Public Document Pack

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RHYBUDD O GYFARFOD	NOTICE OF MEETING
PWYLLGOR ARCHWILIO A LLYWODRAETHU	**AUDIT AND GOVERNANCE COMMITTEE**
DYDD MAWRTH, 6 RHAGFYR, 2016 am 2 y.p.	**TUESDAY, 6 DECEMBER 2016 at 2.00 pm**
SIAMBR Y CYNGOR, SWYDDFEYDD Y CYNGOR, LLANGEFNI	**COUNCIL CHAMBER, COUNCIL OFFICES, LLANGEFNI**

Swyddog Pwyllgor	Ann Holmes 01248 752518	Committee Officer

AELODAU / MEMBERS
Cynghorwyr / Councillors:-

Annibynnol / Independent

Jim Evans, Dafydd Rhys Thomas and Richard Owain Jones

Plaid Cymru / The Party of Wales

John Griffith (Is-Gadeirydd/Vice-Chair), Alun W Mummery and Nicola Roberts

Grwp Chwyldroad/Revolutionist Group

Peter Rogers

Heb Ymaelodi / Unaffiliated

R Ll Jones (Cadeirydd/Chair)

AELODAU LLEYG/LAY MEMBERS

Mr Richard Barker, Mrs Sharon Warnes

A G E N D A

1 **DECLARATION OF INTEREST**

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

2 **MINUTES 21 SEPTEMBER, 2016 MEETING** (Pages 1 - 8)

To present the minutes of the previous meeting of the Audit and Governance Committee held on 21 September, 2016.

3 **PUBLIC SECTOR INTERNAL AUDIT STANDARDS - COMPLIANCE** (Pages 9 - 76)

To present the report of the Internal Audit Manager.

4 **EXTERNAL AUDIT - ANNUAL AUDIT LETTER 2015/16** (Pages 77 - 78)

To present the Annual Audit Letter 2015/16.

5 **EXTERNAL AUDIT - CERTIFICATE OF COMPLIANCE** (Pages 79 - 80)

To present the Certificate of Compliance with regard to the audit of the Isle of Anglesey County Council's assessment of 2015/16 performance.

6 **TREASURY MANAGEMENT** (Pages 81 - 166)

- To present the Treasury Management Strategy Statement 2017/18
- To present the Treasury Management Mid-Year Review report 2016/17
- To present a report on Treasury Management Practices

7 **INTERNAL AUDIT FORWARD WORK PROGRAMME** (Pages 167 - 174)

To present the report of the Internal Audit Manager.

8 **EXCLUSION OF PRESS AND PUBLIC** (Pages 175 - 176)

To consider adopting the following:

"Under Section 100(A)(4) of the Local Government Act 1972, to exclude the press and public from the meeting during the discussion on the following item on the grounds that it may involve the disclosure of exempt information as defined in Schedule 12A of the said Act and in the attached Public Interest Test".

9 **CORPORATE RISK REGISTER** (Pages 177 - 188)

To present the report of the Risk and Insurance Manager.

AUDIT AND GOVERNANCE COMMITTEE

Minutes of the meeting held on 21 September, 2016

PRESENT:	Councillor R. Llewelyn Jones (Chair) Councillor John Griffith (Vice-Chair) Councillors Jim Evans, Alun Mummery, Nicola Roberts, Peter Rogers, Dafydd Rhys Thomas Lay Members: Mr Richard Barker and Mrs Sharon Warnes
IN ATTENDANCE:	Chief Executive (for item 3) Assistant Chief Executive (Partnerships, Community & Service Improvement) Head of Function (Resources) and Section 151 Officer Head of Function (Council Business)/Monitoring Officer (for item 4) ICT Business Transformation Manager (for item 2) Accountancy Services Manager (BHO) Head of Internal Audit (MH) Internal Audit Manager (SP) Committee Officer (ATH)
APOLOGIES:	Councillor Richard Owain Jones
ALSO PRESENT:	Clare Edge (Financial Audit Manager – Deloitte)

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1 DECLARATION OF INTEREST

No declaration of interest was received.

2 MINUTES 25 JULY, 2016 MEETING

The minutes of the previous meeting of the Audit and Governance Committee held on 25 July, 2016 were presented and confirmed as correct.

Arising thereon –

- **ICT Disaster Recovery**

  The ICT Business Transformation Manager reported on progress to date with regard to arrangements for ICT disaster recovery with the objective ultimately of ensuring that the Council has a dedicated off- site back-up data centre that will allow its critical business systems to be fully recovered in the event of flood or fire or any other disaster scenario. The Officer said that the Council does not currently have that advanced capability and that information stored in its one existing data centre is backed up by other means. In addition, the equipment which the Council's systems rely upon does not have the necessary degree of resilience, and although the storage systems themselves are robust and have historically been carefully managed, the arrangements as at present are susceptible to risk and single points of failure.

  The Officer explained the enhancements made to the existing data centre as a result of increased investment in ICT over the previous 12 months which was made to improve both infrastructure and business systems as well as the general ICT capability within the Council. In addition investment has also been made in new service technologies to replace the outdated technologies that were in place; the storage system has been replaced with a new state of the art system and new data back- up systems are being implemented as part of the broader aim of moving to a more digital economy in Anglesey to improve the delivery of services to its citizens.

The Officer said that the new technologies which have been purchased specifically to run over two data centres have designed out all the single points of failure meaning that the Council is in a much better position that it was 12 months ago in terms of its ICT arrangements. There is no additional cost overhead because the new technologies' design is best practice and also because of good procurement practice in their acquisition. These technologies are meant to provide resilience over two data centres without extra cost and will provide the bedrock of the core infrastructure to support the Council's digital ambitions in future e.g. App Môn. The end objective of these endeavours is to construct a second facility as the ultimate back-up solution which is what the ICT Service has been tasked with doing and for which it has received capital funding to deliver. The build is underway, and the two data centres will together act, and be managed, as a single entity although they will be in physically separate locations. This means that the Council, in the event that it loses use of the current data centre can continue running its entire business from the other data centre and vice versa because all the technologies will be designed to run over both centres thereby guaranteeing the availability of the Council's business systems over and above the core critical businesses. This is a more economical and more flexible option than obtaining a back- up solution via a third party provider as the latter would be unlikely to be able to provide resilience for all of the Council's 112 business systems. The decision as to what systems to prioritise in a disaster event becomes the choice of the organisation and will form part of the Disaster Recovery Plan which has now been formulated. The business systems that will be prioritised will be based on work with individual services but the ultimate decision, taking into account seasonal demands and the nature of the incident will be made by the SLT thus allowing the Council to respond to changing demands within the organisation.

The Officer said that the new facility once up and running, will remove all of the remaining single points of failure. It will provide disaster recovery, back-up capability and critically it will enable continuous operation of the Council's services. Essential systems will be delivered over both data centres by design, there will be no single point of failure and the system will be responsive to demands. The new arrangements are planned to go live in December, 2016 but their implementation could possibly slip into the New Year.

The Committee considered the information presented and made the following points:

- The Committee was satisfied that the risks associated with ICT Disaster Recovery are being appropriately addressed, that good progress has been made and that Management is in the process of finalising arrangements to ensure that the Council's business systems are protected and remain viable in the event of those risks materialising.
- The Committee noted that the new technologies and systems have been acquired efficiently by good procurement practice and that they will not entail additional overhead costs. The ICT Business Transformation Manager said that it is also part of the ICT Strategy to challenge and rationalise the Council's software estate which eclipses infrastructure as regards costs and he described the steps being taken to do so.
- The Committee noted that the actions taken to upgrade the Council's electronic and ICT systems in total contribute towards the achievement of one of the Council's key strategic objectives which is the digitisation and improved accessibility of services.
- The Committee sought clarification regarding the longevity of the technologies acquired and the strategy for replenishing them economically. The ICT Business Transformation Manager said that the service will bid into the capital programme each year to replace 25% of all of core infrastructure so that over a 4 year period the service will have refreshed the whole of its infrastructure. The ICT service is mindful of the demands on the capital budget and will therefore target its investment to ensure that it is contributing to the delivery of some form of efficiency and improvement elsewhere in the Council.

It was resolved to accept the information and to note the progress made.

- **Internal Audit Progress Report**

With regard to the need by Management to ensure timely and effective communication so as to provide a clear picture of how well services are implementing internal audit recommendations the Head of Function (Resources) and Section 151 Officer confirmed that the issue relates to Management ensuring that the 4 action system which records the implementation of internal audit recommendations is updated in a timely and appropriate way so that the Internal Audit Manager is provided with a clear picture of the state of play and can then present that information accurately to the Audit Committee via the quarterly progress report. The Officer said that the message regarding the need for clarity in what is reported through the 4 action system has been conveyed to Heads of Service through the Penaethiaid meeting and it is hoped that that message will now filter down the management structure.

The information was accepted and was noted by the Committee.

3 THE STATEMENT OF ACCOUNTS 2015/16 AND ISA 260 REPORT

- The report of the Head of Function (Resources) and Section 151 Officer incorporating the Statement of Accounts for 2015/16 and Annual Governance Statement 2015/16 was presented to the Committee.

The Head of Function (Resources) and Section 151 Officer reported that the draft accounts for 2015/16 were presented to the Audit Committee at its meeting held on 27 June, 2016 and were subsequently submitted for external audit which process has taken place over the summer months and is now substantially complete . A number of amendments to the draft have been incorporated into the accounts details of which are set out in the Auditor's ISA 2560 report; a summary of the more significant amendments to the draft statement is provided at paragraph 3.2 of the report. The Officer said that the Audit and Governance Committee is required to recommend the financial statements for approval by the County Council but that there remains an outstanding issue which needs to be resolved before that can take place.

The Head of Function (Resources) and Section 151 explained that as part of the audit of the financial statements the auditors undertake substantive testing of certain areas of the accounts. During that sampling process, the auditors have identified three infrastructure assets totalling £5.336m for which they require evidence to corroborate their existence and ownership. The Officer confirmed that the value of one of the assets in need of supporting evidence is shown as £4m on the accounts, and because of the historical nature of the asset, the Finance Service to date has not been able to provide the evidence required partly because systems have changed over the course of time and partly because of difficulty in accessing paper records the retention of which is time limited. Although efforts to resolve the issue are ongoing and it is anticipated that a resolution can be achieved shortly, the Service at this point has not been able to provide the auditors with the required level of assurance with regard to this item to enable them to certify the accounts without qualification meaning that the Audit Committee is not in a position at today's meeting to recommend the accounts for approval to the Council at its meeting on 27 September. This is due to the fact that the accounts could change depending on how the outstanding issue is resolved and the outcome in terms of what is shown on the accounts. In the circumstances the Authority could delay approving the accounts until such time as the auditors have obtained the necessary assurance but that could then require convening an extraordinary meeting of the Council or alternatively, the auditors could issue a qualified report. Following discussion with the Chair and the auditors, the Engagement Lead for the financial audit has confirmed that he is satisfied with the work currently being undertaken to resolve the issue and to provide the auditors with the level of assurance they require, and it is therefore recommended that the Committee delegates to the Chair and Vice-Chair the authority to recommend the accounts to the Council once the outstanding issue has been resolved and the auditors are satisfied with the assurance received regarding the matter and are able to issue an unqualified opinion.

The Committee noted the position and having sought further clarification of the issue in question, the extent of the assurance required by the auditors and the implications, was minded to accept the recommendation put forward and to authorise the Chair and Vice-Chair to liaise with the Finance Service and the auditors regarding confirmation of the accounts and to subsequently recommend them to the Council.

The Head of Function (Resources) and Section 151 Officer said that at present the Code of Practice under which the Statement of Accounts is prepared requires that the value of infrastructure assets is shown on the balance sheet which because they are infrastructure assets means reflecting the capital expenditure on them during the year. As the expenditure continues from year to year, the value of the assets increases. A change in the regulations means that next year the Authority will have to revalue its infrastructure assets and the revaluation figure will be shown in the accounts and the supporting details will be readily available meaning that the specific issue that has arisen in the course of the 2015/16 audit is not likely to recur.

Ms Clare Edge, Financial Audit Manager confirmed that the issue arose through sample testing and that the auditors had sought to establish what were the items of infrastructure in the sample, their existence and ownership and, given that the balance of one of the items was £4m, they would have expected to see audit evidence confirming they were true assets.

It was resolved –

- **To accept and to note the Statement of Accounts for 2015/16 subject to the resolution of the outstanding issue as reported by the Head of Function (Resources) and Section 151 Officer.**
- **To delegate to the Chair and Vice-Chair the authority to recommend the Statement of Accounts 2015/16 for approval by the Council on receipt of confirmation by the auditors that the issue outstanding on the accounts has been resolved to their satisfaction and they are able to issue an unqualified opinion.**
- **To approve the Annual Governance Statement for 2015/16 and refer the document to the Leader of the Council and the Chief Executive.**

- The report of the External Auditors on the audit of the Financial Statements for 201516 (ISA 260 report) was presented for the Committee's consideration.

  Ms Clare Edge, Financial Audit Manager confirmed that subject to the satisfactory completion of outstanding work including that referred to above, it is the Auditor General's intention to issue an unqualified audit report on the financial statements. The Officer also confirmed the following:

  - That there are no misstatements identified in the financial statements which remain uncorrected.
  - There are misstatements which have been corrected by Management which are drawn to the Audit Committee's attention in line with the Committee's responsibilities over the financial reporting process (Appendix 3 of the report)
  - There are no issues arising from the audit risks as identified in the Financial Audit Plan other than one adjustment in relation to grant income (Appendix 3) and one control observation (Appendix 4)
  - There are no concerns regarding the qualitative aspects of the Authority's accounting practices and financial reporting. However a recommendation has been made with regard to improving the quality and timeliness of some supporting audit evidence (Appendix 4)
  - No significant difficulties were encountered during the audit.
  - There were no significant matters discussed and corresponded upon which Management need to report to the Committee.
  - There are no other matters significant to the oversight of the financial reporting process that need to be reported.
  - No material weaknesses in internal control were identified although several areas in which it would be possible to improve control were identified.
  - There are no other matters specifically required by auditing standards to be communicated to those charged with governance.

It was resolved to accept the report and to note its contents.

4 INFORMATION GOVERNANCE SENIOR INFROMATION RISK OWNER'S (SIRO) ANNUAL REPORT 2015/16

The report of the Council's Senior Information Risk Owner setting out the key information governance issues for the period from 1 April, 2015 to 31 March, 2016 along with current priorities was presented for the Committee's consideration.

The Senior Information Risk Owner (SIRO) reported that it is an expectation of the role of SIRO that it produces an annual report and the report presented is the first such report by the SIRO in Anglesey and has been used to take stock of the position at the Council. The report includes a summary of information governance issues that have arisen in the past as well as charting the actions taken to date and the plans going forward.

The Officer referred specifically to the following:

- The Data Security Incidents during the period categorised according to their assessed severity. The number of incidents recorded is set out at Appendix B and comprises of 6 Level 0 to Level 1 incidents (having applied the data security incident methodology to these occurrences it was concluded that 5 were incidents that do not require reporting to the Information Commissioner's Office – ICO and 1 was a near miss). No Level 2 incidents (incidents that must be reported to the ICO and other regulators) were recorded.
- That the Council monitors specific Information Governance related Performance Indicators some on a monthly and others on a quarterly basis. These are acted upon on an exception basis and are used to escalate matters as necessary to the attention of the SLT.
- Specific Information Governance roles have been established within the Council and include Information Asset Owners and Information Asset Administrators whose responsibilities are summarised in paragraph 4 of the report and who have received specialist training to undertake the roles.
- All the Council's staff are required to undertake basic Information Governance training which is refreshed every two years. This training commenced in June, 2014 and a process to ensure maximum take up was followed .Compliance close to 90%.
- A range of key IG policies as set out in paragraph 5.2 of the report have been established and are available on the Council's intranet. These policies are reviewed and updated by the Corporate Information Governance Board (CIGB). Following the identification of funding, the Council has now procured and is currently implementing a policy management system which will provide the SIRO with assurance that the key IG policies are being read, understood and formally accepted by individual members of staff. The policy management system will be of wider application the idea being that staff will have available to them a digital library of up to date policies across all corporate services.
- The Council's overall data protection compliance has been assessed as a medium risk by Internal Audit. The SIRO is aiming to produce a Statement of Control in the next 3 years subject to the implementation and successful testing of the steps described in the report. The principal factor in respect of the Council's being able improve on its medium risk status is the Information Asset Register which is the key mechanism for understanding an organisation's information holdings and the key risks associated. The Council's register is not as yet developed to the extent that adequate information about the risks to the assets is captured at granular level. This work will have to be done within current resources and on a risk based approach.
- The report also makes reference to the work associated with the Office of Surveillance Commissioners and Regulation of Investigatory Powers Act.
- The SIRO is able to conclude that the Council's arrangements for IG and data protection compliance are reasonably effective.

The Committee considered the report and made the following points –

- The Committee noted that a great deal of progress has been made, albeit from a low base, to implement the ICO's audit work and enforcement activity.
- The Committee sought clarification in an environment where the emphasis is increasingly on the digitisation of services and on interaction through digital means e.g. the use of Skype to engage with clients and service users, of the steps being taken to put in place safeguards in the implementation of such new practices. The SIRO said that in such circumstances the individual service would lead with advice from the SIRO and ICT and it would then be reported through to the CIGB.
- The Committee noted that whilst much has been done at corporate level to address weaknesses in IG arrangements at the Authority, many breaches can arise from carelessness and bad practice. The Committee sought assurance that the same level of attention is being paid to getting the basics right e.g. that there is a mechanism for checking and ensuring the accuracy of e-mails/addresses and information held on databases. The SIRO said that the ICO recognises the potential for human error and that this cannot be completely eliminated; the expectation therefore is not to have zero data breaches but to manage the risks effectively and to learn from any incidents that do occur. While no system can take out all the risks, the

objective should be to manage the risks down to the minimum level and to a level which the Authority can tolerate operationally. The Head of Function (Resources) and Section 15 Officer said that the Council has released funding to improve business processes and that two bids were approved, one to link the Authority's systems to the national property gazetteer (a list of property reference numbers for each address in the UK) which will improve accuracy, and one to implement a Customer Relationship Management system which also verifies information e.g. addresses.

- The Committee noted that there is a variance between services in terms of information governance and data protection and it sought clarification of the steps being taken to ensure the same level of proficiency and compliance across all services. The SIRO confirmed that the level and areas of compliance between services are different with some services being better at some things than others e.g. because they are often complex, responding to subject access requests can be a slow process in Social Services but that the consensus is that in this respect, accuracy is preferable to speed so as to minimise the risk of sensitive information being inadvertently shared with an unauthorised party.

It was resolved to accept the Annual Report of the SIRO for 2015/16 and to note the level of compliance and risk which the report documents as concluded by the Senior Information Risk Owner.

NO FURTHER ACTION ENSUING

5 INTERNAL AUDIT PROGRESS REPORT

The report of the Head of Internal Audit on the work of the Internal Audit Service during the period from 1 April to 31 August, 2016 was presented for the Committee's consideration. The report included a summary of all audit assignments completed during the year; the level of assurance provided; a schedule of follow up audits undertaken together with a list of all Internal Audit recommendations that remain outstanding.

The Internal Audit Manager confirmed that the performance levels of the Internal Audit Section are on target. The Officer highlighted that the implementation rate with regard to High and Medium rated recommendations is now up to 83%.

The Committee noted the update provided by the report and made the following points:

- The Committee noted and welcomed the Internal Audit section's performance to date against the key PIs as documented in Appendix A of the report.
- The Committee noted those areas in Appendix D in relation to Housing Benefit key controls and Corporate Safeguarding where the assurance level was judged to be limited and it raised particular concern that the assurance processes and controls in relation to the latter were deemed to be inadequate as a particularly high risk area involving the care and protection of vulnerable individuals. The Assistant Chief Executive (Partnerships, Community and Service Improvement) said that the Assistant Chief Executive (Governance and Business Process Transformation) has met with all Heads of Service to progress corporate safeguarding. The Committee was agreed that the Corporate Scrutiny Committee be asked to further scrutinise the findings in relation to Corporate Safeguarding.
- The Committee noted that certain fundamental control issues e.g. the completion of order requisitions prior to the receipt of goods are identified with regularity in audit review findings especially in relation to schools and while accepting that practices sometimes require time to embed, the Committee sought clarification of whether the findings of internal audit reviews in relation to certain establishments e.g. schools require more extensive monitoring. The Head of Function (Resources) and Section 151 Officer said that it is difficult to ensure that every establishment adheres to the rules exactly and uniformly especially in relation to schools where the resources, capacity and pressures vary from school to school. There is a key role for the governing body to monitor practice and to hold head teachers accountable for ensuring compliance.
- The Committee noted that the internal audit recommendation in relation to agency staff remained on the outstanding list and it sought assurance that agreed practice in relation to hiring agency staff is now being followed. The Head of Function (Resources) and Section 151 Officer confirmed that this is the case as per the recommendation and that the system needs to be

updated to reflect implementation. The Internal Audit Manager said that she would follow the matter up with the Chief Executive.

The Internal Audit Manager said with regard to those areas in Appendix D where the audit review findings resulted in a limited assurance opinion or where progress on implementation appears to be slow that services are given time to respond to internal audit findings and if at the end of the follow up review in six months, the recommendations have still not been acted upon to an acceptable degree then that lack of progress will be reported to the Audit Committee which then has recourse to calling the relevant Head of Service to account. With regard to Corporate Safeguarding, the review found that although the foundations are in place, safeguarding objectives have not been consistently embedded across services' business planning processes.

It was resolved to accept the report and that the Committee takes assurance from the information provided regarding the internal control, risk management and corporate governance processes in place subject to further scrutiny of Corporate Safeguarding.

ACTION ARISING: Findings of audit review of Corporate Safeguarding to be referred for scrutiny by the Corporate Scrutiny Committee.

Councillor R. Llewelyn Jones
Chair

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ISLE OF ANGLESEY COUNTY COUNCIL	
REPORT TO	**AUDIT AND GOVERNANCE COMMITTEE**
DATE	**6 DECEMBER 2016**
SUBJECT	**COMPLIANCE WITH PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS)**
LEAD OFFICER	**HEAD OF INTERNAL AUDIT – MIKE HALSTEAD**
CONTACT OFFICER	**AUDIT MANAGER - SIONED PARRY**

Nature and reason for reporting – In accordance with the Public Sector Internal Audit Standards (PSIAS) 2013 the Internal Audit Service must undertake periodic self-assessments to evaluate conformance with the *Definition of Auditing, the Code of Ethics and the Standards*. The Head of Audit is required to report the results of the Quality Assurance and Improvement Programme (QAIP) and any instances of non-conformance with PSIAS to the Audit and Governance Committee.

1. INTRODUCTION

1.1 This report is produced in accordance with the Public Sector Internal Audit Standards (2013), whereby the Audit and Governance Committee must review Internal Audit's Checklist for Assessing Conformance with PSIAS and the Local Government Application Note (**Appendix 1**). The checklist was developed to satisfy the requirements set out in PSIAS 1311 for periodic self-assessments as part of the QAIP.

1.2 The report provides assurance that Anglesey's Internal Audit Service is fully compliant against **97%** of the **334** individual requirements. The self-assessment identified **5** areas of partial conformance and **6** areas of non-conformance. An Improvement Plan is provided in **Appendix 2**, which shows the areas of non-conformance with the Standards, the recommendations made to address the issues, the actions proposed by the Head of Service and the timescale for completion.

2. RECOMMENDATION

2.1 Members are asked to consider the self-assessment in terms of areas of full, partial and non-compliance with the Standards and agree that the current areas of partial or non-compliance do not significantly impact on the Service's ability to demonstrate overall compliance.

2.2 Members consider and approve the Improvement Plan 2016/17.

3. BACKGROUND INFORMATION

3.1 It is a statutory requirement for Internal Audit to work in compliance with proper audit practices. The Public Sector Internal Audit Standards and the CIPFA Local Government Application Note came into force from 1st April 2013 and superseded the 2006 CIPFA *Code of Practice for Internal Audit in Local Government.* The new standards have been produced by the Relevant Internal Audit Standard Setters (RIASS), including the Chartered Institute of Public Finance and Accountancy (CIPFA) and are mandatory in nature and applicable to various parts of the UK public sector, including Local Government.

3.2 The Standards are intended to promote further improvement in the professionalism, quality and effectiveness of internal audit across the public sector. They reaffirm the importance of robust, independent and objective internal audit arrangements to provide senior management and the Audit & Governance Committee with key assurances they need to support them in managing the organisation and in producing the Annual Governance Statement.

3.3 The RIASS have developed a checklist to satisfy the requirements set out in PSIAS 1311 and 1312 for periodic self-assessments and externally validated self-assessments as part of the Quality Assurance and Improvement Programme. It incorporates the requirements of PSIAS as well as the Application Note in order to give comprehensive coverage of both documents. Each requirement must be ticked to indicate full, partial or non-conformance with the Standard. Evidence for each response must be provided and reasons for any partial or full non-conformance should be given, together with any compensating measures in place or actions in progress to address this.

3.4 The best practice checklist has been completed in order to provide an annual assessment for 2016/17. This is provided in **Appendix 1** and shows that the Service is now fully compliant against **97%** of the **334** individual requirements. The results of the checklist is summarised in the table below:

3.5 **Table 1** below summarises the implementation of recommendations as at 31 August 2016:

Table 1 – Conformance with the Standards 2016/17

Conformance with the Standards 2016/17			
	Yes	**Partial**	**No**
1. Definition of Internal Auditing	**3**	**0**	**0**
2. Code of Ethics	**13**	**0**	**0**
3. Attribute Standards			
1000 Purpose, Authority & Responsibility	**21**	**0**	**0**
1100 Independence & Objectivity	**29**	**0**	**2**
1200 Proficiency & Due Professional Care	**21**	**0**	**0**
1300 Quality Assurance & Improvement Programme	**25**	**0**	**2**
4. Performance Standards			
2000 Managing the Internal Audit Activity	**41**	**4**	**1**
2100 Nature of the Work	**31**	**0**	**0**
2200 Engagement Planning	**57**	**1**	**0**
2300 Performing the Engagement	**22**	**0**	**0**
2400 Communicating Results	**54**	**0**	**1**
2500 Monitoring Progress	**4**	**0**	**0**
2600 Communicating the Acceptance of Risks	**2**	**0**	**0**
Total	**323**	**5**	**6**
Percentage	**97%**	**1%**	**2%**

3.5 The **6** areas of non-compliance are in respect of the following:

- **Standard 1100** *Independence & Objectivity*: The Standards require the Internal Audit Charter define the nature of consulting services. Para. 3.3 of the Charter states *"Internal Audit may undertake consulting services at the request of the organisation, subject to there being no impact on the core assurance work".* There is no elaboration or definition of the nature of the consulting services.

