



# Compliance with Prudential Code – 2024/2025

## Final Advisory Report



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# Contents

Executive summary	3
Detailed Findings	6
Annex 1: Objective, scope and distribution	21

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# Executive summary

## Introduction

The objective of the advisory review is to provide high-level assurance that the Council has put in place appropriate arrangements to comply with the CIPFA Prudential Code and to highlight what, if anything has been missed. The intention is to inform more detailed Internal Audit planning for 2025/26 but recognising that risks/issues are live now.

## Background

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities (the Prudential Code), 2021 edition. The objectives of the Prudential Code are to ensure, within a clear framework, that capital expenditure plans and investment plans of local authorities are affordable, prudent, and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out indicators that must be set and monitored.

## Summary of findings

A summary of findings for each of the review's objectives is as follows:

**The Council has assured itself it has complied with the code:** The 2025/26 Draft Treasury Management Strategy (TMS) makes clear reference to the fact that the Council has powers under Part 1 of the Local Government Act 2003 to borrow and invest money in accordance with statute. In carrying out these functions the Council is required to have regard to statutory guidance which is currently found in the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice 2021.

The 2025/26 Draft Treasury Management Strategy refers to a review of the CIPFA code having been undertaken, in line with best practice, in which officers recommended changes to the Council's financial procedure rules.

**Governance Framework:** The Prudential Code requirement that responsibility for decision-making and ongoing monitoring in respect of capital expenditure, investment and borrowing, including prudential indicators, remains with full council has been met on the basis that:

- the 2025/26 Draft Treasury Management Strategy and General Fund Revenue Budget 2025/26 has been submitted to Full Council for approval; and
- the Treasury Management Assurance Report and Mid-Year Review 2024/25 has been recommended to the Full Council by the Audit and Corporate Governance Committee.

The Cabinet has fulfilled its responsibilities in respect of recommending borrowing limits, Prudential Indicators and Treasury Management Strategy to the Council within the prescribed timeframe.

The Audit and Corporate Governance Committee fulfilled its responsibilities under the Constitution in respect of scrutinising the Draft Treasury Management Strategy and mid-year review report prior to referral to Full Council. Whilst the committee receives the outturn report it is not referred to the Full Council in accordance with the Constitution.

**The Capital Strategy:** forms part of the authority's integrated revenue, capital and balance sheet planning and therefore complies with the Prudential Code. The Capital Strategy should include sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability, proportionality and affordability will be secured and to meet legislative requirements on reporting: a high-level review of the commentary provided within the strategy indicates this requirement has been met with the exception of:

- An overview of the governance process for approval and monitoring of capital expenditure; and
- An overview of the governance process for approval and monitoring and ongoing risk management of any other financial guarantees and other long-term liabilities.

**Prudential Indicators:** The Draft Treasury Management Strategy 2025/26, which includes Prudential Indicators for the forthcoming and following years, was submitted to the Council for approval at the 6 March 2025 meeting, therefore, the requirement that indicators are set before the beginning of the forthcoming year has been met.

Audit review of indicators confirmed disclosure requirements had been complied with, and a clear audit trail existed from reported figures to underlying data in respect of required indicators with the exception of the following Prudential Code Indicators that have not been disclosed:

- estimates of net income from commercial and service investments ÷ estimate of net revenue stream x 100%;
- actual capital expenditure; actual financing costs ÷ actual net revenue stream x 100%;
- estimates of net income from commercial and service investments ÷ estimate of net revenue stream x 100%; and
- actual net income from commercial and service investments ÷ actual net revenue stream x 100%.

Disclosure requirements have been partially complied with in respect of the following indicator:

- the proportion of financing costs to net revenue stream to be extended to include budget figures for year 3 (2027-28).

**Monitoring and Reporting:** The Council has in place provision for quarterly reporting (end of June/end of December) to the Audit and Corporate Governance Committee in respect of Treasury/Prudential indicators. The Q1 2024-25 Treasury Management Report was submitted to the Committee on 30 September 2024 and audit understand the report could not have been submitted earlier due to resources directed towards completion of annual statutory accounts. The Q3 report was scheduled to be submitted to the Committee in March 2025, however the meeting was cancelled, and it is understood the report is to be submitted to the committee in April 2025.

Forward looking indicators were disclosed in the Quarterly Treasury Management Report and the Treasury Management Assurance Report and Mid-Year Review to the Audit and Corporate Governance Committee in accordance with the Prudential Code with the exception of:

- Estimates of net income from commercial and service investments ÷ estimate of net revenue stream x 100% for years' 1, 2 & 3.
- Estimates of financing costs to net revenue stream has been disclosed partially in accordance with the reporting requirements of the Prudential Code as budgeted figures for year 3 (2027-28) has not been disclosed.

**Knowledge and skills:** Prudential Code disclosure requirements in respect of knowledge and skills available to the Council have been met.

