part of the annual fee so would not incur any additional costs should they be taken up.	Desirable	Nov-23	n/a	Y	Already actioned	n/a	
Housing	23/24	Housing Services should ensure that annual reviews of applicants on the Housing Register are carried out in a timely manner	Desirable	Nov-23	31/03/2024	Y	Agreed, but it is noted that while the Annual Review is an important part of the process of administering the Housing Register, applications are also checked and validated at the time of nomination.	Housing Services manager	
Housing	23/24	Housing Services should ensure Bed and Breakfast agreements are signed by all individuals before placement.	Desirable	Nov-23	31/03/2024	Y	All B&B placements are now sent an electronic B&B agreement to sign via Box Sign unless no email address exists and then they are seen in person to sign the agreement.	Housing Services manager	
Housing	23/24	It is recommended that Housing Services ensures that Bed & Breakfast accommodation inspection sheets are completed by housing officers when visits are made.	Desirable	Nov-23	31/12/2023	Y	Housing re commenced using the sheets from November onwards	Housing Services manager	
Housing	23/24	It is recommended that Housing Services should consider reviewing the licences that have already expired and to determine whether those licences should be extended where necessary.	Desirable	Nov-23	N/A	Y	Now being actioned	Housing Services manager	
Housing	23/24	It is recommended that a solution is found to the rent accounting issues currently facing the Council, and that Housing staff and Finance can agree to a realistic approach in the short term.	Desirable	Nov-23	31/03/2024	in progress		Connaught Court rent accounting now sits solely with Finance. They create, update and monitor the accounts. An update on the progress of the new arrangements will be obtained in due course.	Finance

Housing	23/24	It is recommended that tenant accounts are up to date and represent a true and accurate account of rental payments, benefit entitlements and any credits or arrears. These accounts need to be such that they can be presented to a court of law if required when chasing debt arrears and carrying out debt recovery action. It is recommended that Finance and Housing Services should work collaboratively and ensure that further recovery action is taken after reminders letters have been sent to housing debtors, in accordance with the Council's Corporate Debt Policy.	Essential	Nov-23	31/03/2024	in progress		Connaught Court rent accounting now sits solely with Finance. They create, update and monitor the accounts. An update on the progress of the new arrangements will be obtained in due course.	Finance
Housing	23/24		Desirable	Nov-23	31/03/2024	Y	A large percentage of the historic debts have now been dealt with and a bi-monthly meeting between Finance and Housing is in place to discuss actions for on-going debts.		Housing Services manager/Finance
Capital	23/24	The relevant Council senior officers should sign the agreement with the surveyors in line with expectations. Unsigned the agreement does not have a formal record of the agreed terms and conditions agreed between the parties.	Desirable	Dec-23	31/01/2024	Y	Finance have since provided an updated process in respect of instructing surveyors to value Council land and property, so this has now addressed the recommendation raised. In summary Finance engages the services of an appropriately qualified surveyor within the Council's Economic Development team to procure a third-party valuation specialist to value the Council's asset base in accordance with established RICS guidance; the valuation specialist returns a completed report; Economic Development review the returned report and confirm that it captures valuations which, in their professional opinion, represent a true and fair view; Finance will then upload all asset valuation data to Civica; and External Audit opine that the valuations uploaded are complete and accurate or outline in detail the reasons why if this is not the case.		Section 151 officer
Capital	23/24	Leisure Services should ensure their assets inventory register is maintained and kept up to date to reflect items held in their custody.	Desirable	Dec-23	31/03/2024	in progress		Agreed. A review of the asset list will be undertaken to make sure that only items above a certain value (£1000) are to be held on the inventory list. The guidelines provided to staff and contained within Financial regulations have also been provided to the service. The Council rules state that all items with a replacement value over £1000 need to be included in the service official Asset Register/inventory. Any 'consumable stocks and stores' are also subject to record keeping and are subject to a physical check. The keeping of the formal Asset register is to help ensure that council assets are adequately insured, authorised and properly logged.	Business services manager
Main accounting	23/24	It is recommended that Finance ensures all high value journals are suitably approved and signed off by either the Chief Accountant or Section 151 Officer.	Desirable	Feb-24	31/03/2024	Y	A weekly report of high value journals is now shared with the Strategic Finance Manager who reviews them, and the process has been discussed with the auditors.		Strategic Finance Manager
Main accounting	23/24	It is recommended that Finance drafts procedure notes for processing and approving journals to enable consistency of approach.	Desirable	Feb-24	30/06/2024	na	not yet due		Strategic Finance Manager
Creditors	23/24	It is recommended that Finance should remind staff that POs should be raised in advance of all goods and services being received and before invoices are submitted for payment.	Desirable	Feb-24	31/03/2024	Y	The S151 officer issued a reminder to all staff in 2023 by email. It was agreed that a further reminder will be issued with purchasing instructions later in 2024.		Strategic Finance Manager
Creditors	23/24	It is recommended that Finance ensures the relevant line managers/budget holder checks and approves cardholder expenditure spreadsheet, receipts, and card statements before payment.	Essential	Feb-24	31/03/2024	Y	Finance maintain a tracker spreadsheet each month now to ensure all approvals are received		Strategic Finance Manager