  The Standards also require the Charter to recognise the mandatory nature of PSIAS. The Charter states that the Council has adopted PSIAS but does not stipulate the mandatory nature of the PSIAS.

  The Internal Audit Charter will be amended to reflect both requirements of PSIAS and submitted to the Audit & Governance Committee for approval on 9 February 2017 (**Appendix 2 - Recs. 1 & 2**).

- **Standard 1320** *Reporting on the Quality Assurance & Improvement Programme*: The Standards require the Chief Audit Executive (CAE) to include the results of the QAIP and progress against any improvement plans in the Annual Report. The Annual Report provides assurance that the work of the Service has been performed in compliance with the Standards but does not included details of any non-conformance or any progress against improvement plans.

  There is also a requirement to report the QAIP Self-Assessment and resulting improvement plan to senior management and the Audit and Governance Committee at least annually. This has not been undertaken to date. The QAIP Self-Assessment 2016/17 and resulting improvement plan is scheduled to be reported to the Senior Leadership Team on 28 November 2016 and to the Audit and Governance Committee on 6 December 2016. Results will be included in the Annual Report 2016/17 (**Appendix 2 – Recs. 3 & 4**).

- **Standard 2050** *Coordination*: There is a requirement for the CAE to undertake an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance. An assurance mapping exercise will be undertaken as part of the 2017/18 planning process to ensure the Internal Audit plan is focused on the right sources of assurance to meet the Authority's needs and circumstance (**Appendix 2 – Rec 8**).

- **Standards 2450** *Overall Opinion*: This Standard requires the annual report to include the results of the QAIP and progress against any improvement plans resulting from the QAIP. The QAIP Self-Assessment 2016/17 and the improvement plan will be included in the Annual Report 2016/17 and will be reported to the Audit and Governance Committee in May 2017 (**Appendix 2 – Rec 11**).

3.6 In addition, there are **5** areas assessed as being in **partial conformance**:

- **Standard 2010** *Planning:* There is requirement for the Service's risk based plan to take into account the organisation's assurance framework. An assurance mapping exercise will be undertaken as part of the 2017/18 planning process to further ensure the Internal Audit plan is focused on the right sources of assurance to meet the Authority's needs and circumstance (**Appendix 2 – Rec 5**).

- **Standard 2040** *Policies and Procedures*: The CAE should develop and put into place policies and procedures to guide the internal audit activity. The Internal Audit Manual includes guidelines for undertaking internal audit activity but dates from when the service was provided by external consultants, Baker Tilly. The Manual requires updating to reflect current practices (**Appendix 2 – Rec 6**).

  The policies and procedures should be regularly reviewed and updated to reflect changes in working practices and standards (**Appendix 2 – Rec 7**).

- **Standard 2050** *Coordination*: There is a requirement for the CAE to meet regularly with the nominated external audit representative to consult on and coordinate their respective audit plans. The External Audit representative is invited to attend the quarterly Audit and Governance Committee meetings and the pre meetings. The CAE is seeking more involvement in meetings with WAO (**Appendix 2 – Rec 9**).

- **Standards 2200** *Engagement Planning*: The plan for each audit engagement should include the engagement's resource allocations. The Internal Audit Assignment Planning Sheet (APS) currently notes the assigned auditors. The number of audit days allocated to the engagement, however, is not recorded. The APS will be reviewed to include the allocated audit days with immediate effect (**Appendix 2 – Rec 10**).

3.7 It should also be noted that currently the Service conforms to the following Standards: **1100** *Independence & Objectivity*, **1110** *Organisational Independence* and ***1130*** *Impairment to Independence or Objectivity*. The CAE has no operational responsibilities other than Internal Audit. The post of Head of Audit & Risk, has recently been advertised, and now includes responsibilities for both insurance and risk. This is non-compliant with the Standards and in future, the CAE will need to declare to the Audit and Governance Committee a conflict of interest and non-compliance with **Standard 1100** *Independence & Objectivity*.

3.8 The Standards (**1130.A2**) require any assurance engagements in areas over which the CAE has operational responsibility, are overseen by someone outside of the internal audit activity.

4. CONCLUSION

4.1 In accordance with the Standards, an Improvement Plan is attached in **Appendix 2**, which shows the areas of non-conformance with the Standards, the recommendations made to address the issues, the actions proposed by the CAE and the timescale. Progress against the proposed actions will be reported in the Annual Report 2016/17.

4.2 In accordance with the Standards an **external** assessment must take place at least every five years by a 'qualified, independent assessor or assessment team from outside the organisation.' The Welsh Chief Internal Auditors Group (WCIAG) agreed upon self-assessment with independent external verification and has established the scope of the assessment and a terms of reference. Anglesey's Internal Audit Services' Peer Assessment is scheduled to be performed in early 2017 by the Head of Internal Audit, Denbighshire County Council. The results of the assessor's evaluation with respect to degree of conformance with PSIAS will be reported to the Audit and Governance Committee in May 2017.

Appendix 1

Checklist for Assessing Conformance with the PSIAS and the Local Government Application Note

This checklist has been developed to satisfy the requirements set out in PSIAS 1311 and 1312 for periodic self-assessments and externally validated self-assessments as part of the Quality Assurance and Improvement Programme. It incorporates the requirements of the PSIAS as well as the Application Note in order to give comprehensive coverage of both documents.

Please tick to indicate Y = YES, P = PARTIAL, N = NO. Evidence for each response must be provided and reasons for any partial or full non-conformance should be given, together with any compensating measures in place or actions in progress to address this.

Ref	Conformance with the Standard	Y	P	N	Evidence
1	**Definition of Internal Auditing**				
	Using evidence gained from assessing conformance with other Standards, is the internal audit activity:				**Internal Audit (IA) Annual Report 2015/16** – Para. 6.6
	a) Independent?	✓			**IA Charter –** Para. 6 Independence **Para. 4.4** – The (Chief Audit Executive) CAE is also free to report directly to any member of the Senior Leadership Team or Heads of Service including the Chief Executive and the Monitoring Officer. **IA Manual – Declaration of Personal Interests & Auditor independence –** All auditors are required to declare any Personal / Business Interests and make an

Ref	Conformance with the Standard	Y	P	N	Evidence
	b) Objective?	✓			annual declaration of Independence and Confidentiality. Internal Auditors appointed from within the Council are not permitted to perform an audit, which is any way related to their previous post for at least 1 year after appointment. As above.
	Using evidence gained from assessing conformance with other Standards, does the internal audit activity use a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the organisation?	✓			**IA Annual Report 2015/16** – Para. 6.6 The **IA Protocol** and **Manual** ensures a systematic and disciplined approach – **Internal Audit Strategy 2016/17** **Internal Audit Strategic Plan 2016/19** **Internal Audit Charter** – Para. 5 **Internal Audit (IA) Annual Report 2015/16**
2	**Code of Ethics**				
	Integrity Using evidence gained from assessing conformance with other Standards, do internal auditors: a) Perform their work with honesty, diligence and responsibility?	✓			**IA Annual Report 2015/16** – Para. 6.6 **IA Manual** - *Legal Requirements & Professional Standards* All Internal Audit Staff members have signed a Declaration that they have read the PSIAS and that they understand that they must comply with the Standards and its Code of Ethics.

Ref	Conformance with the Standard	Y	P	N	Evidence
					G:\ Audit\Shared\001 IA Audit Manual Re-source\Current Versions\Code of Ethics - PSIAS **IA Manual -** *Declaration of Personal Interests & Auditor Independence* - All auditors are required to declare any Personal / Business Interests and make an annual dec-laration of Independence and Confidentiality. Qualified staff and staff undergoing professional training are bound by respective Code of Ethics and their pro-fessional body.
	b) Observe the law and make disclosures expected by the law and the profession?	✓			See above.
	c) Not knowingly partake in any illegal activity nor engage in in acts that are discreditable to the profession of internal auditing or to the organisation?	✓			See above.
	d) Respect and contribute to the legitimate and ethical objectives of the organisation?	✓			See above.
	Objectivity Using evidence gained from assessing conformance with other Standards, do internal auditors display objectivity by not: a) Taking part in any activity or relationship that may impair or be presumed to impair their unbiased assessment?	✓			**IA Annual Report 2015/16** – Para. 6.6 **IA Manual -** *Legal Requirements & Professional Stand-ards* **IA Manual –** *Declaration of Personal Interests & Auditor Independence* - All auditors are required to declare any Personal / Business Interests and make an annual dec-

Ref	Conformance with the Standard	Y	P	N	Evidence
					laration of Independence and Confidentiality. Declarations of Personal / Business Interests Declarations of Auditor Independence & Confidentiality
	b) Accepting anything that may impair or be presumed to impair their professional judgment?	✓			**IoAC Constitution 5.2 Officers' Code of Conduct** - Para. 5.2.8.2 **http://www.anglesey.gov.uk/council-and-democracy/councillors-democracy-and-elections/constitution/constitution-part-5-codes-and-protocols/constitution-52-officers-code-of-conduct**
	c) Disclosing all material facts known to them that, if not disclosed, may distort the reporting of activities under review?	✓			As above.
	Confidentiality Using evidence gained from assessing conformance with other Standards, do internal auditors display objectivity by: a) Acting prudently when using information acquired in the course of their duties and protecting that information?	✓			**IA Annual Report 2015/16 –** Para. 6.6 **IA Manual** - *Legal Requirements & Professional Standards* **IA Manual** - *Declaration of Personal Interests & Auditor Independence* - All auditors are required to declare any Personal / Business Interests and make an annual declaration of Independence and Confidentiality. Declarations of Personal / Business Interests Declarations of Auditor Independence & Confidentiality
	b) Not using information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation?	✓			As above.
	Competency				

Ref	Conformance with the Standard	Y	P	N	Evidence
	Using evidence gained from assessing conformance with other Standards, do internal auditors display objectivity by: a) Only carrying out services for which they have the necessary knowledge, skills and experience?	✓			The Audit Manager allocates work on a monthly basis, based on the knowledge, skills and experience of individual auditors. **IA Protocol** - Para. 1 – Audit Planning **IA Charter** – Para. 9 – Audit Resources **IA Annual Report 2015/16** – Para. 6.6
	b) Performing services in accordance with the PSIAS?	✓			**IA Manual** - Legal Requirements & Professional Standards All Internal Audit Staff members have signed a Declaration that they have read the PSIAS and that they understand that they must comply with the Standards and its Code of Ethics.
	c) Continually improving their proficiency and effectiveness and quality of their services, for example through CPD schemes?	✓			**IA Charter** – Para. 10 – Audit Training
	Do internal auditors have regard to the on Standards of Public Life's *Seven Principles of Public Life*?	✓			**IA Manual** - Legal Requirements & Professional Standards Audit staff have made a declaration agreeing to abide the Code of Ethics, including the Seven Principles of Public Life
	Standards				

Ref	Conformance with the Standard	Y	P	N	Evidence
3	**Attribute Standards**				
3.1	**1000 Purpose, Authority and Responsibility**				
	Does the internal audit charter include a formal definition of:				**IA Charter** – Approved by Audit & Governance Committee 27 April 2015.
	a) the purpose	✓			**IA Charter** - Para. 5
	b) the authority, and	✓			**IA Charter** - Para. 6.3
	c) the responsibility	✓			**IA Charter** - Para. 4
	of the internal audit activity consistent with the Public Sector Internal Audit Standards (PSIAS)?				
LGAN	Does the internal audit charter define the terms 'board' and 'senior management', for the purposes of the internal audit activity? *Note that it is expected that the audit committee will fulfil the role of the board in the majority of instances.*	✓			**IA Charter** - Para. 4.2 – 'Board' and 'Audit Committee' & Para. 4.4 - 'Senior Management' IoAC has delegated to its Audit & Governance Committee in its Terms of Reference responsibility for: "ensuring that the authority has a sound system of internal control which facilitates the effective exercise of functions and which includes arrangements for the management of risk and adequate and effective financial management." **Audit & Governance Committee Terms of Reference** – approved by Council 14 May 2015.
	Does the internal audit charter also:				**IA Charter**
	a) Set out the internal audit activity's position within the organisation?	✓			Para. 1.1 – Introduction – outlines the statutory basis for Internal Audit.

Ref	Conformance with the Standard	Y	P	N	Evidence
	b) Establish the CAE's functional reporting relationship with the board?	✓			Para.11 – Audit Reporting
LGAN	c) Establish the accountability, reporting line and relationship between the CAE and those to whom the CAE may report administratively?	✓			Para. 4.4 – 'Senior Management'
LGAN	d) Establish the responsibility of the board and also the role of the statutory officers (such as the CFO, the monitoring officer and the head of paid service) with regards to internal audit?	✓			Para. 4.2 'Board' and Audit Committee' & 4.4 'Senior Management'.
	e) Establish internal audit's right of access to all records, assets, personnel and premises and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities?	✓			Para. 6.3 – Independence **Council's Constitution** 4.8.5.3.2
LGAN	f) Define the scope of internal audit activities?	✓			Para. 5.1 – Purpose of Internal Audit
LGAN	g) Recognise that internal audit's remit extends to the entire control environment of the organisation?	✓			Para. 5.1 – Purpose of Internal Audit
LGAN	h) Identify internal audit's contribution to the review of effectiveness of the control environment, as set out in the Accounts and Audit (Wales) Regulations 2014?	✓			Para. 1.2 - Introduction
LGAN	i) Establish the organisational independence of internal audit?	✓			Para. 6.2 - Independence
	j) Cover the arrangements for appropriate resourcing?	✓			Para. 9 – Audit Resources
	k) Define the role of internal audit in any fraud-related work?	✓			Para. 7 – Counter Fraud Role
	l) Set out the existing arrangements within the organisation's anti-fraud	✓			Para. 7.3 – Counter Fraud Role

Ref	Conformance with the Standard	Y	P	N	Evidence
	and anti-corruption policies, to be notified of all suspected or detected fraud, corruption or impropriety?				**Policy for the Prevention of Fraud & Corruption** - Para. 6.5. Approved by the Council 6 December 2012.
	m) Include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities?	✓			Para. 6.4 - Independence Members of the Internal Audit Service do not undertake any non-audit duties.
	n) Define the nature of assurance services provided to the organisation, as well as assurances provided to parties external to the organisation?	✓			Paras. 1.2 - Introduction, 3.3 – Definition of Internal Audit, 5 – Purpose of Internal Audit. IA does not currently provide assurance to parties external to the organisation.
	o) Define the nature of consulting services?			✓	Para. 3.3 - Definition of Internal Audit - states that *IA may undertakes consulting service at the request of the organisation, subject to there being no impact on the core assurance work* but it does not elaborate. **Action Plan – Rec 1**
	p) Recognise the mandatory nature of the PSIAS?			✓	Para. 1.3 – Introduction - states that the council has adopted PSIAS but does not reference their mandatory nature. **Action Plan – Rec 2**
	Does the chief audit executive (CAE) periodically review the internal audit charter and present it to senior management and the board for approval?	✓			Last reviewed and approved by Audit & Governance Committee on 27 April 2015. Next review due April 2018.
	Does the CAE attend audit committee meetings?	✓			See minutes of the Audit & Governance Committee meetings. Audit Manager attends all Audit & Governance Committee meetings.
	Does the CAE contribute to audit committee agendas?	✓			See Agenda Sheet for Audit & Governance Committee meetings. The Audit Manager reports to the Audit & Governance Committee – IA Annual Report, IA Strategy & Annual Plan and Quarterly Progress Reports.

Ref	Conformance with the Standard	Y	P	N	Evidence
3.2	1100 Independence and Objectivity				
	Does the CAE have direct and unrestricted access to senior management and the board?	✓			**IA Charter**- Para. 4.4 – Roles & Responsibilities, 6.3 - Independence
	Does the CAE have free and unfettered access to, as well as communicate effectively with, the chief executive or equivalent and the chair of the audit committee?	✓			As above.
	Are threats to objectivity identified and managed at the following levels: a) Individual auditor?	✓			The IA activity complies with the definition of Internal Auditing, the Code of Ethics, Mission and Standards contained in the PSIAS, which came into force in April 2013 and were reviewed in March 2016. **IA Manual** - Declaration of Personal Interests & Auditor Independence - All auditors are required to declare any Personal / Business Interests and make an annual declaration of Independence and Confidentiality. Declarations of Personal / Business Interests Declarations of Auditor Independence & Confidentiality All IA staff members have signed a Declaration that they have read the PSIAS and that they understand that they must comply with the Standards and its Code of Ethics. **IoAC Constitution 5.2 Officers' Code of Conduct** Para. 5.2.8.2
	b) Engagement?	✓			**IA Manual** - Audit Manager assess possible conflicts of interest during the planning process. Internal Auditors are refrained from assessing specific operations for which they were previously responsible within the pre-

Ref	Conformance with the Standard	Y	P	N	Evidence
					vious year.
	c) Functional?	✓			**IA Charter** – Para. 6 – Independence – IA is currently independent of the audited activities. **N.B.** The Head of Audit & Risk post has been recently advertised and the CAE will now have responsibility for insurance and risk. In order to ensure independence and objectivity of the audit function the CAE will have to declare to the Audit & Governance Committee a conflict of interest and non-compliance with PSIAS 1130.A2. **See Action Plan.**
	d) Organisation?	✓			**IA Charter** – Para. 4.4 – 'Senior Management' The CAE is also free to report directly to any member of the Senior Leadership Team (SLT) or Heads of Services including the Chief Executive and the Monitoring Officer and any Member of the Executive and Members of the Audit & Governance Committee. The Audit & Governance Committee approves the IA Charter, IA Strategy and Annual Plan, Annual Report and receives quarterly reports from the Audit Manager to monitor progress against the Annual Plan and performance of the service against approved targets. The functional reporting does not include the remuneration of the CAE – See Public Sector Interpretation – underlying principle is that the independence is safeguarded by ensuring the remuneration of CAE or assessment is not inappropriately influenced by those subject to the audit.
	1110 Organisational Independence				

Ref	Conformance with the Standard	Y	P	N	Evidence
	Does the CAE report to an organisational level equal or higher to the corporate management team?	✓			**IA Charter** - Para. 4.4 – 'Senior Management' See above.
LGAN	Does the CAE report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities?	✓			**IA Charter** - Para. 11.1 – Audit Reporting **Audit & Governance Committee Terms of Reference** The CAE reports quarterly to the Audit & Governance Committee to monitor progress against the Annual Plan and performance of the service against approved tar-gets. The Committee approves the IA Charter, IA Strategy and Annual Plan, Annual Report and receives quarterly reports.
LGAN	Have reporting and management arrangements been put in place that preserves the CAE's independence and objectivity? This is of particular importance when the CAE is line managed by another officer of the authority.	✓			CAE is currently an employee of Conwy County Bor-ough Council who are contracted to provide strategic and operational management to the Internal Audit Ser-vice. **N.B.** The Head of Audit & Risk post has been recently advertised and the CAE will now have responsibility for insurance and risk. In order to ensure independence and objectivity of the audit function the CAE will have to declare to the Audit & Governance Committee a conflict of interest and non-compliance with PSIAS 1130.A2.
LGAN	Does the CAE's position in the management structure: a) Reflect the influence he or she has on the control environment?	✓			**IoAC Constitution** 4.8.5.3.2 **IA Charter** – Para. 4.4 'Senior Management', Para. 6 – Independence. IA has unrestricted access to all council activities, records, assets, SMT, Members and all em-ployees.

Ref	Conformance with the Standard	Y	P	N	Evidence
					IA Manual - The scope of IA allows for unrestricted access to all records and asserts deemed necessary by auditors in the course of an audit and IA have unrestricted access to: • The Audit & Governance Committee • The Chief Executive • Members of the Council. • Individual Directors & Hos • All Authority employees.
	b) Provide the CAE with sufficient status to ensure that audit plans, reports and action plans are discussed effectively with the board?	✓			Audit plans, reports and action plans are all discussed with the Audit Committee. **IA Charter** – Part Para. 11.1 – Audit Reporting **Audit & Governance Committee Terms of Reference** The CAE reports to the Audit & Governance Committee on a quarterly basis. The Committee approves the: • IA Charter • IA Strategy & Annual Plan • IA Annual Report • Quarterly update on the IA performance relative to its plan and targets.
	c) Ensure that he or she is sufficiently senior and independent to be able to provide credibly constructive challenge to senior management?	✓			**IA Manual** – Reporting Lines & Relationships **IA Charter** – Para. 4.4 – 'Senior Management'
	Does the CAE confirm to the board, at least annually, that the internal audit activity is organisationally independent? *The following examples can be used by the CAE when assessing the organisational independence of the internal audit activity:*	✓			**Internal Audit Report 2015/16** - Para. 7.1.2

Ref	Conformance with the Standard	Y	P	N	Evidence
	The board:				
	a) approves the internal audit charter	✓			**WP 3.2.2** Audit and Governance Committee Minutes 27/04/2015 - Para.3.
	b) approves the risk-based audit plan	✓			**WP 3.2.3** Audit and Governance Committee Minutes 15/03/2016 - Para.9.
	c) approves the internal audit budget and resource plan	✓			**IA Strategy & Annual Plan 2016/17** **WP 3.2.4 Audit and Governance Committee Terms of Reference** - Para. 3.4.8.5.4. The IA financial budget is approved by the Council in accordance with the normal budget setting cycle.
	d) receives communications from the CAE on the activity's performance (in relation to the plan, for example)	✓			**IA Charter** - Para. 4.5 The Audit & Governance Committee receives quarterly reports from the Audit Manager to monitor progress against the Annual Plan and the performance of the service against approved targets.
	e) approves decisions relating to the appointment and removal of the CAE	✓			**WP 3.2.4 Audit & Governance Committee Terms of Reference** - Para. 3.4.8.5.2 state that the Committee will "*Approve decisions regarding the appointment and removal of the chief audit executive and the remuneration of the chief audit executive*".
	f) seeks reassurance from management and the CAE as to whether there are any inappropriate scope or resource limitations.	✓			Any resource constraints are highlighted in the CAE's **Annual Report**. The CAE is responsible for ensuring resources of the service are sufficient to meet its responsibilities and objectives. If resources are insufficient the CAE would formally report to the Section 151 Officer and the Audit & Governance Committee. **Audit & Governance Committee Minutes 15/03/2016 -**

Ref	Conformance with the Standard	Y	P	N	Evidence
					Para.8: *Assistant Chief Executive to raise the Committee's concern about the resourcing of the Internal Audit Service with the Senior Leadership Team.*
	Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the CAE?	✓			N/A CAE currently is an employee of Conwy County Borough Council. Performance appraisal process undertaken by Head of Internal Audit & Procurement Services, CCBC. When a new CAE is appointed the CAE's Appraisal will be undertaken by the Head of Function (Resources) & S151 Officer.
	Is feedback sought from the chair of the audit committee for the CAE's performance appraisal?			✓	See above. Internal Audit are currently subject to the biannual Resources Service Performance Reviews where performance is monitored by: • Chief Executive • Leader • Portfolio Holder – Finance • Portfolio Holder – Council Business, Performance , Transformation, HR & IT • Shadow Portfolio Holder – Corporate Services • Head of Service • SLT
	1111 Direct Interaction with the Board				
	Does the CAE communicate and interact directly with the board?	✓			**IA Charter** - Para. 6.3 *"IA has full and free access to the Audit and Governance Committee via the Audit Manager".*
	1120 Individual Objectivity				

Ref	Conformance with the Standard	Y	P	N	Evidence
	Do internal auditors have an impartial, unbiased attitude?	✓			**IA Manual** - *Declaration of Personal Interests & Auditor Independence* - All auditors are required to declare any Personal / Business Interests and make an annual declaration of Independence and Confidentiality. Declarations of Personal / Business Interests Declarations of Auditor Independence & Confidentiality
	Do internal auditors avoid any conflict of interest, whether apparent or actual?	✓			Audit manager will take into account any declarations during the planning process and when assigning engagements. Audit staff have agreed to abide the Code of Ethics.
	1130 Impairment to Independence or Objectivity				
	If there has been any real or apparent impairment of independence or objectivity, has this been disclosed to appropriate parties (depending on the nature of the impairment and the relationship between the CAE and senior management/the board as set out in the internal audit charter)?	✓			There have been no instances of an auditor's independence or objectivity being impaired. **N.B.** The Head of Audit & Risk post has been recently advertised and the CAE will now have responsibility for insurance and risk. In order to ensure independence and objectivity of the audit function the CAE will have to declare to the Audit & Governance Committee a conflict of interest and non-compliance with PSIAS 1130.A2.
	Have internal auditors assessed specific operations for which they have been responsible within the previous year?			✓	The CAE assesses possible conflicts of interest during the planning process and are precluded from audits where necessary. Internal auditors refrain from auditing areas for which the auditor had responsibility within the previous year as per PSIAS 1130.A1.
	If there have been any assurance engagements in areas over which the CAE also has operational responsibility, have these engagements been				N/A *CAE currently only has responsibility for the IA service.*

Ref	Conformance with the Standard	Y	P	N	Evidence
	overseen by someone outside of the internal audit activity?				
LGAN	Are assignments for ongoing assurance engagements and other audit responsibilities rotated periodically within the internal audit team?	✓			The CAE ensures assignments are rotated as far as possible within a small audit team – with consideration for staff capabilities.
LGAN	Have internal auditors declared interests in accordance with organisational requirements?	✓			**IA Manual** - *Declaration of Personal Interests & Auditor Independence* - All auditors are required to declare any Personal / Business Interests and make an annual declaration of Independence and Confidentiality. Declarations of Personal / Business Interests Declarations of Auditor Independence & Confidentiality
LGAN	Where any internal auditor has accepted any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties (other than as may be allowed by the organisation's own policies), has this been declared and investigated fully?				N/A – Auditors have not accepted and gifts or hospitality and are aware of the Council's Code of Conduct and the Gifts & Hospitality Policy.
LGAN	Have any instances been discovered where an internal auditor has used information obtained during the course of duties for personal gain?			✓	No evidence to suggest auditors have used information obtained during the course of duties for personal gain.
LGAN	Have internal auditors disclosed all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice, subject to any confidentiality agreements?	✓			**IA Manual** - *Declaration of Personal Interests & Auditor Independence* Declarations of Auditor Independence & Confidentiality
LGAN	Have internal auditors complied with the Bribery Act 2010?	✓			All officers are required to comply with the Authority's Policy for the Prevention of Fraud & Corruption, which includes the requirements of the Bribery Act 2010. Audit staff have attended Bribery training provided by CIPFA. All auditors are aware of the Bribery Act 2010.
	If there has been any real or apparent impairment of independence or			✓	N/A – No impairment of independence or objectivity.