## **Conclusion**

Results of the high-level assurance review has found:

Full compliance with the code in respect of the following:

- Responsibility for decision-making and ongoing monitoring in respect of capital expenditure, investment and borrowing, including prudential indicators, remains with full council in line with the Prudential Code.
- The Cabinet has fulfilled its responsibilities in respect of recommending borrowing limits, Prudential Indicators and Treasury Management Strategy to the Council within the prescribed timeframe.
- The Audit and Corporate Governance Committee fulfilled its responsibilities under the Constitution in respect of scrutinising the Draft Treasury Management Strategy and Treasury Management Assurance Report and Mid-Year Review prior to referral to Full Council.
- The Capital Strategy forms part of the authority's integrated revenue, capital, and balance sheet planning.
- Prudential Code indicators are set before the beginning of the forthcoming year and the setting of capital expenditure estimates, operational boundary and authorised limit follow the same route as the setting and revising of the budget of the Council.
- Prudential Code Indicator disclosure requirements have been met in respect of the following indicators: estimates of total capital expenditure; estimates of capital financing requirement; actual capital financing requirement as at 31 March 2025; authorised limit for external debt; operational boundary for external debt; actual external debt as at 31 March 2025; and gross debt and the capital financing requirement.
- Prudential Code disclosure requirements in respect of knowledge and skills available to the Council have been met.

Partial compliance with the code has been made in respect in respect of the following:

- The Audit and Corporate Governance Committee received the Treasury Management Outturn Report 2023-24; however, the report has not been referred to the Full Council in accordance with the Constitution.
- Prudential Code Indicator disclosure requirements have been partially met in respect of the following indicator: proportion of financing costs to net revenue stream to be extended to include budget figures for year 3 (2027-28).
- The Council has a process in place to monitor and report performance against all forward-looking indicators at least quarterly, however, delays occurred in the quarterly reporting of indicators to the Audit and Corporate Governance Committee, where the Q1 2024-25 Treasury Management Report was considered by the Committee on 30 September 2024 and the Q3 report is expected to be considered by the Committee in April 2025.

Non-compliance with the code have been found in relation to the following:

- Prudential Code Indicators have not been disclosed in respect of the following indicators: actual capital expenditure; actual financing costs ÷ actual net revenue stream x 100%; estimates of net income from commercial and service investments ÷ estimate of net revenue stream x 100%; and actual net income from commercial and service investments ÷ actual net revenue stream x 100%.

The Treasury Management Outturn Report 2023-24 submitted to the Audit and Corporate Governance Committee has not been referred to the Full Council in accordance with the reporting requirements contained in the Treasury Management Practices (TMP).

## **Next steps**

The high-level review has identified areas of full compliance with Prudential Code in respect of governance, capital strategy and a range of indicators.

Instances of partial compliance relate to timeliness of quarterly reporting to the Audit and Corporate Governance Committee and submission of the Treasury Management Outturn Report to the Full Council. One area of non-compliance refers to non-disclosure of certain Prudential Code Indicators primarily relating to actuals.

On balance, the findings demonstrate an effective governance framework is in place and no key risks have been identified which would support the conclusion that a health check review be undertaken as part of the 2025/26 internal audit plan.

## **Detailed Findings**

Audit findings are set out below for each audit area examined.

### **The Council has assured itself it has complied with the code.**

As set out in the Treasury Management Strategy the Council recognises it is required to have regard to statutory guidance which is contained within the CIPFA Prudential Code and CIPFA Treasury Management Code. The Prudential Code sets out various indicators that are to be used to support capital expenditure plans and treasury management decisions,

additionally a capital strategy should form part of the council's integrated revenue, capital, and balance sheet planning. A range of indicators and a capital strategy are included within the Treasury Management Strategy.

The TMS refers to a review of the CIPFA code having been undertaken, in line with best practice, in which officers recommended changes to the Council's financial procedure rules.

**Conclusion:** The Council is aware of the requirements of the Prudential Code and has assured itself it has complied with the code.

## **Governance arrangements**

### Full Council Responsibilities

The Prudential Code states that responsibility for decision-making and ongoing monitoring in respect of capital expenditure, investment and borrowing, including prudential indicators, remains with full council.

Under the Council's Constitution the Full Council sets the budget which includes the Treasury Management Strategy and Capital Strategy.

The Council's Treasury Management Strategy considers the council's borrowing and investment strategy alongside required Prudential Indicators. Full Council must approve the Treasury Management Strategy, Capital Strategy and any strategy setting out control of the authority's borrowing, including determining the authority's Minimum Revenue Provision, under the provisions for approving the annual budget.

Audit confirmed the following:

- The 2025/26 Draft Treasury Management Strategy (TMS) was submitted to Full Council for approval on 6 March 2025.
- The General Fund Revenue Budget 2025/26 was submitted to Full Council for approval on 6 March 2025.
- The agenda for the 23 January 2025 Council meeting included a recommendation of the Audit and Corporate Governance Committee, from its meeting held on 10 December 2024, in respect of the Treasury Management Assurance Report and Mid-Year Review 2024/25.