Overdue Audit Recommendations as of March 2024

Audit	Year	Recommendation
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Category	Date Raised	Target Date	Implemented Y/N	Action taken to implement recommendation
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Proposed Action	Responsible Officer
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Surrey Heath Borough Council
Audit, Standards and Risk Committee
26 March 2024

Treasury Management 2023/24
Quarter 3 Report – 31 December 2024

Portfolio Holder:	Councillor Cllr Leanne Macintyre - Finance
Date Portfolio Holder signed off:	19 March 2024
Strategic Director:	Bob Watson
Report Author:	Vicky Worsfold/ Miriam Norris
Key Decision:	no
Wards Affected:	All

Summary and purpose

This report advises members of the performance of the treasury management service for the third quarter of 2023/24 as at 31 December 2023 and confirms the compliance with the Treasury Management Indicators for 2023/24.

Recommendation

The Executive is advised to RESOLVE that they

- (i) note the Treasury Management report for the period 1 October to 31 December 2023.

1. Background and Supporting Information

- 1.1 This report sets out the performance of the Council's investments and borrowing for the first nine months of the year. It also confirms that the Council is complying with the Treasury Management Indicators set by Council as part of the Treasury Management Strategy.
- 1.2 As at the 31 December 2023, the service has not breached any of the Treasury Management Indicators set for 2023/24. These are:

Treasury Management Indicator 2023/24	
Minimum Counterparty Credit Rating	A
Liquidity Risk Indicator Limit	£5 million
Interest Rate Exposure Limit	£1 million
Maturity Structure of Borrowing	Upper 100%, Lower 0%
Principal Sums invested for Periods longer than a year (Individual counterparty limit)	£2.5 million

- 1.3 The Chartered Institute of Public Finance and Accountancy’s Treasury Management Code (“CIPFA’s TM Code”) requires that authorities report on the performance of the treasury management function at least quarterly.
- 1.4 The Council’s Treasury Management Strategy for 2023/24 was recommended by the Executive on 14 February 2023 and approved by Council on 22 February 2023.
- 1.5 The CIPFA Prudential Code 2021 includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council’s Capital Strategy, complying with this requirement, was approved by Council on 22 February 2023.
- 1.6 Through investment, the Council is potentially exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The Council is also exposed to increases in revenue costs on its borrowing due to changes in interest rates. The Council seeks to moderate this impact by following the advice of its treasury advisers. This report covers treasury and borrowing activity and the associated monitoring and control of risk.

2. Local Context

- 2.1 The Council’s underlying need to borrow for capital purposes is referred to as the Capital Financing Requirement (CFR). The 2022/23 CFR was £207 million (2021/22 - £210 million), a reduction of £3 million from the previous year due to the annual Minimum Revenue Provision charge £2.7 million and only £88k of annual capital expenditure financed from borrowing.
- 2.2 Forecast Capital Programme expenditure for 2023/24 is £5.419 million based on this the forecast CFR for 2023/24 will be £208 million which will be within the operational boundary set for the year.
- 2.3 The Council must not borrow in excess of its the Authorised Limit for external borrowing of **£235 million**. This Prudential Indicator was approved by Council as part of the annual Budget for 2023/24.