Ref	Conformance with the Standard	Y	P	N	Evidence
	objectivity relating to a proposed consulting services engagement, was this disclosed to the engagement client before the engagement was accepted?				
	Where there have been significant additional consulting services agreed during the year that were not already included in the audit plan, was approval sought from the board before the engagement was accepted?	✓			**IA Annual Report 2015/16** – Para. 4.3 The CAE reports any significant maters e.g. any additional consultancy work or non-audit duties, which result in slippage from the Annual Plan to the Audit 7 Governance Committee.
3.3	**1200 Proficiency and Due Professional Care**				
	1210 Proficiency				
	Does the CAE hold a professional qualification, such as CMIIA/CCAB or equivalent?	✓			The CAE is CIPFA qualified
	Is the CAE suitably experienced?	✓			CAE has 14 years' experience in local government audit.
LGAN	Is the CAE responsible for recruiting appropriate internal audit staff, in accordance with the organisation's human resources processes?	✓			**IA Manual** - Organisational Structure of IA Recruitment & Selection undertaken in accordance with the Corporate Human Resources Recruitment & Selection Policy. http://monitor.anglesey.gov.uk/corporate-resource/human-resources/hr-policies-and-guidelines/hr-policies/recruitment-and-selection-policy/
LGAN	Does the CAE ensure that up-to-date job descriptions exist that reflect roles and responsibilities and that person specifications define the required qualifications, competencies, skills, experience and personal attributes?	✓			Job descriptions updated January 2015 as part of the Job Evaluation process and have been independently evaluated. Person specifications define the required qualifications, competencies, skills, experience and personal attributes

Ref	Conformance with the Standard	Y	P	N	Evidence
	Does the internal audit activity collectively possess or obtain the skills, knowledge and other competencies required to perform its responsibilities?	✓			**IA Charter** – Para. 9 – Audit Resources **IA Manual** – Organisational Structure illustrates the structure as of January 2015 and the auditors' professional qualifications. **Strategic Plan 2016/17-2018/19 & Annual Plan 2016/17** Para. 1.4.2: *Some expertise may need to be outsourced with regards to IT audits*
	Where the internal audit activity does not possess the skills, knowledge and other competencies required to perform its responsibilities; does the CAE obtain competent advice and assistance?	✓			**IA Charter** - Para. 9.3 – Audit Resources
	Do internal auditors have sufficient knowledge to evaluate the risk of fraud and anti-fraud arrangements in the organisation?	✓			**IA Manual** – Fraud, Corruption & Investigations **IA Manual** – Development & Review **IA Charter** – Para. 7 – Counter Fraud Role IA has a dedicated Counter-Fraud officer. Auditors have previously attended Proceeds of Crime training. All IA employees undergo annual appraisal process, which uses a competency framework to identify training requirements. See individual PDR files.
	Do internal auditors have sufficient knowledge of key information technology risks and controls?	✓			See above.
	Do internal auditors have sufficient knowledge of the appropriate computer-assisted audit techniques that are available to them to perform their work, including data analysis techniques?	✓			See above. Auditors consider the use of technology based audit and other data analysis techniques – IDEA training. One internal auditor has received IDEA training.
	1220 Due Professional Care				

Ref	Conformance with the Standard	Y	P	N	Evidence
	Do internal auditors exercise due professional care by considering the: a) Extent of work needed to achieve the engagement's objectives?	✓			There is a statutory requirement for IA to work in accordance with the "proper audit practices". The PSIAS and the CIPFA Local Government Application Note which came into force 1 April 2013. The Standards have been adopted by the IoAC's IA Section. All IA employees have agreed to work in accordance with PSIAS – which includes the need to exhibit due professional care. **IA Charter** **IA Manual** – Legal Requirements & Professional Standards. Assignment Planning Sheets (APS) and Evaluations of Objective Risks and Controls (ORCs) are completed before each audit and approved by the CAE. These outline knowledge required to undertake a particular audit in terms of risks, governance arrangements, scope of audit and relevant legislation. Key risks are highlighted.
	b) Relative complexity, materiality or significance of matters to which assurance procedures are applied?	✓			See above.
	c) Adequacy and effectiveness of governance, risk management and control processes?	✓			See above.
	d) Probability of significant errors, fraud, or non-compliance?	✓			See above.
	e) Cost of assurance in relation to potential benefits?	✓			During the audit planning process the amount of resources allocated to an engagement, i.e. man-days are equated to the relative risk to the Authority. Regular monitoring of audit progress in undertaken by the Audit Manager and audit areas can be curtailed if in

Ref	Conformance with the Standard	Y	P	N	Evidence
					danger of exceeding planned target days to ensure that all high and medium risks are reviewed ensuring that the cost of assurance does not outweigh the benefit. This issue was raised at the WCIAG September 2016 – no representative from authorities attending had a formal costing and benefits as difficult to quantify.
	Do internal auditors exercise due professional care during a consulting engagement by considering the:				Consulting engagements if they result in a piece of work being undertaken are referred to as Additional Unplanned Work and are reported to the Audit & Governance Committee in the **IA Annual Report** – Para. 4.3. 6 additional jobs were performed during 2015/16 accounting for 37.88 days. IA Strategy & Plan 2016/17 identify resource budget of 120 days.
	a) Needs and expectations of clients, including the nature, timing and communication of engagement results?	✓			Assignment Planning Sheets are signed by clients to indicate agreement before the engagement begins – see above.
	b) Relative complexity and extent of work needed to achieve the engagement's objectives?	✓			Included on the APS & ORC and approved by CAE – see above.
	c) Cost of the consulting engagement in relation to potential benefits?	✓			**IA Strategy & Annual Plan 2016/17** - Paras. 19 & 20 – IA provide a range of consultancy services to management, which includes advice and guidance ; number of days allocated, including special investigations, amounts to 150 days. **IA Annual Report 2015/16** – Paras. 4.5.2 & 4.5.2 - As with all activities, the cost (in man-days) of a potential consulting engagement in resources will be assessed in comparison with the potential benefits. A consulting engagement will only be performed of the potential benefits outweigh the cost.

Ref	Conformance with the Standard	Y	P	N	Evidence
	1230 Continuing Professional Development				
LGAN	Has the CAE defined the skills and competencies for each level of auditor?	✓			**IA Manual** – Development & Review Job descriptions and Person Specifications updated January 2015. Advice was sought from CCBC which used the Excellent Auditor Skills Matrix.
LGAN	Does the CAE periodically assess individual auditors against the predetermined skills and competencies?	✓			All staff undergo annual performance appraisals in which skills and competencies for each level of auditor are compared to the Competency Framework.
	Do internal auditors undertake a programme of continuing professional development?	✓			**IA Charter** - Para. 10 – Audit Training CPD training requirements are discussed as part of annual PDRs. CPD is also requirement of various professional bodies, of which audit staff are members e.g. ACCA. In the Annual Plan 2016/17, there is a budget of 10 days for training.
	Do internal auditors maintain a record of their professional development and training activities?	✓			Training records maintained on each individual auditor's file.
3.4	**1300 Quality Assurance and Improvement Programme**				
	Has the CAE developed a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated?	✓			**Annual Report 2015/16** – Para. 6.6 & 6.7 A Self-Assessment to ensure compliance with PSIAS is conducted on an annual basis – **G:\Audit\Shared\PSIAS Self-Assessment** **IA Manual** IA has a quality assurance programme that is designed to provide assurance both internally and externally that: • The work of IA is compliant with Standards • Achieves its objectives, and • Sustain a commentary on compliance with the Standards and in the Annual Audit Report.

Ref	Conformance with the Standard	Y	P	N	Evidence
					The Service Review process and Resources Service Plan also identify improvements.
	Does the QAIP assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement?	✓			See PSIAS Self-Assessment above. IA performance is reviewed by management and reported to the Audit & Governance Committee on a quarterly basis e.g. Performance Targets developed in consultation with All Wales IA Benchmarking Group. All PIs are monitored and reported by the Transformation Team and reviewed as part of the Service Performance Reviews. **IA Charter** – Para. 7 – Quality Control – A quality questionnaire is issued to the relevant senior manager with each Final Report to allow the standard of the service to be monitored and to identify any improvements. An annual review of all files is undertaken to ensure conformance with the Definition of IA and the Standards and an evaluation of whether the auditors apply the Code of Ethics.
	Does the CAE maintain the QAIP?	✓			The PSIAS Self-Assessment is undertaken by the CAE and reported to the Audit & Governance Committee annually.
LGAN	If the organisation is a 'larger relevant body' in England, does it conduct a review of the effectiveness of its internal audit at least annually, in accordance with the Accounts and Audit (England) Regulations 2011 section 6(3)?				N/A

Ref	Conformance with the Standard	Y	P	N	Evidence
	1310 Requirements of the Quality Assurance and Improvement Programme				
	Does the QAIP include both internal and external assessments?	✓			Internal Assessments – A Self-Assessment to ensure compliance with PSIAS is conducted on an annual basis **G:\Audit\Shared\PSIAS Self-Assessment** External Assessment – by Denbighshire Council is scheduled for early 2017.
	1311 Internal Assessments				
LGAN	Does the CAE ensure that audit work is allocated to staff with the appropriate skills, experience and competence?	✓			**IA Charter** – Para. 9 – Resources **IA Manual** – Allocation & Monitoring of Audit Projects. Work is allocated by the CAE who have appropriate skills, experience and knowledge. APS and ORCs are completed before each audit and approved by the CAE. These outline knowledge re-quired to undertake a particular audit in terms of risks, governance arrangements, scope of audit and relevant legislation. Key risks are highlighted.
	Do internal assessments include ongoing monitoring of the internal audit activity, such as: a) Routine quality monitoring processes? b) Periodic assessments for evaluating conformance with the PSIAS?	 ✓ ✓			**IA Protocol** – Para. 7 – Quality Control **IA Report 2015/16** Para. 6.6 & 6.7 For example, client satisfaction questionnaires, review of working papers & reports, annual appraisals. Annual PSAIS self-assessment conducted.
LGAN	Does ongoing performance monitoring include comprehensive performance targets?	✓			**Strategic & Annual Plans 2016/17** - Appendix A para. 23; Appendix E **IA Annual Report 2015/16** – Appendix A

Ref	Conformance with the Standard	Y	P	N	Evidence
					IA performance reviewed by management and reported to the Audit & Governance Committee on a quarterly basis e.g. Performance Targets developed in consultation with All Wales IA Benchmarking Group.
LGAN	Are the performance targets developed in consultation with appropriate parties and included in any service level agreement?	✓			Targets developed in consultation with All Wales IA Benchmarking Group.
LGAN	Does the CAE measure, monitor and report on progress against these targets?	✓			CAE reports progress in quarterly reports to the Audit & Governance Committee. **IA Annual Report 2015/16** compares performance against targets set for the year.
LGAN	Does ongoing performance monitoring include obtaining stakeholder feedback?	✓			**IA Protocol** - Para. 7.2 – Quality Control
	Are the periodic self-assessments or assessments carried out by people external to the internal audit activity undertaken by those with a sufficient knowledge of internal audit practices? Sufficiency would require knowledge of the PSIAS and the wider guidance available such as the Local Government Application Note and/or IIA practice advisories, etc.	✓			Internal self-assessment conducted by CAE. External Assessment scheduled for early 2017 by a qualified, independent assessor or assessment team from outside the organisation.
LGAN	Does the periodic assessment include a review of the activity against the risk-based plan and the achievement of its aims and objectives?	✓			**IA Annual Report 2015/16** – report includes review of activity against annual risk based plan.
	1312 External Assessments				
	Has an external assessment been carried out, or is planned to be carried out, at least once every five years?	✓			External assessment due to be conducted in early 2017.
LGAN	Has the CAE considered the pros and cons for the different types of				**N/A** - The Welsh Chief Internal Auditors Group (WCIAG)

Ref	Conformance with the Standard	Y	P	N	Evidence
	external assessment (i.e. 'full' or self-assessment plus 'independent validation')?				considered the pros and cons of the types of assessment and agreed upon self-assessment with independent external verification. Peer assessments are being planned for 2016/17 and WCIAG Peer Review Packs have been produced which include: • Terms of Reference • Report\template • PSIAS LG Application Note • Table of Assessors
	Has the CAE discussed the proposed form of the external assessment and the qualifications and independence of the assessor or assessment team with the board?	✓			Now that more details about the process – such as the Terms of Reference – have been received, the external self-assessment will be discussed with the Audit & Governance Committee on 6 December 2016.
LGAN	Has the CAE agreed the scope of the external assessment with an appropriate sponsor, such as the chair of the audit committee, the CFO or the chief executive?	✓			As above. The external assessment will be discussed at the Audit & Governance Committee 6 December 2016. The CAE has already agreed the scope of the assessment with the Head of Function (Resources) and Section 151 Officer and will be reported to SLT.
	Has the CAE agreed the scope of the external assessment with the external assessor or assessment team?	✓			The WCIAG has established the scope.
	Has the assessor or assessment team demonstrated its competence in both areas of professional practice of internal auditing and the external assessment process? Competence can be determined in the following ways: a) experience gained in organisations of similar size b) complexity c) sector (i.e. the public sector)	✓			The External Assessor is Head of Internal Audit at Denbighshire County Borough Council and is competent in all areas to undertake the assessment.

Ref	Conformance with the Standard	Y	P	N	Evidence
	d) industry (i.e. local government), and e) technical experience. *Note that if an assessment team is used, competence needs to be demonstrated across the team and not for each individual member.*				
	How has the CAE used his or her professional judgement to decide whether the assessor or assessment team demonstrates sufficient competence to carry out the external assessment?	✓			**N/A** – The WCIAG has established the scope of the assessment and the Terms of Reference identifies that the assessors must be appropriately qualified and competent.
	Does the assessor or assessment team have any real or apparent conflicts of interest with the organisation? This may include, but is not limited to, being a part of or under the control of the organisation to which the internal audit activity belongs.			✓	Employee of Denbighshire County Borough Council – no apparent conflicts of interest.
	1320 Reporting on the Quality Assurance and Improvement Programme				
	Has the CAE reported the results of the QAIP to senior management and the board?			✓	The PSIAS Self-assessment will be reported to SLT on 28 November 2016 and to the Audit & Governance Committee 6 December 2016. **IA Annual Report 2015/16** – Para. 6.6 – States compliance with IA Standards but the QAIP and Improvement Plan not reported. **Action Plan – Rec 3**
	Note that: *a) the results of both external and periodic internal assessment must be communicated upon completion* *b) the results of ongoing monitoring must be communicated at least*				As above. As above.

Ref	Conformance with the Standard	Y	P	N	Evidence
	annually c) *the results must include the assessor's or assessment team's evaluation with regards to the degree of the internal audit activity's conformance with the PSIAS.*				As above.
	Has the CAE included the results of the QAIP and progress against any improvement plans in the annual report?			✓	**IA Annual Report 2015/16** – Para. 6.6 confirm compliance with PSIAS but result of the self-assessment have not been included. **Action Plan – Rec 4**
	1321 Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing'				
	Has the CAE stated that the internal audit activity conforms with the PSIAS only if the results of the QAIP support this?	✓			The results of the 2016/17 PSIAS Self-assessment confirm compliance of IA activity with the Standards.
	1322 Disclosure of Non-conformance				
	Has the CAE reported any instances of non-conformance with the PSIAS to the board?	✓			PSIAS non-conformance and improvement action plan reported to the Audit & Governance Committee 6 December 2016.
	Has the CAE considered including any significant deviations from the PSIAS in the governance statement and has this been evidenced?	✓			N/A – no significant deviations from PSIAS but will be included where appropriate.
4	**Performance Standards**				
4.1	**2000 Managing the Internal Audit Activity**				
	Do the results of the internal audit activity's work achieve the purposes	✓			**IA Annual Report 2015/16**

Ref	Conformance with the Standard	Y	P	N	Evidence
	and responsibility of the activity, as set out in the internal audit charter?				
	Does the internal audit activity conform with the *Definition of Internal Auditing* and the *Standards*?	✓			**IA Annual Report 2015/16** - Para. 6.6
	Do individual internal auditors, who are part of the internal audit activity, demonstrate conformance with the *Code of Ethics* and the *Standards*?	✓			All audit staff have signed a Declaration that they have read PSAIS and that they understand and must comply with the Standards and its Code of Ethics – Appendix A. **IA Report 2015/16** - Para. 7.1.1
	Does the internal audit activity add value to the organisation and its stakeholders by a) Providing objective and relevant assurance? b) Contributing to the effectiveness and efficiency of the governance, risk management and internal control processes?	✓ ✓			**IA Annual Report 2015/16** **IA Charter** The Council is required annually to conduct a review of the effectiveness of the system of internal control. IA is an integral part of that system and is a significant contributor to the Annual Governance Statement (AGS) The role of IA is to provide assurances that the key risks of the Council are being adequately mitigated and to examine and evaluate the adequacy of the effectiveness of the system of internal control, governance and risk management as operated in all areas of the Council.
	2010 Planning				
	Has the CAE determined the priorities of the internal audit activity in a risk-based plan and are these priorities consistent with the organisation's goals?	✓			**Audit Plan & Strategy Report 2016/17** **Strategic IA Plan 2016/17 to 2018/19 & Annual Plan 2016/17**

Ref	Conformance with the Standard	Y	P	N	Evidence
	Does the risk-based plan take into account the requirement to produce an annual internal audit opinion?	✓			**Audit Plan & Strategy Report 2016/17 -** Para. 1.1.2
	Does the risk-based plan take into account the organisation's assurance framework?		✓		**Audit Plan & Strategy Report 2016/17** – Para. 1.2 Audit Needs Assessment The CAE membership of the Performance Review Group allows the plan to take account of the external regulators and the organisation's assurance framework. An assurance mapping exercise will be undertaken as part of the 2017/18 planning process to further ensure that the plan is focused on the right sources of assurance to meet the Authority's needs and circumstance. **Action Plan – Rec 5**
	Does the risk-based plan incorporate or is it linked to a strategic or high-level statement of: a) How the internal audit service will be delivered? b) How the internal audit service will be developed in accordance with the internal audit charter? c) How the internal audit service links to organisational objectives and priorities?	✓			**Audit Plan & Strategy Report 2016/17** **Strategic IA Plan 2016/17 to 2018/19 & Annual Plan 2016/17**
	Does the risk-based plan set out how internal audit's work will identify and address local and national issues and risks?	✓			**Audit Plan & Strategy Report 2016/17** **Strategic IA Plan 2016/17 to 2018/19 & Annual Plan 2016/17**
	In developing the risk-based plan, has the CAE taken into account the	✓			**Audit Plan & Strategy Report 2016/17** – Para. 1.2.6

Ref	Conformance with the Standard	Y	P	N	Evidence
	organisation's risk management framework and relative risk maturity of the organisation?				**Strategic IA Plan 2016/17 to 2018/19 & Annual Plan 2016/17**
	If such a risk management framework does not exist, has the CAE used his or her judgement of risks after input from senior management and the board and evidenced this?	✓			**N/A –** Risk Management Framework exists.
LGAN	Does the risk-based plan set out the: a) Audit work to be carried out? b) Respective priorities of those pieces of audit work? c) Estimated resources needed for the work?	✓ ✓ ✓			**Strategic IA Plan 2016/17 to 2018/19 & Annual Plan 2016/17** The Strategy & Annual Plan is approved by the Audit & Governance Committee every February. It is a risk based plan which sets out the audit work to be performed, the priorities and the resources required. **Annual Plan 2016/17**
LGAN	Does the risk-based plan differentiate between audit and other types of work?	✓			**Operational Plan 2016/17 -** Appendix B
LGAN	Is the risk-based plan sufficiently flexible to reflect the changing risks and priorities of the organisation?	✓			**Strategic IA Plan 2016/17 to 2018/19** - Appendix A - Para. 31
	Does the CAE review the plan on a regular basis and has he or she adjusted the plan when necessary in response to changes in the organisation's business, risks, operations, programmes, systems and controls?	✓			**Strategic IA Plan 2016/17 to 2018/19** - Appendix A - Para. 31. The CAE reports any changes to the Audit & Governance Committee on a quarterly basis.
	Is the internal audit activity's plan of engagements based on a	✓			**Audit Plan & Strategy Report 2016/17** – Para. 1.2.4. – Audit Needs Assessment Process

Ref	Conformance with the Standard	Y	P	N	Evidence
	documented risk assessment?				*IA plans based on Council's Corporate Risk Register & Service Risk Register.*
	Is the risk assessment used to develop the plan of engagements undertaken at least annually?	✓			**Audit Plan & Strategy Report 2016/17** – Para. 1.2.4. – Audit Needs Assessment Process – Ongoing.
LGAN	In developing the risk-based plan, has the CAE also considered the following:				
	a) Any declarations of interest (for the avoidance for conflicts of interest)?	✓			The CAE takes into account any declarations during the planning process.
	b) The requirement to use specialists, e.g. IT or contract and procurement auditors?	✓			**Audit Plan & Strategy Report 2016/17** – Para. 1.4.2
	c) Allowing contingency time to undertake ad hoc reviews or fraud investigations as necessary?	✓			**Strategic IA Plan 2016/17 to 2018/19** - Appendix A - Para. 31. Counter Fraud Work – 150 days Contingency – 120 days
	d) The time required to carry out the audit planning process effectively as well as regular reporting to and attendance of the board, the development of the annual report and the CAE opinion?	✓			**Strategic IA Plan 2016/17 to 2018/19** - Appendix A - Para. 31. **Operational Plan 2016/17 -** Appendix B Planning – 20 days Administration – 40 days Liaison HoS etc. – 15 days
	Is the input of senior management and the board considered in the risk assessment process?	✓			**Audit Plan & Strategy Report 2016/17 –** Para. 1.3 Consultation with Directors, Heads of Functions and HoS prior to developing the annual plan.
	Does the CAE identify and consider the expectations of senior	✓			**Audit Plan & Strategy Report 2016/17 –** Para. 1.3 Consultation with Directors, Heads of Functions and

Ref	Conformance with the Standard	Y	P	N	Evidence
	management, the board and other stakeholders for internal audit opinion and any other conclusions?				HoS prior to developing the annual plan. Pre Audit & Governance Committee briefings with Chair & Vice. CAE is keen for IA to have more involvement with SMT as currently does not attend SMT.
	Does the CAE take into consideration any proposed consulting engagement's potential to improve the management of risks, to add value and to improve the organisation's operations before accepting them?	✓			**Audit Plan & Strategy Report 2016/17 –** Paras. 1.2 & 1.3. Quarterly meetings with Performance Review Group to discuss Corporate Risk Register and external regulators' reports. Cumulative knowledge of the Organisation through previous IA work.
	Are consulting engagements that have been accepted included in the risk-based plan?	✓			**Operational Plan 2016/17 -** Appendix B Consultancy work - 30 days.
	2020 Communication and Approval				
	Has the CAE communicated the internal audit activity's plans and resource requirements to senior management and the board for review and approval?	✓			**Audit Plan & Strategy Report 2016/17** – Para. 1.2.6 **Strategic IA Plan 2016/17 to 2018/19 & Annual Plan 2016/17** Presented and approved by SLT 26 January 2016 and Audit & Governance Committee 15 March 2016.
	Has the CAE communicated any significant interim changes to the plan and/or resource requirements to senior management and the board for review and approval, where such changes have arisen?	✓			**Strategic IA Plan 2016/17 to 2018/19** - Appendix A - Para. 31. IA Performance Reports are submitted to the Audit & Governance Committee on a quarterly basis with any changes to the plan reported and approved.
	Has the CAE communicated the impact of any resource limitations to	✓			**IA Charter** – Para. 9 - Resources **IA Annual Report 2015/16** - Paras. 3.2.2 & 3.5.1

Ref	Conformance with the Standard	Y	P	N	Evidence
	senior management and the board?				IA Performance Reports are submitted to the Audit & Governance Committee on a quarterly basis
	2030 Resource Management				
	Does the risk-based plan explain how internal audit's resource requirements have been assessed?	✓			**Strategic IA Plan 2016/17 to 2018/19** - Appendix A - Para. 32 & 33 explain how the plan has been compiled. Appendix C details the needs of each area, the current assurance rating and the number of audit days required. Appendix D identifies available IA Resource 2016/17.
LGAN	Has the CAE planned the deployment of resources, especially the timing of engagements, in conjunction with management to minimise abortive work and time?	✓			**IA Protocol** - Para.1.2 Senior managers are informed of each area under their control that will be audited. There will also be discussions on broad indications of dates in order to avoid peak times and cause the least disruption to Services.
LGAN	If the CAE believes that the level of agreed resources will impact adversely on the provision of the internal audit opinion, has he or she brought these consequences to the attention of the board? This may include an imbalance between the work plan and resource availability and/or other significant matters that jeopardise the delivery of the plan or require it to be changed.	✓			**Strategic IA Plan 2016/17 to 2018/19** - Appendix A - Para. 28. Where resources available are not considered adequate it will be reported through the Audit and Governance Committee. **IA Annual Report 2015/16** - Para. 3.5.1 - identifies slippage of 316 days.
	2040 Policies and Procedures				
	Has the CAE developed and put into place policies and procedures to guide the internal audit activity?		✓		**IA Manual** Includes guidelines for undertaking IA activities, however as the manual dates from when IA was provided by Baker Tilly it no longer reflects current practices in all areas. **See Action Plan - Rec 6**

Ref	Conformance with the Standard	Y	P	N	Evidence
LGAN	Has the CAE established policies and procedures to guide staff in performing their duties in a manner than conforms to the PSIAS? Examples include maintaining an audit manual and/or using electronic management systems.	✓			**IA Manual** **IA Protocol** IA Manual & Protocol reflects the need to conform to the PSIAS.
LGAN	Are the policies and procedures regularly reviewed and updated to reflect changes in working practices and standards?		✓		**IA Protocol** – Revised and approved by Audit & Governance Committee 8/12/15. **IA Manual -** As noted above, the current IA Manual needs to be updated as it no longer reflects current working practices due to recent management changes. **See Action Plan – Rec 7**
	2050 Coordination				
	Does the risk-based plan include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources?	✓			**Strategic IA Plan 2016/17 to 2018/19** - Appendix A - Para. 29 **IA Annual Report 2015/16** – Paras. 6.1.2 & 6.4 The work performed by WAO, PwC and other external regulators. Quarterly meetings of Performance Review Group
LGAN	Has the CAE carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance?			✓	Following the Audit manager's attendance as an *Assurance Mapping in the Public Sector* Workshop in October 2015 – Assurance mapping exercise will be carried out as part of the 2017/18 planning process to further ensure that the Internal Audit plan is focused on the right sources of assurance to meet the Authority's needs and circumstance. **See Action Plan – Rec 8**
	Does the CAE share information and coordinate activities with other	✓			Quarterly meetings of Performance Review Group