**Conclusion:** The Prudential Code's governance requirement that decisions around capital expenditure, investment and borrowing should align with the processes established for the setting and revising of the budget for the council has been met.

### Cabinet Responsibilities

Under the Council's Constitution the Cabinet shall:

- By 11th March, each year the Cabinet shall recommend to the Council the capital programme, borrowing limits and the Prudential Indicators for the following five years; and the Treasury Management Strategy for the year ahead.

Audit reviewed the summary of decisions taken by the Cabinet at the 24 February 2025 meeting and noted that the Cabinet agreed to note the Treasury Management Strategy was

reviewed by Audit and Corporate Governance Committee and recommended to Full Council for approval.

**Conclusion:** The Cabinet has fulfilled its responsibilities in respect of recommending borrowing limits, Prudential Indicators and Treasury Management Strategy to the Council within the prescribed timeframe.

#### Audit and Corporate Governance Committee

Under the Constitution, para 2.6.4, the Council nominates the Audit and Corporate Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies. This committee will receive the draft annual strategy and plan in advance of approval by Full Council and receive the mid-year review and outturn report for review before submission to Full Council.

The 2025/26 Draft Treasury Management Strategy (TMS) was considered by Audit and Corporate Governance Committee at its meeting on the 22 January 2025 whereupon it was resolved that it be submitted to Full Council for approval on 6 March 2025.

The Audit and Corporate Governance Committee received the Treasury Management Assurance Report and Mid-Year Review for 2024-25 on 10 December 2024 and it was agreed that it should be referred to Full Council. The agenda of the Council meeting held on 23 January 2025 included the recommendation of the Audit and Corporate Governance Committee.

The Audit and Corporate Governance Committee received a copy of the Treasury Management Outturn Report 2023-24 at the 10 July 2024 meeting where after due consideration the report was noted, however, the report was not referred to the Full Council.

Following a review of the CIPFA Code, as referenced in the TMSS, officers have recommended changes to the Council's financial procedure rules confirming that the Audit and Corporate Governance Committee will be responsible for effective scrutiny of the strategy and policies and will receive the draft strategy, mid-year review and outturn report in advance of them being submitted to Full Council.

**Conclusion:** The Audit and Corporate Governance Committee fulfilled its responsibilities under the Constitution in respect of reviewing the Draft Treasury Management Strategy and mid-year review report prior to referral to Full Council. However, the committee has not referred the Treasury Management Outturn Report 2023-24 to the Full Council in accordance with the Constitution.

**Matter for consideration:** Process to be put in place to ensure that the Treasury Management Outturn Report is submitted to the Full Council in accordance with the Constitution.

#### **Management Response**

Agreed

The revised 2024/25 Treasury Management Strategy Statement, as presented and approved by Full Council on the 23 January 2025 included the outturn position for 2023/24. For 2024/25 and going forward the Treasury Management Outturn Report will be presented firstly to Audit and Corporate Governance Committee (July 2025) for their review and then referred on to Full Council.

Target Date: September 2025

Responsible Officer: Senior Finance Manager – Treasury and Capital

### Treasury Management Practices (TMP)

Full Council are to receive reports on its treasury and investment management policies, practices and activities, including, as a minimum, approving an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close in the form prescribed in its TMPs and Investment Management Practices (IMPs).

A review of the TMP noted that:

- An Annual Treasury Report is submitted to the Council each year after the close of the financial year which reviews the performance of the Council's Treasury Management operations. This report is to contain details of compliance with Prudential and Treasury Indicators.
- Quarterly reports will be submitted to the Audit & Corporate Governance Committee each year to provide updates on compliance with Prudential and Treasury Indicators.
- Management information reports will be prepared every month by the Senior Accountant (Treasury) and will be presented to Director of Finance (Corporate Finance) for review and then the Section 151 Officer. These reports will contain information on any non-compliance with prudential limits or other treasury management limits.

**Conclusion:** The Treasury Management Outturn Report 2023-24 submitted to the Audit and Corporate Governance Committee was not referred to the Full Council.

A process is in place to submit quarterly reports to the Audit and Corporate Governance Committee.

Audit informed that financial management reports are presented to the Section 151 Officer on a fortnightly basis and this would include non-compliance with indicators if such events arose.

**Matter for consideration:** Ensure the reporting requirements set out in the Treasury Management Practices in respect of submission of the Treasury Management Outturn Report to the Full Council is being complied with.

### **Management Response**

Agreed

Please see Management Response to Audit & Governance Committee above.