3. Borrowing Activity to the period

- 3.1 The Council held £165 million of borrowing as part of its strategy for funding its previous and current year’s capital programme and short-term cashflow.
- 3.2 The borrowing position is shown in the table below

31 December 2023	£ million
Public Works Loan Board (long term, fixed rate)	50.0
Phoenix Loans (2 x loans, both fixed rate)	48.6
Local Authorities (short term fixed deals < 24 months)	66.5
Total Borrowing	165.1

- 3.3 As at the end of December 2023, the weighted average rate for our long term debt was **2.73%** and our short term debt was **4.62%**. A full list of the counterparties lending to the Council including the maturity dates and interest rates is attached at **Appendix 1**.

4. Investment Activity for the period

- 4.1 The Council will invest cash balances that are not immediately required for cash flow management purposes. These are often short-term and will vary based on the liquidity requirement of the Council.
- 4.2 The Council's investment position at the end of the period is **£17.4 million**, as detailed in the table below:

Actual Portfolio as at 31 December 2023	£ million
Bank & Building Societies	1.6
Government – DMO	7.0
Money Market Funds	6.8
Government - Other Local Authorities	0.0
Other Pooled Funds (CCLA property)	2.0
Total Treasury Investments	17.4

5. Interest Rate Update

- 5.1 The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on future interest rates.
- 5.2 The latest forecast, provided by Link Group updated on 20 December 2023, reveals a more cautious outlook compared to the market consensus in recent months. However, over the previous fortnight, there has been a notable shift in the UK market's outlook, anticipating a more aggressive stance on interest rate cuts. This change was initially driven by positive sentiment regarding US inflation. Subsequently, domestic factors such as last week's weaker wage inflation data and the recent CPI inflation (3.9%) and core inflation (5.1%) prints for November further fuelled this revised perspective.
- 5.3 As the forecast for the medium to long term is that rates will start to fall in step with the forecasted reduction in the headline rate of inflation, the policy will be to continue to roll-over short term loans at the best rates possible and use surplus balances to repay some of the short term loans (or defer re-financing of these) with a view to possibly locking in longer term deals when the interest markets offer a reasonable rate.

6. Economic Update

6.1 The third quarter of 2023/24 saw:

- A 0.3% month on month decline in real GDP in October, potentially partly due to unseasonably wet weather, but also due to the ongoing drag from higher interest rates. Growth for the second quarter, ending 30 September, was revised downwards to -0.1% and growth on an annual basis was also revised downwards, to 0.3%;
- A sharp fall in wage growth, with the headline 3myy rate declining from 8.0% in September to 7.2% in October, although the ONS “experimental” rate of unemployment has remained low at 4.2%;
- CPI inflation continuing on its downward trajectory, from 8.7% in April to 4.6% in October, then again to 3.9% in November;
- Core CPI inflation decreasing from April and May’s 31 years’ high of 7.1% to 5.1% in November, the lowest rate since January 2022;
- The Bank of England holding rates at 5.25% in November and December;
- A steady fall in 10-year gilt yields as investors revised their interest rate expectations lower.

6.2 A full economic update can be found at the end of this report at **Appendix 2**. Please note that this appendix is derived from the Link Group update and therefore is in a more technical format than the rest of this report.

7. Reasons for Recommendation

7.1 CIPFA’s treasury management code requires that authorities report on the performance of the Treasury Management (TM) function at least quarterly a year to the Executive and the Audit, Standards and Risk Committee. Previously this requirement was only twice a year following the setting of the annual strategy.

8. Proposal and Alternative Options

8.1 The Executive is asked to note the 2023/24 quarterly treasury management report.

9. Contribution to the Council’s Five-Year Strategy

9.1 The returns from Treasury Management investments and the levels of prudential support the approved five-year strategy and the annual budget set at Council.

10. Resource Implications

10.1 None directly as a result of this paper, but the investment income and borrowing costs do impact the annual revenue budget.

11. Section 151 Officer Comments:

- 11.1 Robust treasury management forms part of the management of the Council's cash balances.
- 11.2 All investments are made with regard to security of the funds, the timing of when funds are needed (liquidity) and the need to make a return with due considerations of the previous two points first.
- 11.3 The Council will always consider investing funds in the most ethical way wherever practicable.

12. Legal and Governance Issues

- 12.1 The report demonstrates that the Council is complying with the Prudential Framework.