Ref	Conformance with the Standard	Y	P	N	Evidence
	internal and external providers of assurance and consulting services?				WAO invited to attend pre Audit and Governance Committee meetings with Chair, Section 151 and CAE and Audit Manager.
LGAN	Does the CAE meet regularly with the nominated external audit representative to consult on and coordinate their respective audit plans?		✓		**IA Charter** - Para.8 External audit representative invited to attend quarterly Audit & Governance Committee meetings and the pre meeting. IA seeking more involvement in meetings with WAO. **See Action Plan – Rec 9**
	2060 Reporting to Senior Management and the Board				
	Does the CAE report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan?	✓			**Audit & Governance Committee Terms of Reference** **IA Charter** – Para. 4.5 The Audit Committee receives quarterly progress reports from the CAE. Performance and progress relative to the plan is reported to the Audit & Governance Committee on a quarterly basis.
	Does the periodic reporting also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board?	✓			As above.
	Is the frequency and content of such reporting determined in discussion with senior management and the board and are they dependent on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board?	✓			As above. Quarterly reporting to the Audit & Governance Committee, as per the IA Charter and Audit & Governance Committee Terms of Reference. Additional meetings may be called as required in excep-

Ref	Conformance with the Standard	Y	P	N	Evidence
					tional circumstances.
	2070 External Service Provider and Organisational Responsibility for Internal Auditing				
	Where an external internal audit service provider acts as the internal audit activity, does that provider ensure that the organisation is aware that the responsibility for maintaining and effective internal audit activity remains with the organisation?				**N/A**
4.2	**2100 Nature of Work**				
	Does the internal audit activity evaluate and contribute to the improvement of the organisation's governance, risk management and internal control processes?	✓			**IA Charter** - Para. 5 – Purpose of IA **IA Annual Report 2015/16 –** CAE provides the Audit & Governance Committee with assurance on the whole system of internal Control, including the adequacy of risk management and corporate governance arrangements.
	Does the internal audit activity evaluate and contribute to the improvement of the above using a systematic and disciplined approach and is this evidenced?	✓			The following documents provide a systematic and disciplined approach: • IA Charter • IA Manual • IA Annual Report 20151/6 • IA Strategy & Annual Plan
	2110 Governance				
	Does the internal audit activity: a) Promote appropriate ethics and values within the organisation?	✓			**IA Annual Report 2015/16** All auditors must comply with the Code of Ethics as set out in the PSIAS to promote an ethical culture in the profession of IA. The CAE provides the Audit & Governance Committee with assurance on the whole system of

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Ref	Conformance with the Standard	Y	P	N	Evidence
					internal control, including the adequacy of risk management and corporate governance arrangements.
	b) Ensure effective organisational performance management and accountability?	✓			The Performance Management processes of services and functions are assessed during the conduct of individual audits.
	c) Communicate risk and control information to appropriate areas of the organisation?	✓			**IA Protocol -** Para. 6 – Issuing Final Reports. IA reports communicate risk and control information to the Organisation. All reports issued to relevant HoS and available to Members of the Audit & Governance Committee on request. The Audit & Governance Committee receives details of all Final IA Reports that have received a Limited or Minimal Assurance rating.
	d) Coordinate the activities of and communicate information among the board, external and internal auditors and management?	✓			As above.
	Does the internal audit activity assess and make appropriate recommendations for improving the governance process as part of accomplishing the above objectives?	✓			**IA Manual** – Audit Recommendations & Audit Opinion. **IA Protocol** – Para. 6 – Issuing Final Reports – Audit Opinions IA Annual Report 2015/**16 – Appendix G details** outstanding recommendations. The IA Annual Report relevant issues and overall opinion feeds into the AGS.
	Has the internal audit activity evaluated the: a) design	✓			**Strategic IA Plan 2016/17 to 2018/19** - Appendix A **Strategic Plan** - Appendix C

Ref	Conformance with the Standard	Y	P	N	Evidence
	b) implementation, and	✓			15 days a year are allocated to an audit of Ethical Culture from 2016/17. Policies & Procedures, Gifts & Hospitality and Declaration of Interests previously reviewed.
	c) effectiveness of the organisation's ethics-related objectives, programmes and activities?	✓			
	Has the internal audit activity assessed whether the organisation's information technology governance supports the organisation's strategies and objectives?	✓			IT audits are programmed each year to enable IA to assess whether the Authority's IT governance supports its strategies and objectives (40 days). IA has dedicated a lot of time to ICT Disaster & Recovery – a key focus of the Audit & Governance Committee. **Audit Plan & Strategy Report 2016/17** – Para.1.4.2 identifies the need to outsource some expertise with regards to IT audits.
LGAN	Has the CAE considered the proportionality of the amount of work required to assess the ethics and information technology governance of the organisation when developing the risk-based plan?	✓			**Annual Plan 2016/17** – Appendix B **Strategic IA Plan 2016/17 to 2018/19** – Appendix C In 2016/17 Operational Plan, 15 days are allocated to an audit of Ethical Culture and 40 days to IT, out of a total of 924 operational days.
	2120 Risk Management				
	Has the internal audit activity evaluated the effectiveness of the organisation's risk management processes by determining that: a) Organisational objectives support and align with the organisation's mission?	✓			**Strategic IA Plan 2016/17 to 2018/19** - Appendix A – Para. 16 – Risk Management. **IA Annual Report 2015/16** – Para. 4.6 **Audit Plan & Strategy Report 2016/17** Para. 1.2 - Audit Needs Assessment – following considered: • Corporate Plan 2013 – 2017

Ref	Conformance with the Standard	Y	P	N	Evidence
					• WAO - Corporate Assessment December 2015 and Annual Improvement Report 2014/15 • Consultancy Work and preparatory work for AGS.
	b) Significant risks are identified and assessed?	✓			Corporate & Service Risk Registers. The Risk Management process is reviewed as part of individual audit assignments. Quarterly Performance Review Meetings with Transformation Team and Risk Manager.
	c) Appropriate risk responses are selected that align risks with the organisation's risk appetite?	✓			**IA Annual Report 2015/16** – Para. 1.2.4 - Needs Assessment. Resources targeted to higher risk areas based on risk profile. Assurance mapping will ensure assurance gained from the control measures in place.
	d) Relevant risk information is captured and communicated in a timely manner across the organisation, thus enabling the staff, management and the board to carry out their responsibilities?	✓			**IA Protocol** - Audit reports issued on a timely basis. Quarterly reports to the Audit Committee.
	Has the internal audit activity evaluated the risks relating to the organisation's governance, operations and information systems regarding the:				IA uses a risk-based approach. All will be evaluated as part of each individual audit assignment **IA Manual** **IA Charter** **IA Annual Report 2015/16** **Audit Plan & Strategy Report 2016/17** - Planning Process All audits assess compliance Review Corporate & Service Risk Registers IA consultancy work with Performance Review Group – to assess external regulatory reports and risk assessment.
	a) Achievement of the organisation's strategic objectives?	✓			**Audit Plan & Strategy Report 2016/17** Para. 1.2 - Audit Needs Assessment – following considered: • Corporate Plan 2013 – 2017 • WAO - Corporate Assessment December 2015

Ref	Conformance with the Standard	Y	P	N	Evidence
	b) Reliability and integrity of financial and operational information? c) Effectiveness and efficiency of operations and programmes? d) Safeguarding of assets? e) Compliance with laws, regulations, policies, procedures and contracts?	✓ ✓ ✓ ✓			and Annual Improvement Report 2014/15 • Consultancy Work and preparatory work for AGS
	Has the internal audit activity evaluated the potential for fraud and also how the organisation itself manages fraud risk?	✓			**Audit Plan & Strategy Report 2016/17** **Annual Plan 2016/17** – Appendix B – Counter Fraud Work - 150 days **Strategic IA Plan 2016/17 to 2018/19** – Appendix C IA will review the robustness of the Authority's arrangements, the counter fraud framework and the identification of areas of fraud risk. The Authority's Policy for the Prevention of Fraud & Corruption was last updated in 2012 and is now due for review. **Annual Report 2015/16** - Appendix H – Summary of Irregularity Work – 72.34 days.
	Do internal auditors address risk during consulting engagements consistently with the objectives of the engagement?	✓			Risk is considered during all audit assignments. Corporate & Service Risk Registers Project Briefs - ORCs Discussions with management prior to audit.
	Are internal auditors alert to other significant risks when undertaking consulting engagements?	✓			See above.
	Do internal auditors successfully avoid managing risks themselves, which	✓			IA advise and consult but would not directly manage risk

Ref	Conformance with the Standard	Y	P	N	Evidence
	would in effect lead to taking on management responsibility, when assisting management in establishing or improving risk management processes?				management process.
	2130 Control				
	Has the internal audit activity evaluated the adequacy and effectiveness of controls in the organisation's governance, operations and information systems regarding the: a) Achievement of the organisation's strategic objectives? b) Reliability and integrity of financial and operational information? c) Effectiveness and efficiency of operations and programmes? d) Safeguarding of assets? e) Compliance with laws, regulations, policies, procedures and contracts?	✓ ✓ ✓ ✓ ✓			**IA Annual Report 2015/16** – evaluated and provided assurance to the Audit & Governance Committee on the adequacy of controls in the Authority's governance, operations and information systems. Para. 7.1 Statement of Assurance
	Do internal auditors utilise knowledge of controls gained during consulting engagements when evaluating the organisation's control processes?	✓			**IA Annual Report 2015/16** **Audit Plan & Strategy Report 2016/17** – Para. 1.2 – Audit Needs Assessment Process
4.3	**2200 Engagement Planning**				
	Do internal auditors develop and document a plan for each engagement?	✓			**IA Manual** - *Assignment Planning Sheet completed for each audit.* Assignment Planning Sheets (APS) and Evaluations of Objective Risks and Controls (ORCs) are completed be-

Ref	Conformance with the Standard	Y	P	N	Evidence
					fore each audit and approved by the CAE.
	Does the engagement plan include the engagement's: a) Objectives? b) Scope? c) Timing?	✓ ✓ ✓			
	d) Resource allocations?		✓		Assigned auditors are noted but the number of audit days allocated to the engagement is not. **See Action Plan – Rec 10**
	Do internal auditors consider the following in planning an engagement, and is this documented:				**IA Protocol** – Para. 1 – Audit Planning
	a) The objectives of the activity being reviewed?	✓			Included on the Audit Planning Sheet.
	b) The means by which the activity controls its performance?	✓			Performance measures included on the Audit Planning Sheet.
	c) The significant risks to the activity being audited?	✓			Service Risk Register consulted. Key risks included on Audit Planning Sheet.
	d) The activity's resources?	✓			APS
	e) The activity's operations?	✓			APS
	f) The means by which the potential impact of risk is kept to an acceptable level?	✓			Service Risk Register and mitigating actions consulted.

Ref	Conformance with the Standard	Y	P	N	Evidence
	g) The adequacy and effectiveness of the activity's governance, risk management and control processes compared to a relevant framework or model? h) The opportunities for making significant improvements to the activity's governance, risk management and control processes?	✓ ✓			Recommendations and the associated risks are currently classified in accordance with the Corporate Risk Assessment matrix. An Action Plan is created for each report and contains recommendations to management agreed with the client to address any internal control issues that have been identified during the course of the review. Action Plans identify the relevant risks with the report.
	Where an engagement plan has been drawn up for an audit to a party outside of the organisation, have the internal auditors established a written understanding with that party about the following: a) Objectives? b) Scope? c) The respective responsibilities and other expectations of the internal auditors and the outside party (including restrictions on distribution of the results of the engagement and access to engagement records)?				N/A
	For consulting engagements, have internal auditors established an understanding with the engagement clients about the following: a) Objectives? b) Scope?	 ✓ ✓			An Assignment Planning Sheet would be completed as with assurance engagements.

Ref	Conformance with the Standard	Y	P	N	Evidence
	c) The respective responsibilities of the internal auditors and the client and other client expectations?	✓			
	For significant consulting engagements, has this understanding been documented?				**IA Protocol** - Para. 1.9 All Assignment Planning Sheets should be signed off by the senior manager or nominated Contact Officer prior to the start of the fieldwork.
	2210 Engagement Objectives				
	Have objectives been agreed for each engagement?	✓			**IA Protocol** - Para. 1.9 Assignment Planning Sheets set out the objectives of the review and should be signed off by the senior manager or nominated Contact Officer prior to the start of the field work.
	Have internal auditors carried out a preliminary risk assessment of the activity under review?	✓			**IA Protocol** - Para. 1.1
	Do the engagement objectives reflect the results of the preliminary risk assessment that has been carried out?	✓			**IA Protocol -** Para. 1.4
	Have internal auditors considered the probability of the following, when developing the engagement objectives: a) Significant errors? b) Fraud? c) Non-compliance? d) Any other risks?	 ✓ ✓ ✓ ✓			**IA Protocol** – Para. 1 **APS & ORCs** completed for each assignment.

Ref	Conformance with the Standard	Y	P	N	Evidence
	Have internal auditors ascertained whether management and/or the board have established adequate criteria to evaluate and determine whether objectives and goals have been accomplished?	✓			**IA Manual** – Conduct of an Audit **IA Annual Report 2015/16** – Audit & Governance Committee to provide scrutiny those objectives archived. **IA Charter** – Pars. 4.2 & 4.5 – Audit & Governance Committee receive quarterly reports to monitor progress against the annual plan and the performance of the device against approved targets. AGS & resulting action plan approved by Audit & Governance Committee.
	If the criteria have been deemed adequate, have the internal auditors used the criteria in their evaluation of governance, risk management and controls?	✓			**IA Manual** – Conduct of an Audit APS and ORCs are completed before each audit and approved by the CAE. These outline knowledge required to undertake a particular audit in terms of risks, governance arrangements, scope of audit and relevant legislation. Key risks are highlighted.
	If the criteria have been deemed inadequate, have the internal auditors worked with management and/or the board to develop appropriate evaluation criteria?	✓			**IA Protocol** – Para. 1.4 – scoping meeting carried out-with HoS or designated key contact prior to issuing of APS APS and ORCs are completed before each audit and approved by the CAE.
LGAN	If the value-for-money criteria have been referred to, has the use of all the organisation's main types of resources been considered; including money, people and assets?	✓			**IA charter** – Para. 5 – Purpose of Internal Audit **IA Manual**– Organisational Structure of IA outlines the types of audit undertaken including VFM. VFM intrinsic to all audits and includes all resources.
	Do the objectives set for consulting engagements address governance, risk management and control processes as agreed with the client?	✓			As with assurance engagements.

Ref	Conformance with the Standard	Y	P	N	Evidence
	Are the objectives set for consulting engagements consistent with the organisation's own values, strategies and objectives?	✓			As with assurance engagements.
	2220 Engagement Scope				
	Is the scope that is established for the engagement sufficient to satisfy the engagement's objectives?	✓			**IA Protocol** - Para. 1.9 The Audit Planning Sheet includes the objectives of the review and the limitations to its scope and is with the relevant manager before the audit begins.
	Does the engagement scope include consideration of the following relevant areas of the organisation: a) Systems? b) Records? c) Personnel? d) Premises?	 ✓ ✓ ✓ ✓			See Audit Planning Sheets.
	Does the engagement scope include consideration of the following relevant areas under the control of outside parties, where appropriate: a) Systems? b) Records? c) Personnel? d) Premises?	 ✓ ✓ ✓ ✓			See Audit Planning Sheets.

Ref	Conformance with the Standard	Y	P	N	Evidence
	Where significant consulting opportunities have arisen during an assurance engagement, was a specific written understanding as to the objectives, scope, respective responsibilities and other expectations drawn up?	✓			N/A
	Where significant consulting opportunities have arisen during an assurance engagement, were the results of the subsequent engagement communicated in accordance with the relevant consulting Standards?	✓			N/A
	For a consulting engagement, was the scope of the engagement sufficient to address any agreed-upon objectives?	✓			**IA Protocol** - Para. 1.9 The Audit Planning Sheet includes the objectives of the review and the limitations to its scope and is with the relevant manager before the audit begins.
	If the internal auditors developed any reservations about the scope of a consulting engagement while undertaking that engagement, did they discuss those reservations with the client and therefore determine whether or not to continue with the engagement?	✓			**IA Protocol** - Para. 2.2 If initial findings identify significant areas of risk, problems or unexpected factors then these will be referred back to the relevant senior manager and any additional work necessary will be discussed.
	During consulting engagements, did internal auditors address the controls that are consistent with the objectives of those engagements?	✓			**IA Manual** Key risks and controls within the scope of the engagement will be identified
	During consulting engagements, were internal auditors alert to any significant control issues?	✓			**IA Protocol** - Para. 2.2 As above.
	2230 Engagement Resource Allocation				
	Have internal auditors decided upon the appropriate and sufficient level of resources required to achieve the objectives of the engagement based on:				**IA Manual** **IA Protocol** – Para. 1.9 - APS and ORCs are completed before each audit and approved by the CAE. These outline knowledge required to undertake a particular audit

Ref	Conformance with the Standard	Y	P	N	Evidence
	a) The nature and complexity of each individual engagement? b) Any time constraints? c) The resources available?	✓ ✓ ✓			in terms of risks, governance arrangements, scope of audit and relevant legislation. Key risks are highlighted.
	2240 Engagement Work Programme				
	Have internal auditors developed and documented work programmes that achieve the engagement objectives?	✓			ORC Evaluation sheets are completed for each audit. <u>G:\Audit\Shared\1 - Working Papers</u>
	Do the engagement work programmes include the following procedures for: a) Identifying information? b) Analysing information? c) Evaluating information? d) Documenting information?	 ✓ ✓ ✓ ✓			See ORC evaluation sheets. <u>G:\Audit\Shared\1 - Working Papers</u>
	Were work programmes approved prior to implementation for each engagement?	✓			**IA Protocol** – Para. 1.9 APS & ORC approved by Audit Manager before work begins.
	Were any adjustments required to work programmes approved promptly?	✓			As above.

Ref	Conformance with the Standard	Y	P	N	Evidence
4.4	**2300 Performing the Engagement**				
	Have internal auditors carried out the following in order to achieve each engagement's objectives: a) Identify sufficient information? b) Analyse sufficient information? c) Evaluate sufficient information? d) Document sufficient information?	 ✓ ✓ ✓ ✓			**IA Protocol** - Para. 2.3 All audit work is reviewed by the Audit Manager to ensure all the work identified in the APS has been carried out satisfactorily and that the standard of the audit is in accordance with the requirements of the Audit Manual and the PSIAS. **IA Manual**
	2310 Identifying Information				
	Have internal auditors identified the following in order to achieve each engagement's objectives: a) Sufficient information? b) Reliable information? c) Relevant information? d) Useful information?	 ✓ ✓ ✓ ✓			As above.
	2320 Analysis and Evaluation				

Ref	Conformance with the Standard	Y	P	N	Evidence
	Have internal auditors based their conclusions and engagement results on appropriate analyses and evaluations?	✓			As above.
LGAN	Have internal auditors remained alert to the possibility of the following: a) intentional wrongdoing b) errors and omissions c) poor value for money d) failure to comply with management policy, and e) conflicts of interest when performing their individual audits, and has this been documented?	 ✓ ✓ ✓ ✓ ✓			As above.
	2330 Documenting Information				
	Have internal auditors documented the relevant information required to support engagement conclusions and results?	✓			**IA Manual** Sufficient supporting documentation must be obtained by the auditor and referenced and retained on the audit file, to support all test results and findings.
LGAN	Are working papers sufficiently complete and detailed to enable another experienced internal auditor with no previous connection with the audit to ascertain what work was performed, to re-perform it if necessary and to support the conclusions reached?	✓			**IA Manual** Testing should be documented with sufficient detail to allow the test to be re-performed. All files reviewed by CAE or Principal Internal Auditor.
	Does the CAE control access to engagement records?	✓			All files kept in filing cabinets within the IA office. Access to the office requires a code so only IA staff have access.

Ref	Conformance with the Standard	Y	P	N	Evidence
	Has the CAE obtained the approval of senior management and/or legal counsel as appropriate before releasing such records to external parties?	✓			**IA Protocol** – Para. 6 – *Issuing Final Reports* IA reports are confidential but IA Protocol states that reports may be given to the external auditors on request. The CAE would only release information subsequent to advice from the Authority's Information Governance Manager.
	Has the CAE developed and implemented retention requirements for all types of engagement records?	✓			**IA Manual** – *Management Review Process* IA has established a Retention Schedule for all types of audit documentation. All records held for at least 3 financial years or until the same area has been audited again.
	Are the retention requirements for engagement records consistent with the organisation's own guidelines as well as any relevant regulatory or other requirements?	✓			**IoAC Retention Guidelines.**
	2340 Engagement Supervision				
	Are all engagements properly supervised to ensure that objectives are achieved, quality is assured and that staff are developed?	✓			**IA Protocol** - Para. 2.3 All audit work is reviewed by the CAE to ensure all the work identified in the APS has been carried out satisfactorily and that the standard of the audit is in accordance with the requirements of the Audit Manual and the PSIAS.
	Is appropriate evidence of supervision documented and retained for each engagement?	✓			**IA Manual** All completed internal audit files must be reviewed by the Internal Audit Manager at the same time as reviewing the Draft Report.
4.5	**2400 Communicating Results**				
	Do internal auditors communicate the results of engagements?	✓			**IA Protocol** -Para. 6.3 Final reports are issued to the relevant senior manage-

Ref	Conformance with the Standard	Y	P	N	Evidence
					ment […] and to the S.151 Officer.
	2410 Criteria for Communicating				
	Do the communications of engagement results include the following: a) The engagement's objectives? b) The scope of the engagement? c) Applicable conclusions? d) Recommendations and action plans, if appropriate?	 ✓ ✓ ✓ ✓			See Final Reports G:\Audit\Shared\Final Reports **IA Manual** – Internal Audit Reports – all reports include the scope & objectives, conclusions and recommendations of the audit.
LGAN	Has the internal auditor discussed the contents of the draft final report with the appropriate levels of management to confirm factual accuracy, seek comments and confirm the agreed management actions?	✓			**IA Charter** - Para 11.2 **IA Protocol** – Para. 5.2
LGAN	If recommendations and an action plan have been included, are recommendations prioritised according to risk?	✓			**Strategic & Annual Plans Appendix A - Para. 32** *All recommendations are ranked as Critical, major, Moderate or Minor. This is in accordance with the way the Authority assesses and measures risk. It has been decided that recommendations and the associated risk should be categorised in accordance with the Corporate Risk Assessment Template.*
LGAN	If recommendations and an action plan have been included, does the communication also state agreements already reached with management,	✓			**IA Protocol** - Para. 5.1 After draft reports are issued management are expected to return a completed action plan including timescales

Ref	Conformance with the Standard	Y	P	N	Evidence
	together with appropriate timescales?				and the nominated responsible employee. This completed action plan is then included in the final report.
LGAN	If there are any areas of disagreement between the internal auditor and management, which cannot be resolved by discussion, are these recorded in the action plan and the residual risk highlighted?	✓			**IA Protocol** - Para. 6.2 Any disagreements will be noted in the Management Action Plan where the CAE will detail why they believe significant or material risk remains.
LGAN	Do communications disclose all material facts known to them in their audit reports which, if not disclosed, could distort their reports or conceal unlawful practice, subject to confidentiality requirements?	✓			Audit staff have agreed to abide the Code of Ethics
LGAN	Do the final communications of engagement results contain, where appropriate, the internal auditor's opinions and/or conclusions, building up to the annual internal audit opinion on the control environment?	✓			**IA Protocol** – Para. 6.6 All audit reports include an audit opinion and a definition of the relevant assurance level.
	When an opinion or conclusion is issued, are the expectations of senior management, the board and other stakeholders taken into account?	✓			**IA Protocol** – Paras. 4 & 5 Managers are given an opportunity to state whether or not they agree with recommendations made, and this is included in the final report.
	When an opinion or conclusion is issued, is it supported by sufficient, reliable, relevant and useful information?	✓			**IA Manual** Internal audit files need to include sufficient, reliable, relevant and useful evidence in order to support our findings and conclusions.
	Where appropriate, do engagement communications acknowledge satisfactory performance of the activity in question?	✓			**IA Manual** – IA Reports **IA Protocol** Reports include results of all audit tests performed whether positive or negative.
	When engagement results have been released to parties outside of the organisation, does the communication include limitations on the distribution and use of the results?				N/A External auditors are the only 'outside party' who may receive copies of a report. However, in theory, once a report is 'final' it is considered to be a public document, available on request.

Ref	Conformance with the Standard	Y	P	N	Evidence
LGAN	If the CAE has been required to provide assurance to other partnership organisations, has he or she also demonstrated that their fundamental responsibility is to the management of the organisation to which they are obliged to provide internal audit services?	✓			N/A
	2420 Quality of Communications				
	Are communications:				**IA Manual –** Conduct of an Audit **IA Manual** – IA Reports **IA Manual –** Management Review Process Audit Planning Sheets and reports are reviewed by Audit Manager before being issued. PIs monitor timely communications and the management review process ensures the quality of the communications.
	a) Accurate?	✓			
	b) Objective?	✓			
	c) Clear?	✓			
	d) Concise?	✓			
	e) Constructive?	✓			
	f) Complete?	✓			
	g) Timely?	✓			**IA Report for 2015/16** - Appendix A Timeliness measured as part of IA performance indicators. Draft reports issued in 6.61 days and final reports in 2.41 days on average in 2015/16.