### **Treasury Management Strategy Statement (TMSS)**

The TMSS sets out how the Council performs its responsibility in the management of borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. The TMSS outlines how the Council is required to have regard to statutory guidance, which is currently found in the CIPFA

Prudential Code and the CIPFA Treasury Management Code of Practice 2021. In line with best practice, the TMSS reports that a review into the constitutional arrangements for the governance and assurance of the treasury management function has been undertaken and is being taken to the Council's Constitutional Working Group before seeking Full Council approval.

## **Capital Strategy**

The Prudential Code stipulates the capital strategy should form a part of the authority's integrated revenue, capital, and balance sheet planning.

The Council's Capital Strategy, which forms part of the TMSS, is designed to provide a high-level overview of:

- Capital expenditure plans aligned with the delivery of the Council's statutory duties and corporate plan priorities;
- Capital Financing Requirements;
- Capital investment plans in terms of affordability, prudence, and sustainability; and
- Treasury management decisions taken in accordance with good professional practice.

The Prudential Code stipulates that the Capital Strategy should include sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability, proportionality, and affordability will be secured and to meet legislative requirements on reporting. The code provides a range of topics under the following headings that should be taken into consideration where material: Capital expenditure; Debt, borrowing, investments and treasury management; Investments for service or commercial purposes, Other long-term liabilities; and Knowledge and skills.

**Conclusion:** The Capital Strategy provides sufficient details of the Council's capital expenditure plans including details of main capital projects, a focus on the council's statutory duties and corporate plan priorities and resources available in terms of funding. Prudential Indicators provide assurance that capital investment plans are affordable, prudent, and sustainable. The Investment Strategy demonstrates how treasury funds are invested with due regard to prudence, security, and liquidity.

Audit undertook a high-level review to assess whether expected disclosure requirements as set out in the code had been met. The review concluded that sufficient commentary had been provided in the Capital Strategy that would enable members to understand how stewardship, value for money, prudence, sustainability, proportionality, and affordability would be secured and to meet legislative requirements on reporting.

Examples of relevant disclosure provided included:

- Clarification to the Council's financial procedure rules that the Council must not borrow primarily for a financial return.
- Restrictions around borrowing or funding of ongoing capital finance, for example requirements around the Housing Revenue Account (HRA).

The review did identify two areas that had not been covered in respect of:

- An overview of the governance process for approval and monitoring of capital expenditure; and

- An overview of the governance process for approval and monitoring and ongoing risk management of any other financial guarantees and other long-term liabilities.

**Matters for consideration:** Capital Strategy to refer to the Council's Financial Procedure Rules which state: Cabinet approval is required for all capital additions to the capital programme. All Capital additions are reviewed by senior officers prior to being recommended for approval to Cabinet. Capital additions should also be included in the quarterly budget monitoring report to Project Review Board for noting.

Capital Strategy to provide overview of the governance process for approval and monitoring and ongoing risk management of any other financial guarantees and other long-term liabilities.

### **Management Response**

Any additions to the Capital Programme irrespective of value must be, and are, referred to Cabinet for approval, having first been reviewed through Capital Board. This is set out in the Council Financial Procedure Rules – but will also be referred to in the Capital Strategy for 2026/27 and onwards, along with an overview of monitoring arrangements, and governance process for approval, monitoring and ongoing risk management of any other financial guarantees and other long-term liabilities

Target Date: February 2026

Responsible Officer: Senior Finance Manager - Treasury and Capital

### **Prudential Code Indicators**

Under the Prudential Code the body that sets the budget for the local authority (the decision-making body) will usually be the full council of that local authority. Whether or not this is the case, the setting of the capital expenditure estimates, operational boundary and authorised limit should follow the same route as the setting and revising of the budget of the local authority. Other indicators may be delegated to committees or subcommittees of full council although full council retains overall responsibility.

The prudential indicators for the forthcoming and following years must be set before the beginning of the forthcoming year. They may be revised at any time, following due process, and must be reviewed, and revised if appropriate, for the current year when the prudential indicators are set for the following year.

**Conclusion:** The Draft Treasury Management Strategy 2025/26, which includes Prudential Indicators for the forthcoming and following years, and the General Fund Revenue Budget 2025/26 was submitted to the Council for approval at the 6 March 2025 meeting. Therefore, the requirement that indicators are set before the beginning of the forthcoming year and the setting of the capital expenditure estimates, operational boundary and authorised limit should follow the same route as the setting and revising of the budget of the Council has been met.

The Prudential Code requires indicators to be completed under the headings: prudence and affordability. Audit reviewed indicators recorded in the Treasury Management Strategy 2025-26 to assess whether disclosure requirements had been complied with and whether the figures contained within the indicators agree to underlying data. The results of the review are set out below.

## **Prudential Indicators for prudence**

Indicators for prudence are required to be set over a minimum three-year rolling period. Where statutorily ringfenced resources such as the HRA exist, the indicators of prudence should be set separately for these areas.