13. Monitoring Officer Comments:

- 13.1 The Executive's terms of reference include the delegation to monitor, review and to report to the Council if necessary the Treasury activity in relation to the performance of the Council's services.

14. Other Considerations and Impacts

Environment and Climate Change

- 14.1 Details of these are in the individual service areas that the budgets support

Equalities and Human Rights

- 14.2 Details of these are in the individual service areas that the budgets support

Risk Management

- 14.3 Weak returns on investments could lead to a reduction in income generated to support the revenue budget. The Council will never pursue higher risk options just to make a higher return.
- 14.4 There is increased uncertainty and an increase in the perceived risk in financial institutions and the economy. This is mitigated by use of more secure investment vehicles, which will usually mean a lower rate of return, however security of the investment is the primary consideration.
- 14.5 The Council will also take and, if suitable, act on advice from its advisers in relation to levels of return and the risks associated with investments and its

borrowing strategy. There are risks that interest rates can change and that any investment is not guaranteed.

- 14.6 It is noted that the investments ratings provided by credit ratings agencies are only a guide and do not give 100% security. There is always a risk that an institution may be unable to repay its loans whatever the credit rating. However, this can be mitigated by spreading investments amongst a number of institutions and where possible with a higher rating. Although the Treasury Management strategy will allow a wider use of counterparties, the Council currently restricts itself to investments in Money Market Funds (which by their nature are 'AAA rated'), other Local Authorities and central government deposit facilities which are backed by the UK Government's rating.

Community Engagement

- 14.7 Where necessary engagement will be taken through individual service areas the budgets support

Background Papers	None
Authors/Contact Details	Vicky Worsfold - Strategic Finance Manager vicky.worsfold@surreyheath.gov.uk Miriam Norris - Treasury Business Partner miriam.norris@surreyheath.gov.uk
Strategic Director	Bob Watson - Strategic Director of Finance & Customer Services. bob.watson@surreyheath.gov.uk

Appendix 1

LONG TERM BORROWING

		Start Date	Maturity Date	Int Rate	Type	Total
LTB002	PWLB - Loan No 504063 St Georges	23-Apr-15	22-Apr-65	3.16%	Annuity -	7,724,106.58
LTB003	PWLB - Loan No 504203 Ashwood	26-Jun-15	25-Jun-65	3.44%	Annuity -	5,551,927.16
LTB005	PWLB - Loan Ref 507410 Trade City	24-May-18	24-May-33	2.65%	Maturity -	1,500,000.00
LTB006	PWLB - Loan Ref 507411 Trade City	24-May-18	24-May-43	2.77%	Maturity -	2,500,000.00
LTB007	PWLB - Loan Ref 507412 Trade City	24-May-18	24-May-53	2.65%	Maturity -	4,000,000.00
LTB008	PWLB - Loan Ref 507413 Trade City	24-May-18	24-May-63	2.52%	Maturity -	5,000,000.00
LTB009	PWLB - Loan No 508733 Theta	12-Mar-19	12-Mar-39	2.03%	EIP -	4,650,000.00
LTB010	PWLB - Loan No 508734 Theta	12-Mar-19	12-Sep-41	2.52%	Maturity -	1,500,000.00
LTB011	PWLB - Loan No 508735 Theta	12-Mar-19	12-Sep-46	2.53%	Maturity -	1,500,000.00
LTB012	PWLB - Loan No 508736 Theta	12-Mar-19	12-Sep-51	2.48%	Maturity -	1,500,000.00
LTB013	PWLB - Loan No 508737 Theta	12-Mar-19	12-Sep-56	2.43%	Maturity -	1,500,000.00
LTB014	PWLB - Loan No 508738 Theta	12-Mar-19	12-Sep-61	2.40%	Maturity -	1,500,000.00
LTB015	PWLB - Loan No 508739 Theta	12-Mar-19	12-Sep-66	2.39%	Maturity -	1,500,000.00
LTB016	PWLB - Loan No 508746 Vulcan Way	13-Mar-19	13-Mar-39	2.01%	EIP -	10,075,000.00
82021	Phoenix Loan 1	22-Feb-21	22-Feb-61	2.85%	Annuity -	24,128,543.60
82022	Phoenix Loan 2	22-Feb-22	22-Feb-62	2.91%	Annuity -	24,490,880.14
						98,620,457.47