Ref	Conformance with the Standard	Y	P	N	Evidence
	2421 Errors and Omissions				
	If a final communication has contained a significant error or omission, did the CAE communicate the corrected information to all parties who received the original communication?	✓			N/A Should a significant error occur the correction would be communicated.
	2430 Use of 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing'				
	Do internal auditors report that engagements are *'conducted in conformance with the PSIAS'* only if the results of the QAIP support such a statement?	✓			**IA Annual Report 2015/16** - Paras. 6.6 & 6.7 - Compliance with Internal Audit Standards, reports that the work of the IA Service has been performed in accordance with the PSIAS.
	2431 Engagement Disclosure of Non-conformance				
	Where any non-conformance with the PSIAS has impacted on a specific engagement, do the communication of the results disclose the following: a) The principle or rule of conduct of the *Code of Ethics* or *Standard(s)* with which full conformance was not achieved? b) The reason(s) for non-conformance? c) The impact of non-conformance on the engagement and the engagement results?	 ✓ ✓ ✓			N/A Any non-conformance would be reported in accordance with PSIAS 2431 Engagement Disclosure of Non-conformance.
	2440 Disseminating Results				

Ref	Conformance with the Standard	Y	P	N	Evidence
	Has the CAE determined the circulation of audit reports within the organisation, bearing in mind confidentiality and legislative requirements?	✓			**IA Charter** - Para. 11 Formal reports issued to the relevant manager, Head of Service and the Section 151 Officer.
	Has the CAE communicated engagement results to all appropriate parties?	✓			**IA Charter** - Para. 11 Debrief meetings, draft reports & final reports. A summary of all reports is presented to the Audit & Governance Committee in the quarterly Progress Reports.
	Before releasing engagement results to parties outside the organisation, did the CAE: a) Assess the potential risk to the organisation? b) Consult with senior management and/or legal counsel as appropriate? c) Control dissemination by restricting the use of the results?	 ✓ ✓ ✓			N/A – external auditors are the only 'outside parties' who currently receive reports. However, in theory, once the final report is published it is considered a public document, available on request. Should a request be made by an external party, the CAE would consult the Legal team for advice.
	Where any significant governance, risk management and control issues were identified during consulting engagements, were these communicated to senior management and the board?	✓			**IA Manual** Any significant weaknesses are reported to SLT and highlighted in the reports to the Audit & Governance Committee.
	2450 Overall Opinion				
	Has the CAE delivered an annual internal audit opinion?	✓			**IA Annual Report 2015/16** - Para. 7.2
	Does the annual internal audit opinion conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control?	✓			**IA Annual Report 2015/16** - Para. 2.1

Ref	Conformance with the Standard	Y	P	N	Evidence
	Does the annual internal audit opinion take into account the expectations of senior management, the board and other stakeholders?	✓			**IA Annual Report 2015/16** - Para. 7.2 Where appropriate – senior management expectations may not align with IA expectations.
	Is the annual internal audit opinion supported by sufficient, reliable, relevant and useful information?	✓			**IA Annual Report 2015/16** - Para. 4.2
	Does the communication identify the following:				**IA Annual Report 2015/16**:
	a) The scope of the opinion, including the time period to which the opinion relates?	✓			Para. 7.2
	b) Any scope limitations?	✓			Paras. 4.1, 6.1.1, 6.1.2
	c) The consideration of all related projects including the reliance on other assurance providers?	✓			Paras. 4.5.3, 6.4.1
	d) The risk or control framework or other criteria used as a basis for the overall opinion?				Paras.7.1.3, 7.2
	Where a qualified or unfavourable annual internal audit opinion is given, are the reasons for that opinion stated?	✓			N/A
	Has the CAE delivered an annual report that can be used by the organisation to inform its governance statement?	✓			**IA Annual Report 2015/16** - Para. 7.2
	Does the annual report incorporate the following:				**IA Annual Report 2015/16**:
	a) The annual internal audit opinion?	✓			Para. 7.2
LGAN	b) A summary of the work that supports the opinion?	✓			Paras. 4.2.1 – 4.7.1

Ref	Conformance with the Standard	Y	P	N	Evidence
LGAN	c) A disclosure of any qualifications to the opinion?	✓			Para. 6.1
LGAN	d) The reasons for any qualifications to the opinion?	✓			Para. 6.1
LGAN	e) A disclosure of any impairments or restriction in scope?	✓			Para. 3.5
LGAN	f) A comparison or work actually carried out with the work planned?	✓			Paras. 3.2.2, 3.2.3
	g) A statement on conformance with the PSIAS?	✓			Para. 7.1.1
LGAN	h) The results of the QAIP?			✓	The results of the previous year's QAIP have not been reported to the Audit & Governance Committee. The QAIP Self-Assessment 2016/17 and improvement plan is scheduled to be reported to the Audit & Governance Committee on 6 December 2016.
LGAN	i) Progress against any improvement plans resulting from the QAIP?			✓	As above. **See Action Plan – Rec 11**
LGAN	j) A summary of the performance of the internal audit activity against its performance measures and targets?	✓			Para. 3.2
	k) Any other issues that the CAE judges is relevant to the preparation of the governance statement?	✓			**IA Annual Report 2015/16**
4.6	**2500 Monitoring Progress**				
	Has the CAE established a process to monitor and follow up management actions to ensure that they have been effectively implemented or that senior management have accepted the risk of not taking action?	✓			**IA Protocol** - Para. 10 A follow up normally takes place within 6 months of the issue of the final report to assess managerial action taken and establish its effectiveness.
	Where issues have during the follow-up process, has the CAE considered	✓			**IA Protocol** - Para. 10.7

Ref	Conformance with the Standard	Y	P	N	Evidence
	revising the internal audit opinion?				Where appropriate a revised audit opinion will be provided and reported to management.
	Do the results of monitoring management actions inform the risk-based planning of future audit work?	✓			**IA Manual** – Planning, Controlling Audit Work Results of follow-ups inform the risk assessment criteria managed by the CAE.
	Does the internal audit activity monitor the results of consulting engagements as agreed with the client?	✓			Any recommendations that arise are entered into the 4Action system as with those from assurance engagements and progress will be monitored in the same way.
4.7	**2600 Communicating the Acceptance of Risks**				
	If the CAE has concluded that management has accepted a level of risk that may be unacceptable to the organisation, has he or she discussed the matter with senior management?	✓			IA Manual – Recommendations & the Audit Opinion Where management disagree with recommendations made by IA is recorded in the performance indicator (PI) schedule and the percentage of recommendations accepted by management in the year is one of the service PIs reported to the Audit & Governance Committee in the Annual Report. **IA Annual Report 2015/16** – Para. 6.3 Only had disagreements over very low level risks to date. Although all refusal to agree recommendations is reported to the Audit & Governance Committee it would be further escalated (up to WAO if necessary) if management were deemed to be accepting a high level of risk.
	If, after discussion with senior management, the CAE continues to conclude that the level of risk may be unacceptable to the organisation, has he or she communicated the situation to the board?	✓			N/A See above.

Chief Internal Auditor

Date:

<u>Report Distribution</u>
Audit & Governance Committee
Section 151 Officer
WAO

Appendix 2

PSIAS & LGAN – Self-Assessment Action Plan

Ref	Standard	Action to address non/partial compliance	Who is responsible for implementing the action	Target Completion Date
	Standards			
3.1	**1100 Independence & Objectivity**			
Rec 1	Does the internal audit charter also define the nature of consulting services?	Amend the IA Charter to include the nature of the consulting services undertaken.	Audit Manager	31/12/16
Rec 2	Does the internal audit charter also recognise the mandatory nature of the PSIAS?	Amend the IA Charter to make clear that conformance with the PSIAS is mandatory.	Audit Manager	31/12/16
3.3	**1300 Quality Assurance & Improvement Programme**			
	1320 Reporting on the Quality Assurance & Improvement Programme			
Rec 3	Has the CAE reported the results of the QAIP to senior management and the board?	The results of the QAIP will be reported to: • The Senior Leadership Team • The Audit & Governance Committee	Audit Manager	28/11/16 6/12/16
Rec 4	Has the CAE included the results of the QAIP and progress against any improvement plans in the annual report?	Results of the QAIP and progress against the improvement plan will be included in the Annual Report 2016/17.	Audit Manager	30/4/17

Ref	Standard	Action to address non/partial compliance	Who is responsible for implementing the action	Target Completion Date
4.1	**2000 Managing the Internal Audit Activity**			
	2010 Planning			
Rec 5	Does the risk-based plan take into account the organisation's assurance framework?	An assurance mapping exercise will be undertaken as part of the 2017/18 planning process to ensure the Internal Audit Plan is focused on the right sources of assurance to meet the Authority's needs and circumstance.	Audit Manager	31/03/17
	2040 Policies and Procedures			
Rec 6	Has the CAE developed and put into place policies and procedures to guide the internal audit activity?	The IA Manual to be updated to reflect current working practices and approved by the Audit & Governance Committee 9/2/17.	Audit Manager	31/12/16
Rec 7	Are the policies and procedures regularly reviewed and updated to reflect changes in working practices and standards?	The IA Manual to be annually reviewed to reflect current working practices and the Standards.	Audit Manager	Ongoing
	2050 Coordination			
Rec 8	Has the CAE carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance?	See 2010 Planning above.	Audit Manager	31/03/17
Rec 9	Does the CAE meet regularly with the nominated external audit representative to consult on and coordinate their respective audit plans?	CAE to seek more IA involvement through more regular meetings with WAO.	Audit Manager	31/03/17

4.3	**2200 Engagement Planning**			
Rec 10	Does the engagement plan include the engagement's resource allocations?	Include the number of audit days allocated to the engagement in each engagement plan.	Audit Manager	With immediate effect.
4.5	**2400 Communicating Results**			
	2450 Overall Opinion			
Rec 11	Does the annual report incorporate the following: • The results of the QAIP • Progress against any improvement plans resulting from the QAIP?	The QAIP Self-Assessment 2016/17 and the improvement plan will be included in the Annual Report 2016/17 and reported to the Audit & Governance Committee in May 2017.	Audit Manager	30/04/17

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Dr Gwynne Jones
Councillor Ieuan Williams
Council Offices
Llangefni
Anglesey
LL77 7TW

Date: 1 December 2016

Ref: IH15-16

Dear Gwynne and Ieuan

Annual Audit Letter – Isle of Anglesey County Council 2015-16

This letter summarises the key messages arising from my statutory responsibilities under the Public Audit (Wales) Act 2004 and my reporting responsibilities under the Code of Audit Practice.

The Council complied with its responsibilities relating to financial reporting and use of resources

It is the Council's responsibility to:

- put systems of internal control in place to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
- maintain proper accounting records;
- prepare a Statement of Accounts in accordance with relevant requirements; and
- establish and keep under review appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Public Audit (Wales) Act 2004 requires me to:

- provide an audit opinion on the accounting statements;
- review the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- issue a certificate confirming that I have completed the audit of the accounts.

Local authorities in Wales prepare their accounting statements in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. This Code is based on International Financial Reporting Standards. On 30 September 2016 I issued an unqualified audit opinion on the accounting statements confirming that they present a true and fair view of the Council's financial position and transactions. My report is contained within the Statement of Accounts. The key matters arising from the accounts audit were reported to members of the Audit Committee in my Audit of Financial Statements report on the 21 September 2016. I do not need to bring anything to your attention in this letter.

I am satisfied that the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

My consideration of the Council's arrangements to secure economy, efficiency and effectiveness has been based on the audit work undertaken on the accounts as well as placing reliance on the work completed under the Local Government (Wales) Measure 2009. The Auditor General will highlight areas where the effectiveness of these arrangements has yet to be demonstrated or where improvements could be made when he publishes his Annual Improvement Report.

I issued a certificate confirming that the audit of the accounts has been completed on 30 September 2016.

My work to date on certification of grant claims and returns has not identified significant issues that would impact on the 2016-17 accounts or key financial systems.

The financial audit fee for 2015-16 is currently being discussed with the Section 151 Officer due to additional work needed to complete the audit.

Yours sincerely

I C Howse

Ian Howse
For and on behalf of the Auditor General for Wales

WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Reference: 596A2016

Date issued: November 2016

Audit of Isle of Anglesey County Council's assessment of 2015-16 performance

Certificate

I certify that, following publication on 18 October 2016, I have audited Isle of Anglesey County Council's (the Council) assessment of its performance in 2015-16 in accordance with section 17 of the Local Government (Wales) Measure 2009 (the Measure) and my Code of Audit Practice.

As a result of my audit, I believe that the Council has discharged its duties under sections 15(2), (3), (8) and (9) of the Measure and has acted in accordance with Welsh Government guidance sufficiently to discharge its duties.

Respective responsibilities of the Council and the Auditor General

Under the Measure, the Council is required to annually publish an assessment which describes its performance:

- in discharging its duty to make arrangements to secure continuous improvement in the exercise of its functions;
- in meeting the improvement objectives it has set itself;
- by reference to performance indicators specified by Welsh Ministers, and self-imposed performance indicators; and
- in meeting any performance standards specified by Welsh Ministers, and self-imposed performance standards.

The Measure requires the Council to publish its assessment before 31 October in the financial year following that to which the information relates, or by any other such date as Welsh Ministers may specify by order.

The Measure requires that the Council has regard to guidance issued by Welsh Ministers in publishing its assessment.

As the Council's auditor, I am required under sections 17 and 19 of the Measure to carry out an audit to determine whether the Council has discharged its duty to publish an assessment of performance, to certify that I have done so, and to report whether I believe that the Council has discharged its duties in accordance with statutory requirements set out in section 15 and statutory guidance.

Scope of the audit

For the purposes of my audit work I will accept that, provided an authority meets its statutory requirements, it will also have complied with Welsh Government statutory guidance sufficiently to discharge its duties.

For this audit I am not required to form a view on the completeness or accuracy of information. Other assessment work that I will undertake under section 18 of the Measure may examine these issues. My audit of the Council's assessment of performance, therefore, comprised a review of the Council's publication to ascertain whether it included elements prescribed in legislation. I also assessed whether the arrangements for publishing the assessment complied with the requirements of the legislation, and that the Council had regard to statutory guidance in preparing and publishing it.

The work I have carried out in order to report and make recommendations in accordance with sections 17 and 19 of the Measure cannot solely be relied upon to identify all weaknesses or opportunities for improvement.

HUW VAUGHAN THOMAS

AUDITOR GENERAL FOR WALES

CC: Mark Drakeford, Cabinet Secretary for Finance and Local Government;
Andy Bruce, Manager;
Gwilym Bury, Performance Audit Lead

ISLE OF ANGLESEY COUNTY COUNCIL	
REPORT TO:	**AUDIT COMMITTEE**
DATE:	**06 DECEMBER 2016**
SUBJECT:	**TREASURY MANAGEMENT STRATEGY STATEMENT 2017/18**
LEAD OFFICER:	**MARC JONES**
CONTACT OFFICER:	**GARETH ROBERTS (TEL: EXT 2675)**
Nature and reason for reporting For scrutiny - consistent with professional guidance.	

1. This report is presented to ensure that the Council is implementing best practice in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management. The code recommends that prior to being presented for adoption, members should scrutinise the Treasury Management Strategy Statement (which includes the Annual Investment Strategy, the annual MRP Policy Statement, the annual Treasury Management Policy Statement and the Treasury Management Scheme of Delegation). This Authority's scheme of delegation charges the Audit Committee with this function.

2. The CIPFA Code of Practice on Treasury Management (Section 7) recommends that the Authority's Treasury Management Practices (TMPs) should be approved, documented and monitored. It goes on to state that the nature and extent of the involvement of an organisation's responsible body in approving and monitoring its TMPs and accompanying schedules is a matter for local decision and recognises that in some organisations this may be delegated to the responsible officer. In all cases it should be subjected to scrutiny by the responsible body following recommendations by the responsible officer. In previous years, this Authority did not have documented TMPs. The Authority have now produced documented TMPs, and are to be presented to this committee in a separate report in line with the Treasury Management Scheme of Delegation for 2016/17.

3. In terms of updates to the Treasury Management Strategy Statement the only proposed amendment to the core principals and policies of the 2016/17 Statement is to include Money Market Funds as an additional investment option to the Counterparty Criteria (Appendix 6) The reason for this is to create additional secure options for the Council's investments. Only AAA rated Money Market Funds will be used.

4. The Council's external borrowing stood at £110.7m as at 10 November 2016, this is expected to be the position at 31 March 2017. The borrowing is made up of fixed and variable rate. The fixed rate borrowing stood at £110.5m with an average life of 22 years, and average interest rate of 5.41%. The variable rate of borrowing stood at £0.2m with an average life of 9 years and an average interest rate of 9.41%. The anticipated cost of borrowing, which is the interest payable on existing loans, for 2016/17, is £6.0m for both the General Fund (£4.0m) and HRA (£2.0m).There will also be a Minimum Revenue Provision (MRP) charge, which is the revenue charge to pay off an element of the accumulated capital spend each year (Appendix 2). In 2016/17 this charge will be £4.4m for both the General Fund (£3.5m) and HRA (£0.9m). This means that the Capital Finance Requirement (the forecast underlying need to borrow to finance the capital programme) at the year end will be £135.5m, resulting in the Council being internally borrowed (see section 3.3.1) by £24.8m by the year end.

The Council's investments as at 10 November 2016 stood at £20.3m with an average rate of return of 0.33% and the average balance for the year to date is £20.8m. As internal borrowing has increased the investment balances have decreased.

5. Recommendations:

- To note the contents of this covering report;
- To endorse the Treasury Management Strategy Statement (including the Prudential and Treasury Management Indicators) [Annex A] for 2017/18; and
- To pass any recommendations and/or comments to the Executive Committee.

TREASURY MANAGEMENT STRATEGY STATEMENT

ANNUAL INVESTMENT STRATEGY, MINIMUM REVENUE PROVISION POLICY STATEMENT AND TREASURY MANAGEMENT POLICY STATEMENT 2017/18

1. Introduction

1.1 Background

The Council is required to operate a balanced budget, meaning that total income due during the financial year must be sufficient to meet expenditure, and also that actual cash inflows must be adequate to cover cash outflows. A key part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's policy to minimise risk ensuring adequate liquidity before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, debt previously drawn may be restructured to meet Council risk or cost objectives.

A particular point is that a local authority must calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that:-

- increases in revenue costs resulting from increases in interest charges, incurred to finance additional borrowing to finance capital expenditure; and
- any increases in running costs from new capital projects, must be limited to a level which is affordable within the Council's projected income.

The Treasury Management Policy Statement defines the policies and objectives of the treasury management activities. See Appendix 10.

1.2 Reporting Requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals. These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Audit Committee.

Prudential and Treasury Management Indicators and Treasury Strategy - The first and most important report, covers:-

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

A Mid-Year Treasury Management Report - This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting its objectives or whether any policies require revision.

An Annual Treasury Report - This provides details of a selection of actual prudential and treasury management indicators and actual treasury operations compared to the estimates within the strategy.

1.3 Treasury Management Strategy for 2017/18

The strategy for 2017/18 covers two main areas:-

Capital Issues

- The capital plans and the prudential indicators; and
- the minimum revenue provision (MRP) strategy.

Treasury management Issues

- The current treasury position;
- treasury management indicators which will limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Welsh Government MRP Guidance, the CIPFA Treasury Management Code and the Welsh Government Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. In order to support the scrutiny role of the members of the Audit Committee, the committee's members received training in treasury management, delivered by the appointed treasury management consultants on November 9 2016. Further training will be arranged when required.

The training needs of treasury management officers are regularly reviewed and addressed.

1.5 Treasury management consultants

The Council uses Capita Asset Services, – Treasury Solutions (herein referred to as Capita)as its external treasury management advisors. In accordance with procurement regulations the Treasury Management advisory service were advertised for tender for the period 1 April 2016 to 31 March 2019 with an option to extend for 2 years, with Capita Asset Services being the succesful tender.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

1.6 Adoption of the Code

The Council is required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The current, 2011, code of practice has already been adopted by this Council therefore no update is required for 2016/17. In addition the authority follows guidance in the CIPFA Prudential Code 2013 which supplements the CIPFA code of practice on Treasury Management.

2. Capital Considerations

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

The Authority's capital expenditure projections for 2016/17 to 2019/20 are reflected in the Prudential Indicators (Appendix 11). The projected expenditure for 2017/18 to 2019/20 is based on the draft capital programme recommended for approval by The Executive at its's meeting 7 November 2016 in accordance with the Capital Strategy. The projections for those years also includes the assumption that slippage from 2016/17 will be fully spent in 2017/18.

The overall programmes will be limited to what is affordable, both in terms of actual capital spend and in terms of the revenue implications (see 1.1 above). The prudential indicators are contained in Appendix 11.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need, which can be seen in table 3.1.

Capital expenditure £'000m	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Non-HRA	16,368	30,911	35,797	38,573	29,031
HRA	27,608	12,151	9,889	7,283	7,523
Total	**43,976**	**43,062**	**45,602**	**45,856**	**36,554**
Financed by:					
Capital receipts	3,818	6,585	1,763	500	500
Capital grants	13,998	14,375	24,942	33,685	24,450
Capital reserves	115	888	1,070	0	0
Revenue	2,905	8,936	9,377	4,618	4,858
Net financing need for the year	**23,140**	**12,278**	**8,450**	**7,053**	**6,746**

3. Borrowing

The capital expenditure plans, set out in section 2 (above) of this report, provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current and Projected Borrowing Requirement and Actual Borrowing

The forecast movements in the Council's capital financing requirement (CFR) are:-

ESTIMATED MOVEMENTS IN THE CAPITAL FINANCING REQUIREMENT AND REPLACEMENT BORROWING 2016/17 TO 2019/20				
	2016/17 Projected £'000	**2017/18 Estimate £'000**	**2018/19 Estimate £'000**	**2019/20 Estimate £'000**
Movement in the CFR				
New borrowing to support capital expenditure				
Supported Borrowing	*6,375*	*3,472*	*3,416*	*3,339*
Unsupported Borrowing	*5,903*	*4,978*	*3,637*	*3,407*
Total	**12,278**	**8,450**	**7,053**	**6,746**
Reduce by: Minimum Revenue Provision and set aside capital receipts	(4,455)	(4,688)	(4,718)	(4,762)
Net movement in the CFR	**7,823**	**3,762**	**2,335**	**1,984**
Potential movements in actual borrowing				
Movement in the CFR (above)	-	**3,762**	**2,335**	**1,984**
Externalisation of pre 2017/18 internal borrowing	-	24,740	**-**	**-**
Replacement Borrowing	**-**	5,509	5,010	5,011
Total potential new borrowing	**-**	**34,011**	**7,345**	**6,995**

3.2 Prospects for Interest Rates

The Council's appointed treasury advisor is Capita Asset Services and part of their service is to assist the Council to formulate a view on interest rates. Appendix 3 draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Capita central view.

Annual Average (%)	Bank Rate (%)	PWLB Borrowing Rates (including certainty rate adjustment)		
		5 year	25 year	50 year
December 2016	0.25	1.60	2.90	2.70
March 2017	0.25	1.60	2.90	2.70
June 2017	0.25	1.60	2.90	2.70
September 2017	0.25	1.60	2.90	2.70
December 2017	0.25	1.60	3.00	2.80
March 2018	0.25	1.70	3.00	2.80
June 2018	0.25	1.70	3.00	2.80
September 2018	0.25	1.70	3.10	2.90
December 2018	0.25	1.80	3.10	2.90
March 2019	0.25	1.80	3.20	3.00
June 2019	0.50	1.90	3.20	3.00
September 2019	0.50	1.90	3.30	3.10
December 2019	0.75	2.00	3.30	3.10
March 2020	0.75	2.00	3.40	3.20

The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, Bank Rate was not cut again in November and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively penciled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected that at some point, there would be a start to a switch back from bonds to equities after a historic long term trend over about the last twenty five years of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial quantitative easing purchases of bonds, added further impetus to this downward trend in bond yields and rising prices of bonds. The opposite side of this coin has been a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election, has called into question whether, or when, this trend has, or may, reverse, especially when America is likely to lead the way in reversing monetary policy. Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as strong economic growth becomes more firmly established. The expected substantial rise in the Fed. rate over the next few years may make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US would be likely to exert some upward pressure on bond yields in other developed countries but the degree of that upward pressure is likely to be dampened by how strong, or weak, the prospects for economic growth and rising inflation are in each country, and on the degree of progress in the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.

The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

Apart from the above uncertainties, downside risks to current forecasts for UK gilt yields and PWLB rates currently include:-

- Monetary policy action by the central banks of major economies reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some countries, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Major national polls:
- Italian constitutional referendum 4.12.16;
- Spain has a minority government with only 137 seats out of 350 after already having had two inconclusive general elections in 2015 and 2016. This is potentially highly unstable.
- Dutch general election 15.3.17;
- French presidential election April/May 2017;
- French National Assembly election June 2017;
- German Federal election August – October 2017.
- A resurgence of the Eurozone sovereign debt crisis, with Greece being a particular problem, and stress arising from disagreement between EU countries on free movement of people and how to handle a huge influx of immigrants and terrorist threats
- Weak capitalisation of some European banks, especially Italian.
- Geopolitical risks in Europe, the Middle East and Asia, causing a significant increase in safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.

- Weak growth or recession in the UK's main trading partners - the EU and US.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates, include: -

- UK inflation rising to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium in gilt yields.
- A rise in US Treasury yields as a result of Fed. funds rate increases and rising inflation expectations in the USA, dragging UK gilt yields upwards.
- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- A downward revision to the UK's sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).

Investment and borrowing rates

Investment returns are likely to remain low during 2017/18 and beyond;

Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically phenomenally low levels after the referendum and then even further after the MPC meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have since risen sharply due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling, and an increase in inflation expectations. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times when authorities will not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt;

There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

3.3 Borrowing Strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This approach is prudent as investment returns are low and counterparty risk is high, and will continue to be followed where appropriate (see 3.3.1 below for a more detailed consideration of internal and external borrowing). As part of this strategy the ability to externally borrow to repay the reserves and balances if needed is important. Table 3.1 indicates that £24.740m may need to be externally borrowed if urgently required. This is the amount of council reserves and balances used in the past to fund the capital programme instead of taking out borrowing.

Against this background and the risks within the economic forecast, caution will be adopted with the 2017/18 treasury operations. The S151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:-

- if it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered if it is cost effective to do so.

- If it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years

  Any decisions will be reported to this committee at the next available opportunity.

3.3.1 External v. internal borrowing

Current conditions indicate a need for a flexible approach to the choice between internal and external borrowing. Many of the factors which lay behind previous policies to externalise all borrowing remain valid, e.g.:-

- With a continuing historically abnormally low Bank Rate and PWLB rates, there remains a unique opportunity for local authorities to actively manage their strategy of undertaking new external borrowing.

However, it remains the case that there are certain limitations to this approach, as previously noted, e.g.:-

- The policy can cause exposure to credit risk (e.g. risk of the bank defaulting on the debt), so this aspect must be very carefully managed;
- Careful on going consideration needs to be given to the difference between borrowing rates and investment rates to ensure the Council obtains value for money once an appropriate level of risk management has been attained to ensure the security of its investments.

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

However, short term savings by avoiding new long term external borrowing in 2016/17 must also be weighed against the potential for incurring additional long term extra costs, by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be higher. Additionally, the cash flow implications of internalising borrowing require regular review and will limit the potential extent of internalising borrowing.

Against this background, caution will be adopted with the 2017/18 treasury operations. The S151 Officer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the appropriate decision making body at the earliest opportunity.