### **Prudential Indicator 1: Estimate of total capital expenditure to be incurred in years 1, 2 and 3 (and 4, etc if applicable).**

**Requirement:** The local authority will make reasonable estimates of the total of capital expenditure that it plans to incur during the forthcoming financial year and at least the following two financial years.

**Actual disclosure:** The Council's Capital Strategy 2025/26 – 2028/29 sets out a table of estimates of capital expenditure under the headings of General Fund and Council Housing (HRA). An estimate is provided for the prior year (2024-25), and budget/forecast figures are provided for year 1 (2025/26) and for years' 2, 3 & 4 years.

**Conclusion:** Estimates of total capital expenditure have been disclosed in accordance with the reporting requirements of the Prudential Code and the reported figures reconcile to supporting data.

### **Prudential Indicator 2: Actual capital expenditure.**

**Requirement:** After the year-end, the actual capital expenditure incurred during the financial year will be recorded.

**Actual disclosure:** To ascertain whether there is a process in place to disclose the actual capital expenditure balance after the year end, a review of the Treasury Management Outturn Report 2023-24, submitted to the Audit and Corporate Governance Committee on 10 July 2024, was undertaken and it was found that actual capital expenditure as at 31 March 2024 had not been disclosed.

**Conclusion:** A review of the Treasury Management Outturn Report for 2023/24 found the actual capital expenditure balance as at 31 March 2024 had not been disclosed therefore the Prudential Indicator disclosure requirement had not been met.

**Matter for consideration:** The actual capital expenditure balance to be incorporated within the Treasury Management Outturn Report.

#### **Management Response:**

Agreed

Actual capital expenditure incurred during the financial year to be incorporated in the Treasury Management Outturn Report 2024/25 and ongoing.

Target Date: July 2025

Responsible Officer: Senior Finance Manager - Treasury and Capital)

### **Prudential Indicator 3: Estimates of capital financing requirement.**

**Requirement:** The local authority will make reasonable estimates of the total capital financing requirement at the end of the forthcoming financial year and the following two years.

**Actual disclosure:** The Council's Capital Strategy provides a table on Estimates of Capital Financing Requirement, categorised under the headings: General Fund Services; Capitalisation Direction; and Council Housing (HRA). An estimate is provided for the prior year (2024-25), and budget/forecast figures are provided for year 1 (2025/26) and for years' 2, 3 & 4 years.

**Conclusion:** Estimates of capital financing requirement have been disclosed in accordance with the reporting requirements of the Prudential Code and the reported figures reconcile to supporting data.

#### **Prudential Indicator 4: Actual capital financing requirement.**

**Requirement:** After the year-end, the actual capital financing requirement will be calculated directly from the local authority's Balance Sheet.

**Actual disclosure:** A review of the Treasury Management Outturn Report 2023-24, was undertaken and it was found that under the Borrowing Summary table, actual General Fund capital financing requirement and Housing Revenue Account CFR as at 31 March 2024 was disclosed.

**Conclusion:** A review of the Treasury Management Outturn Report for 2023/24 confirmed the actual capital financing requirement as at 31 March 2024 was disclosed thereby providing assurance that there is a mechanism in place to ensure the Prudential Indicator disclosure requirements are met.

#### **Prudential Indicator 5: Authorised limit for external debt = authorised limit for borrowing + authorised limit for other long-term liabilities for years' 1,2 and 3.**

**Requirement:** The local authority will set for the forthcoming financial year and the following two financial years an authorised limit for its total gross external debt, separately identifying borrowing from other long-term liabilities.

**Actual disclosure:** The Council's Capital Strategy provides a table on Authorised Limit for External Debt, categorised under the headings: Authorised limit – borrowing; and Authorised limit – PFI and leases. Limits are provided for the prior year (2024-25) and for year 1 (2025/26) and for years' 2, 3 & 4 years.

**Conclusion:** Authorised limit for external debt has been disclosed in accordance with the reporting requirements of the Prudential Code and the reported figures reconcile to supporting data.

**Prudential Indicator 6: Operational boundary for external debt = operational boundary for borrowing + operational boundary for other long-term liabilities for years' 1,2 and 3.**

**Requirement:** The local authority will also set for the forthcoming financial year and the following two financial years an operational boundary for its total gross external debt, separately identifying borrowing from other long-term liabilities.

**Actual disclosure:** The Council's Capital Strategy provides a table on Operational Boundary for External Debt, categorised under the headings: Operational boundary – borrowing; and Operational boundary – PFI and leases. Limits are provided for the prior year (2024-25) and for year 1 (2025/26) and for years' 2, 3 & 4 years.

**Conclusion:** Operational boundary for external debt has been disclosed in accordance with the reporting requirements of the Prudential Code and the reported figures reconcile to supporting data.