SHORT TERM BORROWING

	Start Date	Maturity Date	Int Rate	Total
200337 Fylde Borough Council	03-Feb-23	02-Feb-24	4.65%	- 2,000,000.00
200338 West Midlands Combined Authority	17-Feb-23	16-Feb-24	4.60%	- 5,000,000.00
200339 West Midlands Combined Authority	16-Jun-23	14-Jun-24	4.30%	- 5,000,000.00
200340 West of England CA	19-Jun-23	17-Jun-24	4.25%	- 5,000,000.00
200342 West Midlands Combined Authority	22-Dec-23	20-Dec-24	4.10%	- 10,000,000.00
200343 West Yorkshire Combined Authority	19-Apr-23	17-Apr-24	4.25%	- 10,000,000.00
200344 Crawley Borough Council	15-Dec-23	16-Sep-24	4.80%	- 3,000,000.00
200345 Havant Borough Council	26-Sep-23	24-Sep-24	5.00%	- 5,000,000.00
200346 West of England CA	14-Dec-23	12-Dec-24	4.90%	- 5,000,000.00
200347 West Midlands Combined Authority	22-Dec-23	20-Dec-24	5.00%	- 10,000,000.00
200349 Lancashire Combined Fire Authority	14-Dec-23	12-Dec-24	5.05%	- 3,500,000.00
200352 Derbyshire Dales District Council	13-Nov-23	11-Nov-24	5.80%	- 3,000,000.00
				66,500,000.00
Total Borrowing				165,120,457.47

Economic state of the nation – a technical update

- The third quarter of 2023/24 saw:
 - A 0.3% m/m decline in real GDP in October, potentially partly due to unseasonably wet weather, but also due to the ongoing drag from higher interest rates. Growth for the second quarter, ending 30th September, was revised downwards to -0.1% and growth on an annual basis was also revised downwards, to 0.3%;
 - A sharp fall in wage growth, with the headline 3myy rate declining from 8.0% in September to 7.2% in October, although the ONS “experimental” rate of unemployment has remained low at 4.2%;
 - CPI inflation continuing on its downward trajectory, from 8.7% in April to 4.6% in October, then again to 3.9% in November;
 - Core CPI inflation decreasing from April and May’s 31 years’ high of 7.1% to 5.1% in November, the lowest rate since January 2022;
 - The Bank of England holding rates at 5.25% in November and December;
 - A steady fall in 10-year gilt yields as investors revised their interest rate expectations lower.
- The revision of GDP data in Q2 to a 0.1% q/q fall may mean the mildest of mild recessions has begun. Indeed, real GDP in October fell 0.3% m/m which does suggest that the economy may stagnate again in Q3. The weakness in October may partly be due to the unseasonably wet weather. That said, as the weakness was broad based it may also be the case that the ongoing drag from higher interest rates is more than offsetting any boost from the rise in real wages.
- However, the rise in the flash composite activity Purchasing Managers Index, from 50.7 in November to 51.7 in December, did increase the chances of the economy avoiding a contraction in Q3. The improvement was entirely driven by the increase in the services activity balance from 50.9 to 52.7. (Scores above 50 point to expansion in the economy, although only tepid in this instance.) The press release noted that this was primarily driven by a revival in consumer demand in the technological and financial services sectors. This chimes with the further improvement in the GfK measure of consumer confidence in December, from -24 to -22. The services PMI is now consistent with non-retail services output growing by 0.5% q/q in Q3, but this is in stark contrast to the manufacturing sector where the output balance slumped from 49.2 to 45.9 and, at face value, the output balance is consistent with a 1.5% q/q fall in manufacturing output in Q3.
- The 0.3% m/m fall in retail sales volumes in October means that after contracting by 1.0% q/q (which was downwardly revised from -0.8% q/q) in Q2, retail activity remained weak at the start of Q3. That suggests higher interest rates are taking a bigger toll on real consumer spending.
- Higher interest rates have filtered through the financial channels and weakened the housing market but, overall, it remains surprisingly resilient with only marginal falls showing year on year on the Halifax (-1%) and Nationwide (-1.8%) indices. However, the full weakness in real consumer spending and real business investment has yet to come as currently it is estimated that around two thirds to a half of the impact of higher interest rates on household interest payments has yet to be felt.
- Overall, we expect real GDP growth to remain subdued throughout 2024 as the drag from higher interest rates is protracted but a fading of the cost-of-living crisis and interest rate cuts in the second half of 2024 will support a recovery in GDP growth in 2025.
- The labour market remains tight by historical standards, but the sharp fall in wage growth seen in October will reinforce the growing belief in markets that interest rates will be cut mid-2024. Wage growth eased in October much faster than the consensus expected. Total earnings fell by 1.6% m/m, which meant the headline 3myy rate eased from 8.0% in September to 7.2% in October. This