3.4 Policy on borrowing in advance of need

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

In determining whether borrowing will be undertaken in advance of need the Council will:-

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need;
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets, have been considered;
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- consider the advantages and disadvantages of alternative forms of funding;
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use; and
- consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

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

3.5 Debt Rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (i.e. premiums incurred).

The reasons for any rescheduling to take place will include:-

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

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the Audit Committee, at the earliest practicable meeting following its action. A recent review of this highlighted that it would cost the council more to reschedule debt than it would save in interest due to significant early repayment premiums imposed by the PWLB.

4. Annual Investment Strategy

4.1 Investment Policy

The Council's investment policy has regard to the Welsh Government's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross-Sectorial Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, and then return.

In accordance with the above guidance from the Welsh Government and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

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

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

Investment instruments identified for use in the financial year are listed in Appendix 5 under the 'specified' and 'non-specified' investments categories.

The Council will also from time to time, make loans, deposits and investments 'for the purpose of delivery of its Service's (policy investments). These transactions will require the authority of the County Council for amounts over £100k. All transactions will be subject to adequate credit quality and the approval of the Section 151 Officer in consultation with the Portfolio Holder for Finance.

4.2 Creditworthiness policy

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:-

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The S151 Officer will maintain a counterparty list in compliance with the criteria set out in Appendix 6 and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by Capita Asset Services, our treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the Capita creditworthiness service.

As an additional layer to the minimum credit rating criteria described above, this Council also employs the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:-

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

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads from which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council at the discretion of the S151 Officer, to assist in determining the duration for investments. The Council will, therefore, normally use counterparties within the following durational bands:-

- Yellow 5 years *
- Dark pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

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

Reference will also be made to other market data and market information, as available and as appropriate.

4.3 Country limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 7. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

4.4 Investment Strategy

In-house funds*:* . Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment returns expectations: Bank Rate is forecast to stay flat at 0.25% until quarter 2 2019 and not to rise above 0.75% by quarter 1 2020. Bank Rate forecasts for financial year ends (March) are:

- 2016/17 0.25%
- 2017/18 0.25%
- 2018/19 0.25%
- 2019/20 0.50%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next eight years are as follows:-
2017/18 0.25%
2018/19 0.25%
2019/20 0.50%
2020/21 0.75%
2021/22 1.00%
2022/23 1.50%
2023/24 1.75%
Later years 2.75%

The overall balance of risks to these forecasts is currently probably slightly skewed to the downside in view of the uncertainty over the final terms of Brexit. If growth expectations disappoint and inflationary pressures are minimal, the start of increases in Bank Rate could be pushed back. On the other hand, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk i.e. Bank Rate increases occur earlier and / or at a quicker pace.

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest

4.5 End of Year Investment Report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

4.6 External Fund Managers

The Council has not appointed external fund managers. The need for this will be kept under review and a reported as appropriate before such an appointment is made.

4.7 Policy on the use of External Service Providers

In order to acquire access to specialist skills and resources, the Council uses Capita Assets Services as its external treasury management advisors. The terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

Final responsibility for treasury management decisions remains with the Council.

4.8 Delegation

The Treasury Management scheme of delegation and the role of the Section 151 Officer are outlined in Appendix 8.

APPENDICES

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

DADANSODDIAD BENTHYCIADAU YN AEDDFEDU 2016/17 YMLAEN / LOANS MATURITY ANALYSIS 2016/17 ONWARDS						
	PWLB Aeddefedu/ PWLB Maturity £'000	**PWLB EIP/ Annuity/ PWLB EIP/ Annuity £'000**	**Benthyciadau Marchnad/ Market Loans £'000**	**PWLB Amrywiol/ PWLB Variable £'000**	**Cyfanswm yn Aeddfedu/ Total Maturing £'000**	**%Yn Aeddfedu o'r Cyfran yn sefyll/ Maturing of Total Outstanding %**
2016/17	0	4	0	0	4	0.0
2017/18	5,500	9	0	0	5,509	5.0
2018/19	5,000	10	0	0	5,010	4.5
2019/20	5,000	11	0	0	5,011	4.5
2020/21	4,500	12	0	0	4,512	4.1
2021/22	0	14	0	0	14	0.0
2022/23	2,285	15	0	0	2,300	1.7
2023/24	1,854	16	0	0	1,870	2.1
2024/25	0	18	0	0	18	0.0
2025/26	0	20	0	0	20	0.0
2026/27	1,381	22	0	0	1,403	1.3
2027/28	2,165	24	0	0	2,189	2.0
2028/29	262	26	0	0	288	0.3
2029/30	1,538	21	0	0	1,559	1.4
2030/31	451	15	0	0	466	0.4
2031/32	1,941	9	0	0	1,950	1.8
2032/33	315	8	0	0	323	0.3
2033/34	637	0	0	0	637	0.6
2034/35	624	0	0	0	624	0.6
2035/36	611	0	0	0	611	0.6
2036/37	599	0	0	0	599	0.5
2037/38	587	0	0	0	587	0.5
2038/39	225	0	0	0	225	0.2
2039/40	5,000	0	0	0	5,000	4.5
2040/41	3,500	0	0	0	3,500	3.2
2042/43	1,000	0	0	0	1,000	0.9
2043/44	1,020	0	0	0	1,020	0.9
2044/45	1,010	0	0	0	1,010	0.9
2045/46	11,464	0	0	0	11,464	10.3
2050/51	2,000	0	0	0	2,000	1.8
2052/53	28,238	0	0	0	28,238	25.4
2054/55	3,000	0	0	0	3,000	2.7
2055/56	3,500	0	0	0	3,500	3.2
2056/57	5,000	0	0	0	5,000	4.5
2057/58	8,513	0	0	0	8,513	7.7
2059/60	1,763	0	0	0	1,763	1.6
	110,483	**255**	**0**	**0**	**110,739**	**100.0**
Cyfartaledd bywyd (blynyddoedd)/ Average life(years)	22.31	8.80	0.00	0.00	22.27	
Cyfartaledd graddfa (%)/ Average rate (%)	5.41	9.41	0.00	0.00	5.42	

Minimum Revenue Provision Policy Statement 2017/18

The Council is required to pay off an element of the accumulated Council Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision (MRP)), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision (VRP)).

The Welsh Government regulations require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:-

For capital expenditure incurred before 1 April 2008 or for capital expenditure from 1 April 2008 financed supported capital expenditure for Revenue Support Grant purposes, the MRP policy will be to charge 4% of the CFR at the end of the preceding year (in accordance with option 2 of the statutory guidance).

From 1st April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be the Asset Life method, with the MRP based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (in accordance with option 3 of the statutory guidance). The estimated life periods will be set by the S151 Officer based upon advice received from the relevant officers.

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

The Housing Revenue Account share of the CFR is subject to a 2% MRP charge, based upon the closing CFR for the previous year, in line with the approved 30 year business plan.

Any repayments included in annual PFI or finance leases are applied as MRP.

Rhagolygon Graddfeydd Llog 2016/2019
Interest Rate Forecasts 2016/2019

PWLB rates and forecast shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Capita Asset Services Interest Rate View													
	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Dec-19	Mar-20
Bank Rate View	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.75%	0.75%
3 Month LIBID	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.40%	0.50%	0.60%	0.80%	0.90%
6 Month LIBID	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.50%	0.60%	0.70%	0.90%	1.00%
12 Month LIBID	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.80%	0.90%	1.00%	1.10%	1.30%	1.40%
5yr PWLB Rate	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	2.00%	2.00%
10yr PWLB Rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.70%
25yr PWLB Rate	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%
50yr PWLB Rate	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%
Bank Rate													
Capita Asset Services	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.75%	0.75%
Capital Economics	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.75%
5yr PWLB Rate													
Capita Asset Services	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	2.00%	2.00%
Capital Economics	1.60%	1.70%	1.80%	1.90%	1.95%	2.05%	2.20%	2.30%	2.40%	2.60%	2.80%	3.20%	3.30%
10yr PWLB Rate													
Capita Asset Services	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.70%
Capital Economics	2.30%	2.35%	2.45%	2.50%	2.55%	2.60%	2.70%	2.70%	2.80%	3.00%	3.20%	3.60%	3.70%
25yr PWLB Rate													
Capita Asset Services	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%
Capital Economics	2.90%	3.00%	3.05%	3.10%	3.15%	3.25%	3.30%	3.35%	3.45%	3.55%	3.75%	4.15%	4.35%
50yr PWLB Rate													
Capita Asset Services	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%
Capital Economics	2.80%	2.85%	2.95%	3.00%	3.05%	3.10%	3.15%	3.20%	3.30%	3.50%	3.70%	4.10%	4.20%

Rhan o gyngor dderbyniwyd gan / An extract from advice received from: Capita Asset Services

Economic Background

United Kingdom

GDP growth rates in 2013, 2014 and 2015 of 2.2%, 2.9% and 1.8% were some of the strongest rates among the G7 countries. Growth is expected to have strengthened in 2016 with the first three quarters coming in respectively at +0.4%, +0.7% and +0.5%. The latest Bank of England forecast for growth in 2016 as a whole is +2.2%. The figure for quarter 3 was a pleasant surprise which confounded the downbeat forecast by the Bank of England in August of only +0.1%, (subsequently revised up in September, but only to +0.2%). During most of 2015 and the first half of 2016, the economy had faced headwinds for exporters from the appreciation of sterling against the Euro, and weak growth in the EU, China and emerging markets, and from the dampening effect of the Government's continuing austerity programme.

The referendum vote for Brexit in June 2016 delivered an immediate shock fall in confidence indicators and business surveys at the beginning of August, which were interpreted by the Bank of England in its August Inflation Report as pointing to an impending sharp slowdown in the economy. However, the following monthly surveys in September showed an equally sharp recovery in confidence and business surveys so that it is generally expected that the economy will post reasonably strong growth numbers through the second half of 2016 and also in 2017, albeit at a slower pace than in the first half of 2016.

The Monetary Policy Committee, (MPC), meeting of 4th August was therefore dominated by countering this expected sharp slowdown and resulted in a package of measures that included a cut in Bank Rate from 0.50% to 0.25%, a renewal of quantitative easing, with £70bn made available for purchases of gilts and corporate bonds, and a £100bn tranche of cheap borrowing being made available for banks to use to lend to businesses and individuals.

The MPC meeting of 3 November left Bank Rate unchanged at 0.25% and other monetary policy measures also remained unchanged. This was in line with market expectations, but a major change from the previous quarterly Inflation Report MPC meeting of 4 August, which had given a strong steer, in its forward guidance, that it was likely to cut Bank Rate again, probably by the end of the year if economic data turned out as forecast by the Bank.

The latest MPC decision included a forward view that Bank Rate could go either up or down depending on how economic data evolves in the coming months. Our central view remains that Bank Rate will remain unchanged at 0.25% until the first increase to 0.50% in quarter 2 2019 (unchanged from our previous forecast). However, we would not, as yet, discount the risk of a cut in Bank Rate if economic growth were to take a significant dip downwards, though we think this is unlikely. We would also point out that forecasting as far ahead as mid 2019 is highly fraught as there are many potential economic headwinds which could blow the UK economy one way or the other as well as political developments in the UK, (especially over the terms of Brexit), EU, US and beyond, which could have a major impact on our forecasts.

The pace of Bank Rate increases in our forecasts has been slightly increased beyond the three year time horizon to reflect higher inflation expectations.

The August quarterly Inflation Report was based on a pessimistic forecast of near to zero GDP growth in quarter 3 i.e. a sharp slowdown in growth from +0.7% in quarter 2, in reaction to the shock of the result of the referendum in June. However, consumers have very much stayed in a 'business as usual' mode and there has been no sharp downturn in spending; it is consumer expenditure that underpins the services sector which comprises about 75% of UK GDP. After a fairly flat three months leading up to October, retail sales in October surged at the strongest rate since September 2015. In addition, the GfK consumer confidence index has recovered quite strongly to -3 in October after an initial sharp plunge in July to -12 in reaction to the referendum result.

Bank of England GDP forecasts in the November quarterly Inflation Report were as follows, (August forecasts in brackets) - 2016 +2.2%, (+2.0%); 2017 1.4%, (+0.8%); 2018 +1.5%, (+1.8%). There has, therefore, been a sharp increase in the forecast for 2017, a marginal increase in 2016 and a small decline in growth, now being delayed until 2018, as a result of the impact of Brexit.

Capital Economics' GDP forecasts are as follows: 2016 +2.0%; 2017 +1.5%; 2018 +2.5%. They feel that pessimism is still being overdone by the Bank and Brexit will not have as big an effect as initially feared by some commentators.

The Chancellor has said he will do 'whatever is needed' i.e. to promote growth; there are two main options he can follow – fiscal policy e.g. cut taxes, increase investment allowances for businesses, and/or increase government expenditure on infrastructure, housing etc. This will mean that the PSBR deficit elimination timetable will need to slip further into the future as promoting growth, (and ultimately boosting tax revenues in the longer term), will be a more urgent priority. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting to boost economic growth and suggested that the Government would need to help growth e.g. by increasing investment expenditure and by using fiscal policy tools. The newly appointed Chancellor, Phillip Hammond, announced, in the aftermath of the referendum result and the formation of a new Conservative cabinet, that the target of achieving a budget surplus in 2020 would be eased in the Autumn Statement on 23 November.

The other key factor in forecasts for Bank Rate is inflation where the MPC aims for a target for CPI of 2.0%. The November Inflation Report included an increase in the peak forecast for inflation from 2.3% to 2.7% during 2017; (Capital Economics are forecasting a peak of 3.2% in 2018). This increase was largely due to the effect of the sharp fall in the value of sterling since the referendum, (16% down against the US dollar and 11% down against the Euro); this will feed through into a sharp increase in the cost of imports and materials used in production in the UK. However, the MPC is expected to look through the acceleration in inflation caused by external, (outside of the UK), influences, although it has given a clear warning that if wage inflation were to rise significantly as a result of these cost pressures on consumers, then they would take action to raise Bank Rate.

What is clear is that consumer disposable income will come under pressure, as the latest employers' survey is forecasting median pay rises for the year ahead of only 1.1% at a time when inflation will be rising significantly higher than this. The CPI figure for October surprised by under shooting forecasts at 0.9%. However, producer output prices rose at 2.1% and core inflation was up at 1.4%, confirming the likely future upwards path.

Gilt yields, and consequently PWLB rates, have risen sharply since hitting a low point in mid-August. There has also been huge volatility during 2016 as a whole. The year started with 10 year gilt yields at 1.88%, fell to a low point of 0.53% on 12 August, and have hit a peak on the way up again of 1.46% on 14 November. The rebound since August reflects the initial combination of the yield-depressing effect of the MPC's new round of quantitative easing on 4 August, together with expectations of a sharp downturn in expectations for growth and inflation as per the pessimistic Bank of England Inflation Report forecast, followed by a sharp rise in growth expectations since August when subsequent business surveys, and GDP growth in quarter 3 at +0.5% q/q, confounded the pessimism. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling.

Employment has been growing steadily during 2016, despite initial expectations that the referendum would cause a fall in employment. However, the latest employment data in November, (for October), showed a distinct slowdown in the rate of employment growth and an increase in the rate of growth of the unemployment claimant count. House prices have been rising during 2016 at a modest pace but the pace of increase has been slowing since the referendum; a downturn in prices could dampen consumer confidence and expenditure.

United States of America

The American economy had a patchy 2015 with sharp swings in the quarterly growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 at +0.8%, (on an annualised basis), and quarter 2 at 1.4% left average growth for the first half at a weak 1.1%. However, the first estimate for quarter 3 at 2.9% signalled a rebound to strong growth. The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase which is now strongly expected in December 2016. Overall, despite some data setbacks, the US is still, probably, the best positioned of the major world economies to make solid progress towards a combination of strong growth, full employment and rising inflation: this is going to require the central bank to take action to raise rates so as to make progress towards normalisation of monetary policy, albeit at lower central rates than prevailed before the 2008 crisis.

The result of the presidential election in November is expected to lead to a strengthening of US growth if Trump's election promise of a major increase in expenditure on infrastructure is implemented. This policy is also likely to strengthen inflation pressures as the economy is already working at near full capacity. In addition, the unemployment rate is at a low point verging on what is normally classified as being full employment. However, the US does have a substantial amount of hidden unemployment in terms of an unusually large, (for a developed economy), percentage of the working population not actively seeking employment.

Trump's election has had a profound effect on the bond market and bond yields have risen sharply in the week since his election. Time will tell if this is a temporary over reaction, or a reasonable assessment of his election promises to cut taxes at the same time as boosting expenditure. This could lead to a sharp rise in total debt issuance from the current level of around 72% of GDP towards 100% during his term in office. However, although the Republicans now have a monopoly of power for the first time since the 1920s, in having a President and a majority in both Congress and the Senate, there is by no means any certainty that the politicians and advisers he has been appointing to his team, and both houses, will implement the more extreme policies that Trump outlined during his election campaign. Indeed, Trump may even rein back on some of those policies himself.

The election does not appear likely to have much impact on the Fed. in terms of holding back further on increasing the Fed. Rate. Accordingly, the next rate rise is still widely expected to occur in December 2016, followed by sharper increases thereafter, which may also cause Treasury yields to rise further. If the Trump package of policies is fully implemented, there is likely to be a significant increase in inflationary pressures which could, in turn, mean that the pace of further Fed. Rate increases will be quicker and stronger than had been previously expected.

In the first week since the US election, there has been a major shift in investor sentiment away from bonds to equities, especially in the US. However, gilt yields in the UK and bond yields in the EU have also been dragged higher. Some commentators are saying that this rise has been an overreaction to the US election result which is likely to be reversed. Other commentators take the view that this could well be the start of the long expected eventual unwinding of bond prices propelled upwards to unrealistically high levels, (and conversely bond yields pushed down), by the artificial and temporary power of quantitative easing.

Eurozone
In the Eurozone, the ECB commenced, in March 2015, its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month. This was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March 2016 meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise significantly from low levels towards the target of 2%.

EZ GDP growth in the first three quarters of 2016 has been 0.5%, +0.3% and +0.3%, (+1.6% y/y). Forward indications are that economic growth in the EU is likely to continue at moderate levels. This has added to comments from many forecasters that those central banks in countries around the world which are currently struggling to combat low growth, are running out of ammunition to stimulate growth and to boost inflation. Central banks have also been stressing that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand and economic growth in their economies.

There are also significant specific political and other risks within the EZ: -

- Greece continues to cause major stress in the EU due to its tardiness and reluctance in implementing key reforms required by the EU to make the country more efficient and to make significant progress towards the country being able to pay its way – and before the EU is prepared to agree to release further bail out funds.
- Spain has had two inconclusive general elections in 2015 and 2016, both of which failed to produce a workable government with a majority of the 350 seats. At the eleventh hour on 31 October, before it would have become compulsory to call a third general election, the party with the biggest bloc of seats (137), was given a majority confidence vote to form a government. This is potentially a highly unstable situation, particularly given the need to deal with an EU demand for implementation of a package of austerity cuts which will be highly unpopular.
- The under capitalisation of Italian banks poses a major risk. Some German banks are also undercapitalised, especially Deutsche Bank, which is under threat of major financial penalties from regulatory authorities that will further weaken its capitalisation. What is clear is that national governments are forbidden by EU rules from providing state aid to bail out those banks that are at risk, while, at the same time, those banks are unable realistically to borrow additional capital in financial markets due to their vulnerable financial state. However, they are also ‘too big, and too important to their national economies, to be allowed to fail’.
- 4 December Italian constitutional referendum on reforming the Senate and reducing its powers; this has also become a confidence vote on Prime Minister Renzi who originally said he would resign if there is a ‘no’ vote, but has since back tracked on that in the light of adverse poll predictions. A rejection of these proposals would stop progress to fundamental political and economic reform which is urgently needed to deal with Italy’s core problems, especially low growth and a very high debt to GDP ratio of 135%. They are also intended to give Italy more stable government as no western European country has had such a multiplicity of governments since the Second World War as Italy, due to the equal split of power between the two chambers of the Parliament which are both voted in by the Italian electorate but by using different voting systems. It is unclear what the political, and other, repercussions could be if there is a ‘No’ vote.

- Dutch general election 15.3.17; a far right party is currently polling neck and neck with the incumbent ruling party. In addition, anti-big business and anti-EU activists have already collected two thirds of the 300,000 signatures required to force a referendum to be taken on approving the EU – Canada free trade pact. This could delay the pact until a referendum in 2018 which would require unanimous approval by all EU governments before it can be finalised. In April 2016, Dutch voters rejected by 61.1% an EU – Ukraine cooperation pact under the same referendum law. Dutch activists are concerned by the lack of democracy in the institutions of the EU.
- French presidential election; first round 13 April; second round 7 May 2017.
- French National Assembly election June 2017.
- German Federal election August – 22 October 2017. This could be affected by significant shifts in voter intentions as a result of terrorist attacks, dealing with a huge influx of immigrants and a rise in anti EU sentiment.
- The core EU, (note, not just the Eurozone currency area), principle of free movement of people within the EU is a growing issue leading to major stress and tension between EU states, especially with the Visegrad bloc of former communist states.

  Given the number and type of challenges the EU faces in the next eighteen months, there is an identifiable risk for the EU project to be called into fundamental question. The risk of an electoral revolt against the EU establishment has gained traction after the shock results of the UK referendum and the US Presidential election. But it remains to be seen whether any shift in sentiment will gain sufficient traction to produce any further shocks within the EU.

Asia

Economic growth in China has been slowing down and this, in turn, has been denting economic growth in emerging market countries dependent on exporting raw materials to China. Medium term risks have been increasing in China e.g. a dangerous build up in the level of credit compared to the size of GDP, plus there is a need to address a major over supply of housing and surplus industrial capacity, which both need to be eliminated. This needs to be combined with a rebalancing of the economy from investment expenditure to consumer spending. However, the central bank has a track record of supporting growth through various monetary policy measures, though these further stimulate the growth of credit risks and so increase the existing major imbalances within the economy.

Economic growth in Japan is still patchy, at best, and skirting with deflation, despite successive rounds of huge monetary stimulus and massive fiscal action to promote consumer spending. The government is also making little progress on fundamental reforms of the economy.

Emerging countries

There have been major concerns around the vulnerability of some emerging countries exposed to the downturn in demand for commodities from China or to competition from the increase in supply of American shale oil and gas reaching world markets. The ending of sanctions on Iran has also brought a further significant increase in oil supplies into the world markets. While these concerns have subsided during 2016, if interest rates in the USA do rise substantially over the next few years, (and this could also be accompanied by a rise in the value of the dollar in exchange markets), this could cause significant problems for those emerging countries with large amounts of debt denominated in dollars. The Bank of International Settlements has recently released a report that $340bn of emerging market corporate debt will fall due for repayment in the remaining two months of 2016 and in 2017 – a 40% increase on the figure for the last three years.

Financial markets could also be vulnerable to risks from those emerging countries with major sovereign wealth funds, that are highly exposed to the falls in commodity prices from the levels prevailing before 2015, especially oil, and which, therefore, may have to liquidate substantial amounts of investments in order to cover national budget deficits over the next few years if the price of oil does not return to pre-2015 levels.

Brexit timetable and process

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50
- March 2019: two-year negotiation period on the terms of exit. This period can be extended with the agreement of all members i.e. not that likely.
- UK continues as an EU member during this two-year period with access to the single market and tariff free trade between the EU and UK.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK may also exit without any such agreements.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On exit from the EU: the UK parliament would repeal the 1972 European Communities Act.
- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies.
- It is possible that some sort of agreement could be reached for a transitional time period for actually implementing Brexit after March 2019 so as to help exporters to adjust in both the EU and in the UK.

Specified and Non-Specified Investments

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

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

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

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

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

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

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

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

During 2017/18 the Council does not intend to make any investments in foreign currencies, nor any with low credit quality bodies, nor any that are defined as capital expenditure by legislation (such as company shares). Non-specified investments will therefore be limited to (i) long-term investments; and (ii) deposits with the Council's own banker for transactional purposes if it fails to meet the basic credit criteria; in this instance balances will be minimised as far as is possible

The table in Appendix 6 set out the investment criteria and limits for the categories of investments intended for use during 2017/18 and therefore form the basis for the approved lending list.

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

***** *Section 2.4 of the 'Guidance' defines a long term investment as ''any investment other than (a) one which is due to be repaid within 12 months of the date on which the investment was made or (b) one which the local authority may require to be repaid within that period.''*

****** *For the purposes of high credit quality the 'Guidance' states that ''for the purposes of paragraph 5.1(d), Welsh ministers recommend that the Strategy should define high credit quality (and where this definition refers to credit ratings, paragraph 6.1 (***) is relevant).'*

*** *Paragraph 6.1 of the 'Guidance' recommends that ''the Strategy should set out the authority's approach to assessing the risk of loss of investments, making clear in particular:*
- ***(a)*** *to what extent, if any, risk assessment is based upon credit ratings issued by one or more credit rating agencies;*
- ***(b)*** *where credit ratings are used, how frequently credit ratings are monitored and what action is to be taken when ratings change; and*
- ***(c)*** *what other sources of information on credit risk are used, additional to or instead of credit ratings.''*

The table in Appendix 6 of this strategy sets out what this Council defines as high credit quality and the associated investment criteria and limits and section 4.2 of this strategy sets out the Council's creditworthiness approach.

Counterparty Criteria

Category	Short Term Credit Rating (Fitch)	Short Term Credit Rating (Moody's)	Short Term Credit Rating (Standard & Poor's)	Long Term Credit Rating (Fitch)	Long Term Credit Rating (Moody's)	Long Term Credit Rating (Standard & Poor's)	Cash Limit	Time Limit
Bank and Building Societies (not nationalised or part nationalised)	**F1+**	**P-1**	**A-1+**	**AAA**	**Aaa**	**AAA**	**£10m**	**5 years**
	F1+	**P-1**	**A-1+**	**AA**	**Aa2**	**AA**	**£10m**	**3 years**
	F1+	**P-1**	**A-1+**	**AA-**	**Aa3**	**AA-**	**£10m**	**364 days**
	F1	**P-1**	**A-1**	**A**	**A2**	**A**	**£7.5m**	**6 months**
Nationalised / Part Nationalised UK Banks	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**£10m**	**364 days**
UK Central Government (irrespective of credit rating)	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**No maximum**	**No maximum**
UK Local Authorities**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**£5m**	**364 days**
Money Market Funds	**n/a**	**n/a**	**n/a**	**AAA**	**AAA**	**AAA**	**£5m**	**6 months**

* *as defined in the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003*

****** *as defined in the Local Government Act 2003*

Notes and Clarifications

(1) Cash Limit

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

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

(2) Time Limit

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

(3) Foreign Countries

(i) Investments in foreign countries will be limited to those that hold a sovereign credit rating of (Fitch) AA- or equivalent (from the agencies referred to in section 4.3 of this strategy) sovereign credit rating (based upon the lowest common denominator), and to a maximum of £10 million per foreign country.