**Prudential Indicator 7: Actual external debt as at 31 March = actual borrowing as at 31 March + actual other long-term liabilities as at 31 March.**

**Requirement:** After the year-end, the closing balance for actual gross borrowing plus (separately) other long-term liabilities will be obtained directly from the local authority's Balance Sheet.

**Actual disclosure:** A review of the Treasury Management Outturn Report 2023-24, was undertaken and it was found that within the Debt Limits table actual balances were recorded in respect of borrowing and PFI & finance leases as at 31 March 2024.

**Conclusion:** A review of the Treasury Management Outturn Report for 2023/24 confirmed the actual external debt as at 31 March 2024 was disclosed thereby providing assurance that there is a mechanism in place to ensure the Prudential Indicator disclosure requirements are met.

**Prudential Indicator 8: Gross debt and the capital financing requirement.**

**Requirement:** In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that total gross debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. Where the gross debt is greater than the capital financing requirement the reasons for this should be clearly stated in the annual treasury management strategy.

**Actual disclosure:** The Council's Capital Strategy provides a table on Gross Debt and the Capital Financing Requirement in which Debt (including PFI & leases) is compared to Capital Financing Requirement for the prior year (2024-25) and for year 1 (2025/26) and for years' 2, 3 & 4 years. Additional commentary is provided stating that total debt is expected to remain below the CFR during the forecast period.

**Conclusion:** Gross debt and the capital financing requirement have been disclosed in accordance with the reporting requirements of the Prudential Code and the reported figures reconcile to supporting data.

## Prudential indicators for Affordability

**Prudential Indicator 9: Estimate of financing costs ÷ estimate of net revenue stream x 100% for years' 1, 2 and 3.**

**Requirement:** As a minimum, the local authority will estimate for the forthcoming financial year and the following two financial years the proportion of financing costs to net revenue stream.

**Actual disclosure:** The Council's Investment Strategy provides a table on General Fund Net Financing Costs as a ratio to Net Revenue Stream and HRA Financing Costs as a ration to Net Revenue Stream for the prior year (2024-25) and for year 1 (2025/26) and for year 2.

**Conclusion:** Estimates of financing costs to net revenue stream has been disclosed partially in accordance with the reporting requirements of the Prudential Code as budgeted figures for year 3 (2027-28) have not been disclosed. Reported figures reconcile to supporting data.

**Matter for consideration:** The table on the Proportion of financing costs to net revenue stream to be extended to include budget figures for year 3 (2027-28).

### Management Response:

Agreed

Proportion of financing costs to net revenue stream to include budget figures for 3 years to be incorporated in the next Treasury Management Strategy Statement.

Target Date: February 2026

Responsible Officer: Senior Finance Manager - Treasury and Capital

**Prudential Indicator 10: Actual financing costs ÷ actual net revenue stream x 100%.**

**Requirement:** After the year-end, the proportion of financing costs to net revenue stream will be calculated directly from the local authority's Comprehensive Income and Expenditure Statement.

**Actual disclosure:** To ascertain whether there is a process in place to disclose the actual capital expenditure balance after the year end, a review of the Treasury Management Outturn Report 2023-24, submitted to the Audit and Corporate Governance Committee on 10 July 2024, was undertaken and it was found that actual financing costs ÷ actual net revenue stream x 100%, as at 31 March 2024, had not been disclosed.

**Conclusion:** A review of the Treasury Management Outturn Report for 2023/24 found actual financing costs ÷ actual net revenue stream x 100% after the year end, had not been disclosed therefore the Prudential Indicator disclosure requirement has not been met.

**Matter for consideration:** The actual financing costs ÷ actual net revenue stream x 100% as at 31 March to be incorporated within the Treasury Management Outturn Report.

**Management Response:**

Agreed

Actual financing costs ÷ actual net revenue stream x 100% as at 31 March to be incorporated within the Treasury Management Outturn Report 2024/25 and onwards.

Target Date: July 2025

Responsible Officer: Senior Finance Manager - Treasury and Capital

**Prudential Indicator 11: Estimates of net income from commercial and service investments ÷ estimate of net revenue stream x 100% for years' 1, 2 & 3.**

**Requirement:** As a minimum, the local authority will estimate for the forthcoming financial year and the following two financial years the proportion of net income from commercial and service investments compared to budgeted net revenue stream.

Net income from commercial and service investments comprises net income from financial investments (other than treasury management investments), together with net income from other assets held primarily for financial return, such as commercial property.

**Actual disclosure:** The Council's Treasury Management Strategy does not incorporate a Prudential Indicator relating to an estimate of net income from commercial and service investments ÷ estimate of net revenue stream x 100%. Appendix D: Non-Treasury Investments within the TMS provides a table showing Non-Treasury Investments in respect of Service Investments with figures relating to interest receivable. Audit advised the Council does not have income from commercial investments.

**Conclusion:** A Prudential Indicator that records an estimate of net income from commercial and service investments ÷ estimate of net revenue stream x 100% has not been incorporated within the Capital Strategy, therefore the disclosure requirement of the code has not been met.