news will be welcomed by the Bank of England. Indeed, the timelier three-month annualised rate of average earnings growth fell from +2.4% to -1.2%. Excluding bonuses, it fell from 5.3% to 2.0%. Furthermore, one of the Bank's key barometers of inflation persistence, regular private sector pay growth, dropped from 7.9% 3my to 7.3%, which leaves it comfortably on track to fall to 7.2% by December, as predicted by the Bank in November.

- The fall in wage growth occurred despite labour demand being stronger in October than expected. The three-month change in employment eased only a touch from +52,000 in September to +50,000 in October. But resilient labour demand was offset by a further 63,000 rise in the supply of workers in the three months to October. That meant labour supply exceeded its pre-pandemic level for the first time, and the unemployment rate remained at 4.2% in October. In the three months to November, the number of job vacancies fell for the 17th month in a row, from around 959,000 in October to around 949,000. That has reduced the vacancy to unemployment ratio as demand for labour eases relative to supply, which may support a further easing in wage growth in the coming months.
- CPI inflation fell from 6.7% in September to 4.6% in October, and then again to 3.9% in November. Both these falls were bigger than expected and there are clear signs of easing in domestic inflationary pressures. The fall in core CPI inflation from 5.7% to 5.1% in November was bigger than expected (consensus forecast 5.6%). That's the lowest rate since January 2022. Some of the decline in core inflation was due to the global influence of core goods inflation, which slowed from 4.3% to 3.3%. But some of it was due to services inflation falling from 6.6% to 6.3%. The Bank views the latter as a key barometer of the persistence of inflation and it came in further below the Bank's forecast of 6.9% in its November Monetary Policy Report. This will give the Bank more confidence that services inflation is now on a firmly downward path.
- The Bank of England sprung no surprises with its December monetary policy committee (MPC) meeting, leaving interest rates at 5.25% for the third time in a row and pushing back against the prospect of near-term interest rate cuts. The Bank continued to sound hawkish, with the MPC maintaining its tightening bias saying that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures". And it stuck to the familiar script, saying that policy will be "sufficiently restrictive for sufficiently long" and that "monetary policy is likely to need to be restrictive for an extended period of time". In other words, the message is that the MPC is not yet willing to endorse investors' expectations that rates will be cut as soon as May 2024.
- Looking ahead, our colleagues at Capital Economics forecast that the recent downward trends in CPI and core inflation will stall over the next few months before starting to decline more decisively again in February. That explains why we think the Bank of England won't feel comfortable cutting interest rates until H2 2024.
- The fall in UK market interest rate expectations in December has driven most of the decline in 10-year gilt yields, which have fallen in line with 10-year US Treasury and euro-zone yields. 10-year gilt yields have fallen from 4.68% in October 2023 to around 3.70% at the time of writing, with further declines likely if the falling inflation story is maintained.
- Investors' growing expectations that the Fed will cut interest rates soon has led to an improvement in risk sentiment, which has boosted the pound and other risky assets. In addition, the rise in the pound, from \$1.21 in November to \$1.27 now, has also been supported by the recent relative decline in UK wholesale gas prices.
- The further fall in 10-year real gilt yields in December has supported the recent rise in the FTSE 100. That said, the index remains 5% below its record high in February. This modest rise in equities appears to have been mostly driven by strong performances in the industrials and rate-sensitive technology sectors. But UK equities have continued to underperform US and euro-zone equities. The FTSE 100 has risen by 2.2% in December, while the S&P 500 has risen by 3.8%. This is partly due to lower energy prices, which have been a relatively bigger drag on the FTSE 100, due to the index's high concentration of energy companies.

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