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

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

(iv) Sovereign credit rating criteria and foreign country limits will not apply to investments in multilateral development banks (e.g. the European Investment Bank and the World Bank) or other supranational organisations (e.g. the European Union).

4. Credit Rating Downgrade

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

If the S151 Officer wishes to continue investing with that counterparty approval will be sought from the Chair of the Audit Committee plus one other member of the Chair's choosing, who both must approve the action. This will then be reported as appropriate at the next available opportunity.

Approved countries for investments [correct as at 25 October 2016]

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

AAA

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

AA+

- Finland
- Hong Kong
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Qatar
- U.K.

AA-

- Belgium

Treasury management scheme of delegation

(i) County Council

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

(ii) Executive Committee

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

(iii) Audit Committee

- Scrutiny of Treasury Management matters as required by CIPFA's Code of Practice on Treasury Management and the Council's Treasury Management Policy. This includes:-
  - scrutinising the annual Treasury Management Strategy Statement, Annual Investment Strategy, Annual MRP Policy, Annual Treasury Management Policy and Treasury Management Practices and making recommendations to the Executive Committee and County Council as appropriate;
  - scrutinising proposals for amendments to the annual Treasury Management Strategy Statement, Annual Investment Strategy, Annual MRP Policy, Annual Treasury Management Policy and Treasury Management Practices and to the adopted clauses and making recommendations to the Executive and County Council as appropriate;
  - receiving and scrutinising any other proposals relating to the treasury management which require a decision by the Executive or County Council; and
  - receiving and scrutinising monitoring reports on treasury management policies, practices and activities and make recommendations to the Executive and County Council as appropriate.

The Treasury Management role of the Section 151 Officer

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

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit; and
- recommending the appointment of external service providers.
- Responsibility for the execution and administration of its Treasury decisions, including decision on borrowing, investment and financing, have been delegated to the Section 151 Officer, who will act in accordance with the Council's policy statements and TMP's.

The CIPFA Treasury Management in the Public Services: Code of Practice

The key principles of CIPFA's ***Treasury Management in the Public Services: Code of Practice (2011 Edition)***, as described in Section 4 of that Code are as follows:-

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

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

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

The Code then goes on to say that:

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

"Even though it dates back to 1991, CIPFA considers that the report by the Treasury and Civil Service Committee of the House of Commons on the BCCI closure is still pertinent, wherein it was stated that:"

"In balancing risk against return, local authorities should be more concerned to avoid risks than to maximise returns."

"Indeed this view was supported by the Communities and Local Government Select Committee report into local authority investments in 2009."

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

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

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

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

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

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

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

3. The County Council/Executive Committee are responsible for the implementation of the Authority's treasury management policies and practices in accordance with the Treasury Management Scheme of Delegation. The S151 Officer is responsible for the execution and administration of treasury management decisions, who will act in accordance with the Authority's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

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

Treasury Management Policy Statement

1. CIPFA defines its treasury management activities as: "The management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks''.

2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

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PRUDENTIAL & TREASURY INDICATORS BUDGET SETTING 2017/18						**APPENDIX 11**
No.	**Indicator**					
Affordability		**2015/16 out-turn**	**2016/17 estimate**	**2017/18 proposal**	**2018/19 proposal**	**2019/20 proposal**
1,2	Estimates of [or actual] ratio of financing costs to net revenue stream:					
	Council Fund	6.26%	6.11%	6.50%	6.72%	6.89%
	Housing Revenue Account (inclusive of settlement)	23.14%	21.28%	19.38%	17.50%	15.99%
	Total	8.03%	7.76%	7.98%	8.04%	8.09%
3	Estimates of incremental impact of capital investment decisions on the Council Tax			£4.25	£22.00	£36.87
	for the Band D Council Tax					
4 a	Estimates of incremental impact of capital investment decisions on housing rents			£32.42	£18.83	£19.52
	on average weekly rent levels					
4 b	Estimates of incremental impact of capital borrowing on housing rents for HRA			£0.00	£0.00	£0.00
	on average weekly rent levels					
Prudence						
5	Gross debt and the Capital Financing Requirement (CFR)	✓	✓	✓	✓	✓
	Is the gross external debt < the CFR for the preceding year plus the estimates of any additional CFR for the current and the next two financial years?					
Capital Expenditure		**£000**	**£000**	**£000**	**£000**	**£000**
6,7	Estimates of [or actual] capital expenditure					
	Council Fund	16,368	30,911	35,713	38,573	29,031
	Housing Revenue Account	27,608	12,151	9,889	7,283	7,523
	Total	43,976	43,062	45,602	45,856	36,554
8,9	Estimates of [or actual] Capital Financing Requirement					
	Council Fund	84,291	92,982	97,594	100,762	103,563
	Housing Revenue Account	43,365	42,497	41,648	40,815	39,999
	Total	127,656	135,479	139,242	141,577	143,562
External Debt		**£000**	**£000**	**£000**	**£000**	**£000**
10	Authorised Limit					
	: General Borrowing	143,000	166,000	167,000	169,000	171,000
	: Other long term liabilities	2,000	3,000	3,000	3,000	3,000
	: Total	145,000	169,000	170,000	172,000	174,000

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11	HRA Limit on Indebtedness;					
	HRA Limit on Indebtedness	n/a	58,533	58,533	58,533	58,533
	HRA CFR	n/a	45,069	43,744	42,446	41,174
	HRA headroom	n/a	13,484	14,809	16,107	17,379
12	Operational Boundary					
	: General Borrowing	138,000	161,000	162,000	164,000	166,000
	: Other long term liabilities	2,000	3,000	3,000	3,000	3,000
	: Total	140,000	164,000	165,000	167,000	169,000
13	Actual External Debt	110,744				
Treasury Management		**2015/16 out-turn**	**2016/17 estimate**	**2017/18 proposal**	**2018/19 proposal**	**2019/20 proposal**
14	The Local Authority has adopted the CIPFA Code of Practice for Treasury Management in the Public Services	✓	✓	✓	✓	✓
		£000	**£000**	**£000**	**£000**	**£000**
15	Gross and net debt	100%	100%	100%	100%	100%
	The upper limit on the net debt as a proportion of gross debt					
16	The upper limit on fixed rate exposures:	143,000	166,000	167,000	169,000	171,000
	(net principal outstanding)					
17	The upper limit on variable rate exposures:	20,000	20,000	20,000	20,000	20,000
	(net principal outstanding)					
18	The limit for total principal sums invested for periods longer than 364 days	15,000	15,000	15,000	15,000	15,000
	(any long term investments carried forward from previous years will be included in each year's limit)					

			2016/17 upper limit	**2016/17 lower limit**
19	The upper and lower limits for the maturity structure of fixed rate borrowing			
	• under 12 months		20%	0%
	• 12 months and within 24 months		20%	0%
	• 24 months and within 5 years		50%	0%
	• 5 years and within 10 years		75%	0%
	• 10 years and above		100%	0%
			no change	no change

Glossary of and information on Prudential & Treasury Management indicators (References as per appendix 11)

Prudential Indicators

A) Affordability

1,2 Ratio of financing costs to net revenue stream

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

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

3. Incremental impact of capital investment decisions on council tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

4(a) Estimates of the incremental impact of capital investment decisions on housing rent levels

Similar to the council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

This indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls.

4(b) Estimates of incremental impact of capital borrowing on housing rents for HRA .

This indicator shows the additional cost of borrowing for HRA on rent amount.

B) Prudence

5. Gross Debt and the CFR

The Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2016/17 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

C) Capital expenditure

6,7. Estimates of Capital Expenditure

This is the forecast Capital Expenditure from 2016/17 to 2019/20, and is based on the Capital Programme for 2016/17 and the Capital Bids received for 2017/18.

8,9 The Council's borrowing need (the Capital Financing Requirement)

Another prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

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

CH) External Debt

10. The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

The S151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

11. HRA Limit on Indebtedness. As part of the HRA self-financing reform each Welsh local authority with responsibility for housing will be allocated a limit on indebtedness in relation to the HRA; this essentially places a limit on the HRA CFR (to be applied at 31st March each year). The gap between the two, if the CFR is within the limit, will be referred to as the borrowing headroom. The forecast account for the HRA settlement on the same basis as for the ratio in reference 2.

12. The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Treasury Management Indicators

Treasury management limits on activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:-

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates; and
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

ISLE OF ANGLESEY COUNTY COUNCIL	
REPORT TO:	**AUDIT COMMITTEE**
DATE:	**06 DECEMBER 2016**
SUBJECT:	**TREASURY MANAGEMENT MID-YEAR REVIEW REPORT 2016/17**
PORTFOLIO HOLDER(S):	**COUNCILLOR H E JONES**
HEAD OF SERVICE:	**MARC JONES (EXT. 2601)**
REPORT AUTHOR: TEL: E-MAIL:	**GARETH ROBERTS** **01248 752675** **GarethJRoberts@anglesey.gov.uk**
LOCAL MEMBERS:	**n/a**

1. Introduction

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, treasury management is defined as:-

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

2. Background

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

3. Receipt by the full Council of an Annual Treasury Management Strategy Statement, which includes the Annual Investment Strategy and Minimum Revenue Provision Policy for the year ahead, a Mid-year Review Report (this report) and an Annual Report, covering activities during the previous year.

4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:-

- An economic update for the first part of the 2016/17 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure (prudential indicators);
- A review of the Council's investment portfolio for 2016/17;
- A review of the Council's borrowing strategy for 2016/17;
- A review of any debt rescheduling undertaken during 2016/17;
- A summary of activity since Quarter 2;
- A look ahead to next year; and
- A review of compliance with Treasury and Prudential Limits for 2016/17.

3. Economic Update

3.1 The Council's treasury advisers provided a summary of the economic performance to date and outlook shortly after the end of the first quarter, and can be found in Appendix 1. They have also recently provided the following interest rate forecast:-

	Dec 2016	Mar 2017	Jun 2017	Sep 2017	Dec 2017	Mar 2018	Jun 2018
Bank Rate (%)	0.25	0.25	0.25	0.25	0.25	0.25	0.25
5yr PWLB rate (%)	1.60	1.60	1.60	1.60	1.60	1.70	1.70
10yr PWLB rate (%)	2.30	2.30	2.30	2.30	2.30	2.30	2.40
25yr PWLB rate (%)	2.90	2.90	2.90	2.90	3.00	3.00	3.00
50yr PWLB rate (%)	2.70	2.70	2.70	2.70	2.80	2.80	2.80

3.2 The Council's treasury advisers recently provided a commentary alongside the interest rate forecast above. This commentary can be found in Appendix 2.

3.3 Following the reduction in the interest rate, the projected investment income is less than the budget for 2016/17.

4. Treasury Management Strategy Statement and Annual Investment Strategy Update

4.1 The Treasury Management Strategy Statement (TMSS) for 2016/17 was approved by this Council on 10 March 2016. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position.

5. The Council's Capital Position (Prudential Indicators)

5.1 This part of the report is structured to update:-

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

5.2 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure in comparison to the capital budget.

Capital Expenditure	2016/17 Original Estimate £'000	Position as at 30 September 2016 £'000	2016/17 Current Estimate £'000
Council Fund	38,080	11,880	30,910
HRA	14,170	3,660	12,150
Total	52,250	15,540	43,060

5.2.1 The current estimate for capital expenditure is behind the original estimate mainly due to the Nanner Road Project coming in under the predicted cost and the online works are not as advanced as initially estimated, and the Holyhead & Llangefni Infrastructure still awaiting WEFO funding and it is not anticipated that any Capital Expenditure will be incurred this year. For a full breakdown on the Capital expenditure for 2016/17, please see the Capital Budget Monitoring Report that went to the Executive on 28 November 2016

5.3 Changes to the Financing of the Capital Programme

5.3.1 There are no significant changes to the financing of the capital programme to report at this stage.

5.3.2 The Table below shows the current estimate for the financing of the Capital Programme 2016/17 in comparison to the original forecast. The main difference relates to the funding for Capital Grants and Supported Borrowing, which is due to the funding arrangement of the 21st Century Schools programme for 2016/17. The Welsh Government funding is in the form of a Capital Grant and Supported Borrowing, and it was estimated that this would be split 50:50 in 2016/17. However, there is a greater weighting towards Supported Borrowing in 2016/17, meaning the Supported Borrowing has increased and Capital Grant has decreased. In future years it will be reversed with a greater weighting towards Capital Grant. This, along with the forecast under spend in the Holyhead & Llangefni Strategic Infrastructure and the forecast underspend in The New Highways to Wylfa Newydd, as previously stated, is the main reason the Capital Grant will be less in 2016/17.

Capital Financing	2016/17 Original Estimate £'000	2016/17 Revised Estimate £'000
Capital Grants	24,700	14,370
Capital Receipts	6,570	6,580
From Reserves	780	290
Revenue Contribution	10,680	8,940
Supported Borrowing	2,190	6,380
Unsupported Borrowing	6,730	5,900
Insurance	600	600
Total	**52,250**	**43,060**

5.4 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

5.4.1 The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary.

5.4.2 Prudential Indicator – Capital Financing Requirement

5.4.2.1 We are on target to achieve the original forecast Capital Financing Requirement.

5.4.3 Prudential Indicator – External Debt/the Operational Boundary

	2016/17 Original Estimate £000	CFR Position at 30 September 2016 £000
Prudential Indicator – Capital Financing Requirement		
CFR – Council Fund	95,748	92,981
CFR – HRA	43,529	42,498
Total CFR	139,277	135,479
Net movement in CFR	9,099	7,823
	2016/17 Original Estimate £'000	**Borrowing Position at 30 September 2016 £'000**
Prudential Indicator – External Debt/the Operational Boundary		
Borrowing	161,000	110,739
Other long term liabilities	3,000	Nil
Total debt 31 March	164,000	110,739

5.5 Limits to Borrowing Activity

5.5.1 The first key control over the treasury activity is a prudential indicator to ensure that, over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2016/17 and the next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2016/17 Original Estimate £'000	Position as at 30 September 2016 £'000
Gross borrowing	139,277	110,739
Plus other long term liabilities	Nil	Nil
Gross borrowing	139,277	110,739
CFR (year-end position)	139,277	n/a

5.5.2 It is not envisaged that there will be any difficulties for the current year in complying with this prudential indicator.

5.5.3 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members, currently £169m. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	2016/17 Original Indicator	Current Borrowing Position as at 30 September 2016 £'000
Borrowing	166,000	110,739
Other long term liabilities	3,000	Nil
Total	169,000	110,739

6. Investment Portfolio 2016/17

6.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 3, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.25% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis together with other risks which could impact on the creditworthiness of banks, prompts a low risk strategy. Given this risk environment, investment returns are likely to remain low.

6.2 The Council held £14.6m of investments as at 30 September 2016 (£16.2m at 31 March 2016) and the investment portfolio yield for the first six months of the year was 0.35%. A full list of investments as at 30th September 2016 can be found in Appendix 5. A summary of the investments and rates can be found in Appendix 4.

6.3 The approved limits within the Annual Investment Strategy were not breached during the first six months of 2016/17.

6.4 The Council's budgeted investment return for 2016/17 is £0.150m and performance for the year to date is not in line with the budget, with only £0.037m received to the end of Quarter 2. Due to the interest rate reduction that occurred during the first half of the year, the budgeted £0.150m will not be met in 2016/17.

6.5 The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

6.6 During the first six months of 2016/17, a fixed term investment matured from Nationwide Building Society for £5m on the 15 May 2016. This investment was rolled over with Nationwide Building Society for its full amount for a further three months to 16 August 2016 at a rate of 0.51%. Upon maturity at this date, the full amount was again rolled over with Nationwide Building Society for three months until 16 November 2016 at a rate of 0.28%.

6.7 During the first six months of 2016/17, the Isle of Anglesey County Council opened a deposit account with its main bank, National Westminster Bank plc. This deposit account is called Corporate Cash Manager, and the current interest rate on this account is 0.01%. This account will usually only be used when the balances on the other call accounts are at their maximum.

7. Borrowing

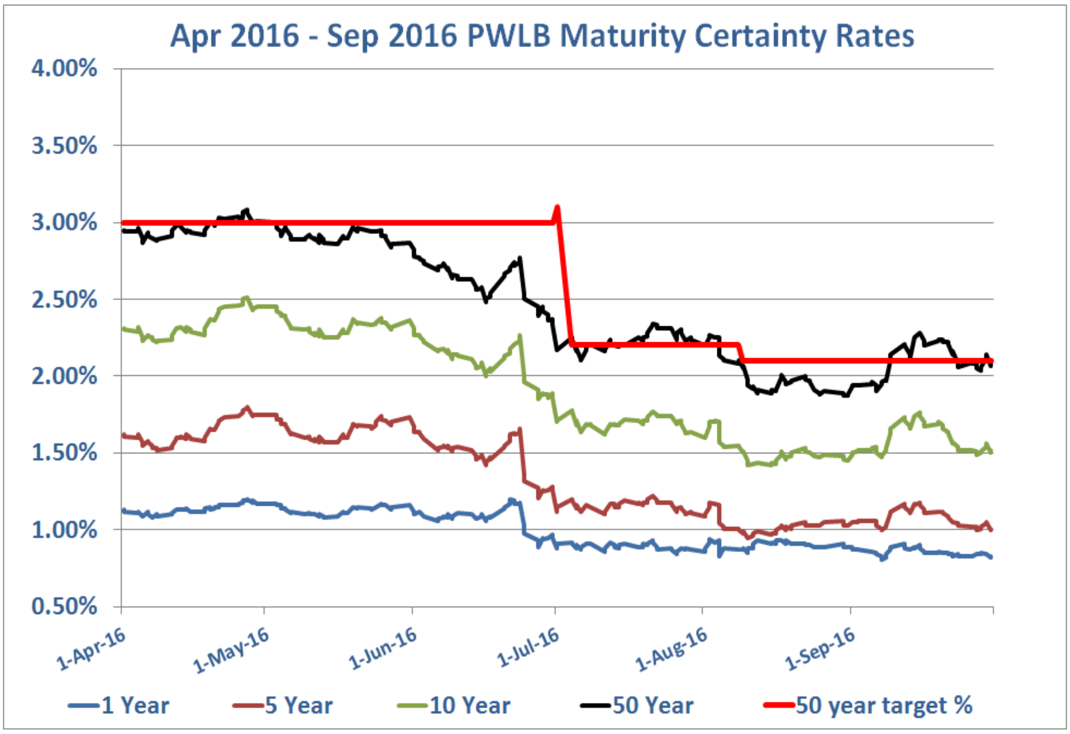
7.1 The projected capital financing requirement (CFR) for 2016/17 is £135.5m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive, the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The Council has projected year end borrowings of £110.7m and will have used £24.8m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

7.2 No borrowing was undertaken during the first half of this financial year.

7.3 As shown in the graph below, the general trend to date has been a sharp fall in interest rates in the current financial year. The graph and table below show the movement in PWLB certainty rates (which is when the government has reduced by 20 basis points 20 (0.20%) the interest rates on loans to principal local authorities (including the Isle of Anglesey County Council) who provide information as required on their plans for long-term borrowing and associated capital spending) for the first six months of the year to date:-

PWLB certainty rates 1 April 2016 to 30th September 2016

	1 Year	5 Year	10 Year	25 Year	50 Year
1/4/16	1.13%	1.62%	2.31%	3.14%	2.95%
30/9/16	0.83%	1.01%	1.26%	1.41%	1.66%
Low	0.81%	0.95%	1.42%	2.08%	1.87%
Date	07/09/2016	10/08/2016	10/08/2016	12/08/2016	30/08/2016
High	1.20%	1.80%	2.51%	3.28%	3.08%
Date	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016
Average	0.99%	1.33%	1.92%	2.69%	2.46%



8. Debt Rescheduling

8.1 Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year. An exercise was undertaken to determine if it would be worthwhile to reschedule some of the debt, however, it would not be cost effective as a premium charge will occur on all premature repayment of loan which is greater than the savings in interest payments that would be achieved.

9. Activity since Quarter

9.1 In addition to the normal transfers between call accounts designed to maximize Investment Income, since Quarter 2 the fixed term investment made with Nationwide Building Society (mentioned in section 6.6) for £5m at a rate of 0.28% matured on 16/11/16. This investment was not rolled over and was repaid to the Isle of Anglesey County Council. Since the end of the quarter, there has been a further investment made for £5m with Aberdeen City Council. The duration of this investment is 2 months from 18/10/16 to 16/12/16 at a rate of 0.22%.

10. Plans for next year

10.1 At its next meeting in February, this Committee will consider the plans for borrowing for the next financial year. The initial plans, according to the draft Capital Programme for 2017/18 are:-

- to use the required sum from the available general supported borrowing allocation of £2.203m, and £1.269m of specific supported borrowing for the 21st century schools programme; and
- to borrow £0.653m on an unsupported basis for the general fund capital schemes and £4.326m on the 21st century schools programme.

11. Recommendation

11.1 To consider the content of the report and forward any comments onto the Executive.

Perfformiad Economaidd hyd yma a'r rhagolygiad/ Economic performance to date and outlook

1. United Kingdom

GDP growth rates in 2013, 2014 and 2015 of 2.2%, 2.9% and 1.8% were some of the strongest rates among the G7 countries. Growth is expected to have strengthened in 2016 with the first three quarters coming in respectively at +0.4%, +0.7% and +0.5%. The latest Bank of England forecast for growth in 2016 as a whole is +2.2%. The figure for quarter 3 was a pleasant surprise which confounded the downbeat forecast by the Bank of England in August of only +0.1%, (subsequently revised up in September, but only to +0.2%). During most of 2015 and the first half of 2016, the economy had faced headwinds for exporters from the appreciation of sterling against the Euro, and weak growth in the EU, China and emerging markets, and from the dampening effect of the Government's continuing austerity programme.

The referendum vote for Brexit in June 2016 delivered an immediate shock fall in confidence indicators and business surveys at the beginning of August, which were interpreted by the Bank of England in its August Inflation Report as pointing to an impending sharp slowdown in the economy. However, the following monthly surveys in September showed an equally sharp recovery in confidence and business surveys so that it is generally expected that the economy will post reasonably strong growth numbers through the second half of 2016 and also in 2017, albeit at a slower pace than in the first half of 2016.

The Monetary Policy Committee, (MPC), meeting of 4th August was therefore dominated by countering this expected sharp slowdown and resulted in a package of measures that included a cut in Bank Rate from 0.50% to 0.25%, a renewal of quantitative easing, with £70bn made available for purchases of gilts and corporate bonds, and a £100bn tranche of cheap borrowing being made available for banks to use to lend to businesses and individuals.

The MPC meeting of 3 November left Bank Rate unchanged at 0.25% and other monetary policy measures also remained unchanged. This was in line with market expectations, but a major change from the previous quarterly Inflation Report MPC meeting of 4 August, which had given a strong steer, in its forward guidance, that it was likely to cut Bank Rate again, probably by the end of the year if economic data turned out as forecast by the Bank.

The latest MPC decision included a forward view that Bank Rate could go either up or down depending on how economic data evolves in the coming months. Our central view remains that Bank Rate will remain unchanged at 0.25% until the first increase to 0.50% in quarter 2 2019 (unchanged from our previous forecast). However, we would not, as yet, discount the risk of a cut in Bank Rate if economic growth were to take a significant dip downwards, though we think this is unlikely. We would also point out that forecasting as far ahead as mid 2019 is highly fraught as there are many potential economic headwinds which could blow the UK economy one way or the other as well as political developments in the UK, (especially over the terms of Brexit), EU, US and beyond, which could have a major impact on our forecasts.

The pace of Bank Rate increases in our forecasts has been slightly increased beyond the three year time horizon to reflect higher inflation expectations.

The August quarterly Inflation Report was based on a pessimistic forecast of near to zero GDP growth in quarter 3 i.e. a sharp slowdown in growth from +0.7% in quarter 2, in reaction to the shock of the result of the referendum in June. However, consumers have very much stayed in a 'business as usual' mode and there has been no sharp downturn in spending; it is consumer expenditure that underpins the services sector which comprises about 75% of UK GDP. After a fairly flat three months leading up to October, retail sales in October surged at the strongest rate since September 2015. In addition, the GfK consumer confidence index has recovered quite strongly to -3 in October after an initial sharp plunge in July to -12 in reaction to the referendum result.

Bank of England GDP forecasts in the November quarterly Inflation Report were as follows, (August forecasts in brackets) - 2016 +2.2%, (+2.0%); 2017 1.4%, (+0.8%); 2018 +1.5%, (+1.8%). There has, therefore, been a sharp increase in the forecast for 2017, a marginal increase in 2016 and a small decline in growth, now being delayed until 2018, as a result of the impact of Brexit.

Capital Economics' GDP forecasts are as follows: 2016 +2.0%; 2017 +1.5%; 2018 +2.5%. They feel that pessimism is still being overdone by the Bank and Brexit will not have as big an effect as initially feared by some commentators.

The Chancellor has said he will do 'whatever is needed' i.e. to promote growth; there are two main options he can follow – fiscal policy e.g. cut taxes, increase investment allowances for businesses, and/or increase government expenditure on infrastructure, housing etc. This will mean that the PSBR deficit elimination timetable will need to slip further into the future as promoting growth, (and ultimately boosting tax revenues in the longer term), will be a more urgent priority. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting to boost economic growth and suggested that the Government would need to help growth e.g. by increasing investment expenditure and by using fiscal policy tools. The newly appointed Chancellor, Phillip Hammond, announced, in the aftermath of the referendum result and the formation of a new Conservative cabinet, that the target of achieving a budget surplus in 2020 would be eased in the Autumn Statement on 23 November.

The other key factor in forecasts for Bank Rate is inflation where the MPC aims for a target for CPI of 2.0%. The November Inflation Report included an increase in the peak forecast for inflation from 2.3% to 2.7% during 2017; (Capital Economics are forecasting a peak of 3.2% in 2018). This increase was largely due to the effect of the sharp fall in the value of sterling since the referendum, (16% down against the US dollar and 11% down against the Euro); this will feed through into a sharp increase in the cost of imports and materials used in production in the UK. However, the MPC is expected to look through the acceleration in inflation caused by external, (outside of the UK), influences, although it has given a clear warning that if wage inflation were to rise significantly as a result of these cost pressures on consumers, then they would take action to raise Bank Rate.

What is clear is that consumer disposable income will come under pressure, as the latest employers' survey is forecasting median pay rises for the year ahead of only 1.1% at a time when inflation will be rising significantly higher than this. The CPI figure for October surprised by under shooting forecasts at 0.9%. However, producer output prices rose at 2.1% and core inflation was up at 1.4%, confirming the likely future upwards path.