**Matter for consideration:** The Prudential Indicator relating to estimates of net income from commercial and service investments ÷ estimate of net revenue stream x 100% for years' 1, 2 & 3 to be disclosed in the Treasury Management Strategy, Quarterly Treasury Management Report and Treasury Management Assurance Report and Mid-Year Review.

**Management Response:**

Agreed.

It will be incorporated in Mid-Year Review report 2025/26.

Target Date: December 2026

Responsible Officer: Senior Finance Manager - Treasury and Capital

**Prudential Indicator 12: Actual net income from commercial and service investments ÷ actual net revenue stream x 100%.**

**Requirement:** After the year-end, the proportion of net income from commercial and service investments to net revenue stream shall be calculated consistently with the authority's consolidated income and expenditure statement.

**Actual disclosure:** To ascertain whether there is a process in place to disclose the actual capital expenditure balance after the year end, a review of the Treasury Management Outturn Report 2023-24, submitted to the Audit and Corporate Governance Committee on 10 July 2024, was undertaken and it was found that actual net income from commercial and service investments ÷ actual net revenue stream x 100%, as at 31 March 2024, had not been disclosed.

**Conclusion:** A review of the Treasury Management Outturn Report for 2023/24 found actual net income from commercial and service investments ÷ actual net revenue stream x 100% after the year end, had not been disclosed therefore the Prudential Indicator disclosure requirement has not been met.

**Matter for consideration:** The actual net income from commercial and service investments ÷ actual net revenue stream x 100% as at 31 March 2025 to be incorporated within the Treasury Management Outturn Report.

**Management Response:**

Agreed.

It will be incorporated in the 2024/25 Outturn report.

Target Date: July 2025

Responsible Officer: Senior Finance Manager - Treasury and Capital

### **Monitoring Against Prudential Indicators**

The code requires procedures to be put in place to monitor and report performance against all forward-looking indicators at least quarterly.

The Council has in place provision for quarterly reporting (end of June/end of December) on Treasury/Prudential indicators. These reports do not have to be reported to Full Council but, there is an expectation that they will be appropriately scrutinised. This to date, has been a role undertaken by Audit and Corporate Governance Committee.

A review of reports submitted to Audit and Corporate Governance Committee meetings noted the following:

**Treasury Management Outturn Report 2023-24** presented to the committee on 10 July 2024 documented Treasury activities of the Council during the year 1 April 2023 to 31 March 2024 and included the Chief Finance Officer report that all treasury management activities undertaken during the year complied with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy. The report provides details of:

- Actual External Debt (Borrowing and PFI & Finance Leases) and compared to Operational Boundary and Authorised Debt Limits as at 31 March 2024.
- Actual CFR as at 31 March 2024

However, the following Prudential Indicators reporting actuals were not disclosed and this matter has been raised under the Prudential Indicators section of this report which is of the view that each indicator should be disclosed, and the Treasury Management Outturn Report would appear to be the most appropriate document:

- Actual Capital Expenditure as at 31 March 2024
- Actual financing costs/actual net revenue stream x 100%
- Actual net income from commercial and service investments/actual net revenue

**2024-25 Quarter 1 Treasury Management Report** provided details of the Council's investment and borrowing activities for the period 1 April 2024 to 30 June 2024. The report was submitted to the committee on 30 September 2024. The delay in submission was due to resources directed towards finalisation of the Council's annual statutory accounts. The following prudential code indicators were recorded in the report:

- Capital Expenditure Prudential Indicators
- Capital Financing Requirement
- Authorised Limit for External Debt
- Operational Boundary for External Debt
- Ratio of Financing Costs to Net Revenue Stream (General Fund and HRA Financing Costs)
- Treasury Management Prudential Indicators

The report did not provide disclosure in respect of the following indicators:

- Estimates of net income from commercial and service investments ÷ estimate of net revenue stream x 100% for years' 1, 2 & 3.
- Estimates of financing costs to net revenue stream has been disclosed partially in accordance with the reporting requirements of the Prudential Code as budgeted figures for year 3 (2027-28) has not been disclosed.

**Treasury Management Assurance Report and Mid-Year Review 2024/25** was presented to the Audit and Corporate Governance Committee on 10 December 2024. The committee considered the submission and agreed it should be referred to the Full Council. The agenda of the Council meeting held on 23 January 2025 included the recommendation of the Audit and Corporate Governance Committee. The report included details on the following indicators:

- Capital Expenditure Prudential Indicators
- Capital Financing Requirement
- Authorised Limit for External Debt
- Operational Boundary for External Debt
- Ratio of Financing Costs to Net Revenue Stream (General Fund and HRA Financing Costs)
- Treasury Management Prudential Indicators

The report did not provide full disclosure in respect of the following indicators:

- Estimates of net income from commercial and service investments ÷ estimate of net revenue stream x 100% for years' 1, 2 & 3.
- Estimates of financing costs to net revenue stream has been disclosed partially in accordance with the reporting requirements of the Prudential Code as budgeted figures for year 3 (2027-28) has not been disclosed.

**2024-25 Quarter 3 Treasury Management Report** for period October 2024 to December 2024 was due to be presented to the Audit and Corporate Governance Committee meeting scheduled to be held on 12 March 2025, however this meeting was cancelled and the Quarter 3 report is expected to be submitted to the committee in April 2025.

**Conclusion:** The Council has a process in place to monitor and report performance against all forward-looking indicators at least quarterly. In addition, indicators are subject to monitoring through the Treasury Management Assurance Report and Mid-Year Review and the Treasury Management Outturn Report includes actuals for certain indicators.

Audit noted delays in the quarterly reporting of indicators to the Audit and Corporate Governance Committee, where the Q1 2024-25 Treasury Management Report was submitted in September 2024 and the Q3 report has yet to be submitted to the committee.

The Treasury Management Outturn Report failed to document the following actual indicators:

- Actual Capital Expenditure as at 31 March 2024
- Actual financing costs/actual net revenue stream x 100%
- Actual net income from commercial and service investments/actual net revenue

The Quarter 1 Treasury Management Report and Treasury Management Assurance Report and Mid-Year Review 2024/25 failed to disclose an indicator in respect of Estimates of net income from commercial and service investments ÷ estimate of net revenue stream x 100% for years' 1, 2 & 3. and the indicator relating to estimates of financing costs to net revenue stream has been disclosed partially in accordance with the reporting requirements of the Prudential Code as budgeted figures for year 3 (2027-28) has not been disclosed.

### **Draft Treasury Management Strategy 2025-26**

The Capital Strategy contained within the draft Treasury Management Strategy 2025-26 disclosed forward looking indicators with the exception of the following:

- Estimates of net income from commercial and service investments ÷ estimate of net revenue stream x 100% for years' 1, 2 & 3.
- Estimates of financing costs to net revenue stream has been disclosed partially in accordance with the reporting requirements of the Prudential Code as budgeted figures for year 3 (2027-28) has not been disclosed.

**Matters for consideration:** Quarterly Treasury Management Reports to be submitted to the Audit and Corporate Governance Committee on a timely basis.

The Treasury Management Outturn Report to include the following indicators:

- Actual Capital Expenditure as at 31 March.
- Actual financing costs/actual net revenue stream x 100%.
- Actual net income from commercial and service investments/actual net revenue

The Treasury Management Strategy, Quarterly Treasury Management Report and Treasury Management Assurance Report and Mid-Year Review to disclose an indicator in respect of estimates of net income from commercial and service investments ÷ estimate of net revenue stream x 100% for years' 1, 2 & 3 and the indicator relating to estimates of financing costs to net revenue stream to include budgeted figures for year 3.

**Management Response:**

Agreed.

This will be incorporated from the Mid-Year Review report 2025/26 and Outturn Report.

Target Date: December 2025

Responsible Officer: Senior Finance Manager - Treasury and Capital

**Knowledge and skills**

The Prudential Code requires disclosure on the knowledge and skills available to the Council and these are commensurate with the Council's risk appetite and activities.

The TMSS provides the following disclosure:

- Arlingclose have been commissioned to provide training to Committee members to assist the Committee to fulfil its function to provide independent assurance and review of the council's governance, risk management and control frameworks and overseeing financial reporting and annual governance processes. Audit were provided with a copy of a PowerPoint presentation on Treasury Management for Elected Members that was held in January 2025.
- The needs of the Council's treasury management staff for training in investment management are assessed every twelve months as part of the staff appraisal process.
- Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

**Conclusion:** Prudential Code disclosure requirements in respect of knowledge and skills available to the Council have been met.

# Annex 1: Objective, scope, and distribution

## Objective

The objective of the advisory review is to provide high-level assurance that the Council has put in place appropriate arrangements to comply with the CIPFA Prudential Code and to highlight what, if anything has been missed. The intention is to inform more detailed Internal Audit planning for 2025/26 but recognising that risks/issues are live now.

## Scope

The areas for consideration were identified as follows:

- How the Council has assessed itself as being compliant with its obligations under the Prudential Code.
- Governance arrangements in place.
- The Council's Capital Strategy.
- The Council's Prudential Code Indicators.
- Mechanisms in place to monitor and report performance against the Code.

## Approach

The review will be carried out as follows:

- Interviews will be held with key managers and staff; and
- Relevant documents will be reviewed.

## Distribution

Annabel Scholes, Executive Director Corporate Resources and S151 Officer – (Final Only)  
Christopher Holme, Interim Finance Director, Finance and Commercial  
Ian Kirby, Interim Head of Internal Audit  
Xing Rong, Treasury Manager