Gilt yields, and consequently PWLB rates, have risen sharply since hitting a low point in mid-August. There has also been huge volatility during 2016 as a whole. The year started with 10 year gilt yields at 1.88%, fell to a low point of 0.53% on 12 August, and have hit a peak on the way up again of 1.46% on 14 November. The rebound since August reflects the initial combination of the yield-depressing effect of the MPC's new round of quantitative easing on 4 August, together with expectations of a sharp downturn in expectations for growth and inflation as per the pessimistic Bank of England Inflation Report forecast, followed by a sharp rise in growth expectations since August when subsequent business surveys, and GDP growth in quarter 3 at +0.5% q/q, confounded the pessimism. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling.

Employment has been growing steadily during 2016, despite initial expectations that the referendum would cause a fall in employment. However, the latest employment data in November, (for October), showed a distinct slowdown in the rate of employment growth and an increase in the rate of growth of the unemployment claimant count. House prices have been rising during 2016 at a modest pace but the pace of increase has been slowing since the referendum; a downturn in prices could dampen consumer confidence and expenditure.

2. United States of America

The American economy had a patchy 2015 with sharp swings in the quarterly growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 at +0.8%, (on an annualised basis), and quarter 2 at 1.4% left average growth for the first half at a weak 1.1%. However, the first estimate for quarter 3 at 2.9% signalled a rebound to strong growth. The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase which is now strongly expected in December 2016. Overall, despite some data setbacks, the US is still, probably, the best positioned of the major world economies to make solid progress towards a combination of strong growth, full employment and rising inflation: this is going to require the central bank to take action to raise rates so as to make progress towards normalisation of monetary policy, albeit at lower central rates than prevailed before the 2008 crisis.

The result of the presidential election in November is expected to lead to a strengthening of US growth if Trump's election promise of a major increase in expenditure on infrastructure is implemented. This policy is also likely to strengthen inflation pressures as the economy is already working at near full capacity. In addition, the unemployment rate is at a low point verging on what is normally classified as being full employment. However, the US does have a substantial amount of hidden unemployment in terms of an unusually large, (for a developed economy), percentage of the working population not actively seeking employment.

Trump's election has had a profound effect on the bond market and bond yields have risen sharply in the week since his election. Time will tell if this is a temporary over reaction, or a reasonable assessment of his election promises to cut taxes at the same time as boosting expenditure. This could lead to a sharp rise in total debt issuance from the current level of around 72% of GDP towards 100% during his term in office. However, although the Republicans now have a monopoly of power for the first time since the 1920s, in having a President and a majority in both Congress and the Senate, there is by no means any certainty that the politicians and advisers he has been appointing to his team, and both houses, will implement the more extreme policies that Trump outlined during his election campaign. Indeed, Trump may even rein back on some of those policies himself.

The election does not appear likely to have much impact on the Fed. in terms of holding back further on increasing the Fed. Rate. Accordingly, the next rate rise is still widely expected to occur in December 2016, followed by sharper increases thereafter, which may also cause Treasury yields to rise further. If the Trump package of policies is fully implemented, there is likely to be a significant increase in inflationary pressures which could, in turn, mean that the pace of further Fed. Rate increases will be quicker and stronger than had been previously expected.

In the first week since the US election, there has been a major shift in investor sentiment away from bonds to equities, especially in the US. However, gilt yields in the UK and bond yields in the EU have also been dragged higher. Some commentators are saying that this rise has been an overreaction to the US election result which is likely to be reversed. Other commentators take the view that this could well be the start of the long expected eventual unwinding of bond prices propelled upwards to unrealistically high levels, (and conversely bond yields pushed down), by the artificial and temporary power of quantitative easing.

3. Eurozone

In the Eurozone, the ECB commenced, in March 2015, its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month. This was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March 2016 meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise significantly from low levels towards the target of 2%.

EZ GDP growth in the first three quarters of 2016 has been 0.5%, +0.3% and +0.3%, (+1.6% y/y). Forward indications are that economic growth in the EU is likely to continue at moderate levels. This has added to comments from many forecasters that those central banks in countries around the world which are currently struggling to combat low growth, are running out of ammunition to stimulate growth and to boost inflation. Central banks have also been stressing that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand and economic growth in their economies.

There are also significant specific political and other risks within the EZ: -

- Greece continues to cause major stress in the EU due to its tardiness and reluctance in implementing key reforms required by the EU to make the country more efficient and to make significant progress towards the country being able to pay its way – and before the EU is prepared to agree to release further bail out funds.
- Spain has had two inconclusive general elections in 2015 and 2016, both of which failed to produce a workable government with a majority of the 350 seats. At the eleventh hour on 31 October, before it would have become compulsory to call a third general election, the party with the biggest bloc of seats (137), was given a majority confidence vote to form a government. This is potentially a highly unstable situation, particularly given the need to deal with an EU demand for implementation of a package of austerity cuts which will be highly unpopular.
- The under capitalisation of Italian banks poses a major risk. Some German banks are also undercapitalised, especially Deutsche Bank, which is under threat of major financial penalties from regulatory authorities that will further weaken its capitalisation. What is clear is that national governments are forbidden by EU rules from providing state aid to bail out those banks that are at risk, while, at the same time, those banks are unable realistically to borrow additional capital in financial markets due to their vulnerable financial state. However, they are also 'too big, and too important to their national economies, to be allowed to fail'.
- 4 December Italian constitutional referendum on reforming the Senate and reducing its powers; this has also become a confidence vote on Prime Minister Renzi who originally said he would resign if there is a 'no' vote, but has since back tracked on that in the light of adverse poll predictions. A rejection of these proposals would stop progress to fundamental political and economic reform which is urgently needed to deal with Italy's core problems, especially low growth and a very high debt to GDP ratio of 135%. They are also intended to give Italy more stable government as no western European country has had such a multiplicity of governments since the Second World War as Italy, due to the equal split of power between the two chambers of the Parliament which are both voted in by the Italian electorate but by using different voting systems. It is unclear what the political, and other, repercussions could be if there is a 'No' vote.
- Dutch general election 15.3.17; a far right party is currently polling neck and neck with the incumbent ruling party. In addition, anti-big business and anti-EU activists have already collected two thirds of the 300,000 signatures required to force a referendum to be taken on approving the EU – Canada free trade pact. This could delay the pact until a referendum in 2018 which would require unanimous approval by all EU governments before it can be finalised. In April 2016, Dutch voters rejected by 61.1% an EU – Ukraine cooperation pact under the same referendum law. Dutch activists are concerned by the lack of democracy in the institutions of the EU.

- French presidential election; first round 13 April; second round 7 May 2017.
- French National Assembly election June 2017.
- German Federal election August – 22 October 2017. This could be affected by significant shifts in voter intentions as a result of terrorist attacks, dealing with a huge influx of immigrants and a rise in anti EU sentiment.
- The core EU, (note, not just the Eurozone currency area), principle of free movement of people within the EU is a growing issue leading to major stress and tension between EU states, especially with the Visegrad bloc of former communist states.

Given the number and type of challenges the EU faces in the next eighteen months, there is an identifiable risk for the EU project to be called into fundamental question. The risk of an electoral revolt against the EU establishment has gained traction after the shock results of the UK referendum and the US Presidential election. But it remains to be seen whether any shift in sentiment will gain sufficient traction to produce any further shocks within the EU.

4. Asia

Economic growth in China has been slowing down and this, in turn, has been denting economic growth in emerging market countries dependent on exporting raw materials to China. Medium term risks have been increasing in China e.g. a dangerous build up in the level of credit compared to the size of GDP, plus there is a need to address a major over supply of housing and surplus industrial capacity, which both need to be eliminated. This needs to be combined with a rebalancing of the economy from investment expenditure to consumer spending. However, the central bank has a track record of supporting growth through various monetary policy measures, though these further stimulate the growth of credit risks and so increase the existing major imbalances within the economy.

Economic growth in Japan is still patchy, at best, and skirting with deflation, despite successive rounds of huge monetary stimulus and massive fiscal action to promote consumer spending. The government is also making little progress on fundamental reforms of the economy.

5. Emerging countries

There have been major concerns around the vulnerability of some emerging countries exposed to the downturn in demand for commodities from China or to competition from the increase in supply of American shale oil and gas reaching world markets. The ending of sanctions on Iran has also brought a further significant increase in oil supplies into the world markets. While these concerns have subsided during 2016, if interest rates in the USA do rise substantially over the next few years, (and this could also be accompanied by a rise in the value of the dollar in exchange markets), this could cause significant problems for those emerging countries with large amounts of debt denominated in dollars. The Bank of International Settlements has recently released a report that $340bn of emerging market corporate debt will fall due for repayment in the remaining two months of 2016 and in 2017 – a 40% increase on the figure for the last three years.

Financial markets could also be vulnerable to risks from those emerging countries with major sovereign wealth funds, that are highly exposed to the falls in commodity prices from the levels prevailing before 2015, especially oil, and which, therefore, may have to liquidate substantial amounts of investments in order to cover national budget deficits over the next few years if the price of oil does not return to pre-2015 levels.

Brexit timetable and process

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50
- March 2019: two-year negotiation period on the terms of exit. This period can be extended with the agreement of all members i.e. not that likely.
- UK continues as an EU member during this two-year period with access to the single market and tariff free trade between the EU and UK.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.

- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK may also exit without any such agreements.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On exit from the EU: the UK parliament would repeal the 1972 European Communities Act.
- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies.
- It is possible that some sort of agreement could be reached for a transitional time period for actually implementing Brexit after March 2019 so as to help exporters to adjust in both the EU and in the UK.

Rhan o gyngor dderbyniwyd gan / An extract from advice received from: Capita Asset Services

Sylwadau ar y rhagolygon diweddaraf ar raddfeydd llog/Commentary on the latest interest rates forecasts

We have updated our forecasts of 9 August to take into account the Bank of England quarterly Inflation Report for November 2016, the decision of the MPC meeting of 3 November, and the US Presidential election of 8 November. We also felt that we should allow financial markets to settle down for a few days after the result of that election, which provided a surprise outcome. We therefore undertook a review of our forecasts on 15 November.

Despite many ominous warnings that there could be significant turbulence in financial markets if Donald Trump won the election, markets have surprised by their lack of such a reaction. In fact, stock markets in America have hit a new record high in the first few days since the election. However, Treasury yields have risen sharply in expectation of a significant rise in inflation, as an economy which is already working near to full capacity could be in line for a significant boost to economic growth if Trump's expansion of infrastructure expenditure plans become a reality.

His plans to cut taxes, at the same time as boosting expenditure, could also lead to a sharp rise in total debt issuance from the current level of around 72% of GDP towards 100% during his term in office. However, although the Republicans now have a monopoly of power for the first time since the 1920s, in having a President and a majority in both Congress and the Senate, there is by no means any certainty that the politicians and advisers he has been appointing to his team, and both houses, will implement the more extreme policies that Trump outlined during his election campaign. Indeed, Trump may even rein back on some of those policies himself.

The MPC meeting of 3 November left Bank Rate unchanged at 0.25% and other monetary policy measures also remained unaltered. This was in line with market expectations, but a major change from the previous quarterly Inflation Report MPC meeting of 4 August, which had given a strong steer in its forward guidance that it was likely to cut Bank Rate again, probably by the end of the year if economic data turned out as forecast by the Bank.

The latest MPC decision included a forward view that Bank Rate could go either up or down depending on how economic data evolve in the coming months. Our central view remains that Bank Rate will remain unchanged at 0.25% until the first increase to 0.50% in June 2019 (unchanged from our previous forecast). However, we would not, as yet, discount the risk of a cut in Bank Rate if economic growth were to take a significant dip downwards, though we think this is unlikely. We would also point out that forecasting as far ahead as mid 2019 is highly fraught as there are many potential economic headwinds which could blow the UK economy one way or the other as well as political developments in the UK, (especially over the terms of Brexit), EU, US and beyond, which could have a major impact on our forecasts.

The pace of Bank Rate increases in our forecasts has been slightly increased beyond the three year time horizon to reflect higher inflation expectations.

The August quarterly Inflation Report was based on a pessimistic forecast of near to zero GDP growth in quarter 3 i.e. a sharp slowdown in growth from +0.7% in quarter 2, in reaction to the shock of the result of the referendum in June. However, consumers have very much stayed in a 'business as usual' mode and there has been no sharp downturn in spending; it is consumer expenditure that underpins the services sector which comprises about 75% of UK GDP. After a fairly flat three months leading up to October, retail sales in October surged at the strongest rate since September 2015. In addition, the GfK consumer confidence index has recovered quite strongly to -3 in October after an initial sharp plunge in July to -12 in reaction to the referendum result.

Bank of England GDP forecasts in the November quarterly Inflation Report were as follows, (August forecasts in brackets) - 2016 +2.2%, (+2.0%); 2017 1.4%, (+0.8%); 2018 +1.5%, (+1.8%). There has, therefore, been a sharp increase in the forecast for 2017, a marginal increase in 2016 and a small decline in growth, now being delayed until 2018, as a result of the impact of Brexit.

Capital Economics' forecasts for economic growth are as follows: 2016 +2.0%; 2017 +1.5%; 2018 +2.5%. They feel that pessimism is still being overdone by the Bank and Brexit will not have as big an effect as initially feared by some commentators.

The other key factor in forecasts for Bank Rate is inflation where the MPC aims for a target for CPI of 2.0%. The November Inflation Report included an increase in the peak forecast for inflation from 2.3% to 2.7% during 2017; (Capital Economics are forecasting a peak of 3.2% in 2018). This increase was largely due to the effect of the sharp fall in the value of sterling since the referendum, (16% down against the US dollar and 11% down against the Euro); this will feed through into a sharp increase in the cost of imports and materials used in production in the UK. However, the MPC is expected to look through the acceleration in inflation caused by external, (outside of the UK), influences, although it has given a clear warning that if wage inflation were to rise significantly as a result of these cost pressures on consumers, then they would take action to raise Bank Rate.

What is clear is that consumer disposable income will come under pressure, as the latest employers' survey is forecasting median pay rises for the year ahead of only 1.1% at a time when inflation will be rising significantly higher than this. The CPI figure for October surprised by under shooting forecasts at 0.9%. However, producer output prices rose at 2.1% and core inflation was up at 1.4%, confirming the likely future upwards path.

Gilt yields, and consequently PWLB rates, have risen sharply since hitting a low point in mid-August. There has also been huge volatility during 2016 as a whole. The year started with 10 year gilt yields at 1.88%, fell to a low point of 0.53% on 12 August, and have hit a peak on the way up again of 1.46% on 14 November. The rebound since August reflects the initial combination of the yield-depressing effect of the MPC's new round of quantitative easing on 4 August, together with expectations of a sharp downturn in expectations for growth and inflation as per the pessimistic Bank of England Inflation Report forecast, followed by a sharp rise in growth expectations since August when subsequent business surveys, and GDP growth in quarter 3 at +0.5% q/q, confounded the pessimism. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling.

The Chancellor has said he will do 'whatever is needed' i.e. to promote growth; there are two main options he can follow – fiscal policy e.g. cut taxes, increase investment allowances for businesses and/or increase government expenditure on infrastructure, housing etc. This will mean that the PSBR deficit elimination timetable will need to slip further into the future as promoting growth, (and ultimately boosting tax revenues in the longer term), will be a more urgent priority.

Employment has been continuing to grow steadily, despite initial expectations that the referendum would cause a fall in employment. House prices are also continuing to rise at a modest pace; but a downturn in prices could dampen consumer confidence and expenditure.

Rising EU and geopolitical risks e.g.

- Greece continues to cause major stress in the EU due to its tardiness and reluctance in implementing key reforms required by the EU to make the country more efficient and to make significant progress towards the country being able to pay its way – and before the EU is prepared to agree to release further bail out funds.

- Spain has had two general elections in 2015 and 2016, both of which failed to produce a workable government with a majority of the 350 seats. At the eleventh hour on 31 October, before it would have become compulsory to call a third general election, the party with the biggest bloc of seats (130), was given a majority confidence vote to form a government. This is potentially a highly unstable situation, particularly given the need to deal with an EU demand for implementation of a package of austerity cuts which will be highly unpopular.

- The under capitalisation of Italian banks poses a major risk with state aid firmly ruled out by the EU as a potential way out.

- 4 December Italian constitutional referendum on reforming the Senate and reducing its powers; this has also become a confidence vote on Prime Minister Renzi who originally said he would resign if there is a ‘no’ vote, but has since back tracked on that in the light of adverse poll predictions. A rejection of these proposals would stop progress to fundamental political and economic reform which is urgently needed to deal with Italy’s core problems, especially low growth. They are also intended to give Italy more stable government as no western European country has had such a multiplicity of governments since the Second World War as Italy, due to the equal split of power between the two chambers of the Parliament which are both voted in by the Italian electorate but by using different voting systems. It is unclear if a No vote could bring down the government.

- Dutch general election 15.3.17; a far right party is currently polling neck and neck with the incumbent ruling party. In addition, anti-big business and anti-EU activists have already collected two thirds of the 300,000 signatures required to force a referendum to be taken on approving the EU – Canada free trade pact. This could delay the pact until a referendum in 2018 which would require unanimous approval by all EU governments before it can be finalised. In April 2016, Dutch voters rejected by 61.1% an EU – Ukraine cooperation pact under the same referendum law. Dutch activists are concerned by the lack of democracy in the institutions of the EU.

- French presidential election; first round 13 April; second round 7 May 2017.

- French National Assembly election June 2017.

German Federal election August – 22 October 2017. This could be affected by significant shifts in voter intentions as a result of terrorist attacks, dealing with a huge influx of immigrants and a rise in anti EU sentiment.

The core EU, (note, not just the Eurozone currency area), principle of free movement of people within the EU is a growing issue leading to major stress and tension between EU states, especially with the Visegrad bloc of former communist states.

Given the number and type of challenges the EU faces in the next eighteen months, there is an identifiable risk for the EU project to be called into fundamental question. The risk of an electoral revolt against the EU establishment has gained traction after the shock results of the UK referendum and the US Presidential election. But it remains to be seen whether any shift in sentiment will gain sufficient traction to produce any further shocks.

Economic growth in the EU, (the UK’s biggest trading partner), has been lack lustre despite the ECB cutting its main rate to -0.4% and embarking on a massive programme of quantitative easing during 2016. Growth could be negatively impacted by political developments which would then also impact on UK exports and growth.

The US economy has been growing strongly in quarter three at 2.9%, (on an annualised basis), after only 1.4% in quarter 2. The election does not appear likely to have much impact on the Fed. in terms of holding back further on increasing the Fed. Rate. Accordingly, the next rate rise is still widely expected to occur in December 2016, followed by sharper increases thereafter, which may also cause Treasury yields to rise further; this could give rise to a growing gap between Treasury and gilt yields over time. If the Trump package of policies is implemented, there is likely to be an increase in inflationary pressures which could then mean that the pace of further Fed. Rate increases will be quicker and stronger than formerly expected.

In the first week since the US election, there has already been a major shift in investor sentiment away from bonds to equities, especially in the US. However, gilt yields and bond yields in the EU have also been dragged higher. Some commentators are saying that this rise has been an overreaction to the US election result which is likely to be reversed. Other commentators take the view that this could well be the start of the long expected eventual unwinding of bond prices propelled upwards to unrealistically high levels by the artificial and temporary power of quantitative easing.

Japan is struggling to gain consistent significant growth, although quarter 3 has come in at +2.2%, (annualised rate). It is also struggling to put deflation firmly behind it and to get inflation up to reasonable levels, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy

Chinese economic growth has been weakening despite successive rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

Edrych i'r Dyfodol gan Capita Asset Services/ Capita Asset Services Forward View

Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. An eventual world economic recovery may also see investors switching from the safe haven of bonds to equities.

We have pointed out consistently that the Fed. Rate is likely to go up more quickly and more strongly than Bank Rate in the UK and recent events have not changed that view, just that the timing of such increases may well have been deferred somewhat during 2016. While there is normally a high degree of correlation between the two yields, we would expect to see a growing decoupling of yields between the two i.e. we would expect US yields to go up faster than UK yields. We will need to monitor this area closely and the resulting effect on PWLB rates.

The overall balance of risks to economic recovery in the UK remains to the downside, particularly with the current uncertainty over the final terms of Brexit.

We would, as always, remind clients of the view that we have expressed in our previous interest rate revision newsflashes of just how unpredictable PWLB rates and bond yields are at present. We are experiencing exceptional levels of volatility which are highly correlated to geo-political and sovereign debt crisis developments. Our revised forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:-

- Geopolitical risks in Europe, the Middle East and Asia, which could lead to increasing safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.
- A resurgence of the Eurozone sovereign debt crisis.
- Weak capitalisation of some European banks.
- Monetary policy action failing to stimulate sustainable growth and combat the threat of deflation in western economies, especially the Eurozone and Japan.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

Borrowing advice: although yields have risen from their low points, yields are still at historic lows and borrowing should be considered if appropriate to your strategy. We still see value in the 40yr to 50yr range at present but that view would be negated if Bank Rate does not climb to at least 2.5% over the coming years. Accordingly, clients will need to review and assess their risk appetite in terms of any underlying borrowing requirement they may have, and also project forward their position in respect of cash backed resources.

Any new borrowing should also take into account the continuing cost of carry, the difference between investment earnings and borrowing rates, especially as our forecasts indicate that Bank Rate may not rise from 0.25% until June 2019 and then will only rise slowly.

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts. The general expectation for an eventual trend of gently rising gilt yields and PWLB rates is expected to remain unchanged. Negative, (or positive), developments could significantly impact safe-haven flows of investor money into UK, US and German bonds and produce shorter term movements away from our central forecasts.

Our interest rate forecast for Bank Rate is in steps of 25 bps whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps.

Rhan o gyngor dderbyniwyd gan / An extract from advice received from: ***Capita Asset Services***

Crynodeb Benthyca a Buddsoddi – Chwarteroedd 1 a 2 2016/17
Borrowing and Investment Summary – Quarters 1 and 2 2016/17

	30 Medi / Sept 2016		30 Mehefin / June 2016	
	£m	% (paid on borrowing and received on investment)	£m	% (paid on borrowing and received on investment)
Benthyca – graddfa sefydlog Borrowing – fixed rate	110.7	5.42	110.7	5.42
Benthyca – graddfa amrywiol Borrowing – variable rate	Dim / Nil	d/b / n/a	Dim / Nil	d/b / n/a
Adneuon – galw hyd at 30 diwrnod Deposits – Call to 30 days	9.6	0.14	14.8	0.39
Adneuon – Tymor sefydlog < 1 bl. Deposits – Fixed Term < 1 year	5.0	0.28	5.0	0.51
Adneuon – Tymor sefydlog 1 bl. + Deposits – Fixed Term 1 year +	Dim / Nil	d/b / n/a	Dim / Nil	d/b / n/a
Cyfanswm Adneuon Total Deposits	14.6	0.18	19.8	0.42
Cyfartaledd Adneuon yn y Chwarter Highest Deposits in the Quarter	24.8	d/b / n/a	29.7	d/b / n/a
Cyfartaledd Adneuon yn y Chwarter Lowest Deposits in the Quarter	14.6	d/b / n/a	16.4	d/b / n/a
Cyfartaledd Adneuon yn y Chwarter Average Deposits in the Quarter	22.4	0.35	23.3	0.39

Ni torwyd unrhyw un o'r dangosyddion trysorlys yn ystod hanner cyntaf y flwyddyn.
None of the treasury indicators were breached during the first half of the year.

ATODIAD / APPENDIX 5

Graddfeydd Credyd Gwrthbartion buddsoddi a'r adneuon a ddelir gyda phob un ar 30 Medi 2016*
Credit ratings of investment counterparties and deposits held with each as at 30 September 2016*

Grŵp Bancio/ Banking Group	Sefydliad/ Institution	Adneuon / Deposit £'000	Hyd (Galw tymor sefydlog) / Duration (Call / Fixed Term**)	Cyfnod (O/I)/ Period (From / To)	Graddfa Dychweliad/ Rate of Return %	Graddfa Tymor Hir Fitch Long Term Rating	Graddfa Tymor Byr Fitch Short Term Rating	Graddfa Tymor Hir Moody's Long Term Rating	Graddfa Tymor Byr Moody's Short Term Rating	Graddfa Tymor Hir Standard & Poor's (S&P) Long Term Rating	Graddfa Tymor Byr Standard & Poor's (S&P) Short Term Rating	Lliw Sector/Hyd Awgrymiedig/ Sector Colour / Suggested Duration
Lloyds Banking Group plc	Bank of Scotland plc	**2,097**	**Galw/ Call**	**n/a**	**0.15**	**A+**	**F1**	**A1**	**P-1**	**A**	**A-1**	**Coch - 6 mis/ Red - 6 months**
HSBC Holdings plc	HSBC Bank plc	**0**	**Galw/ Call**	**n/a**	**0.01**	**AA-**	**F1+**	**Aa2**	**P-1**	**AA-**	**A-1+**	**Oren – 12 mis / Orange – 12months**
Santander Group plc	Santander UK plc	**6,527**	**Galw/ Call**	**n/a**	**0.15**	**A**	**F1**	**Aa3**	**P-1**	**A**	**A-1**	**Coch – 6 mis/ Red - 6 months**
The Royal Bank of Scotland Group plc	The Royal Bank of Scotland plc	**1**	**Galw/ Call**	**n/a**	**0.10**	**BBB+**	**F2**	**A3**	**P-2**	**BBB+**	**A-2**	**Glas - 12 mis / Blue - 12 months**
National Westminster Bank Ltd	National Westminster Bank Ltd Cash Manager A/c	**1,025**	**Galw/Call**	**n/a**	**0.01**	**BBB+**	**F2**	**A3**	**P-2**	**BBB+**	**A-2**	**Glas – 12 mis/Blue – 12 months**
Nationwide Building Society	Nationwide Building Society	**5,000**	**Fixed Term**	**16/08/2016 – 16/11/2016**	**0.28**	**A**	**F1**	**Aa3**	**P-1**	**A**	**A-1**	**Coch – 6 mis/ Red - 6 months**

* Ceir y Rhestr Benthyca Cymeradwyedig yn Atodiad 6 o'r Datganiad Strategaeth Rheoli Trysorlys 2016/17/Strategaeth Buddsoddi Blynyddol/ The Approved Lending List can be found at Appendix 6 of the 2016/17 Treasury Management Strategy Statement / Annual Investment Strategy

** Sef tymor ar pwynt y buddsoddi/Being term at the point of investment.

Approved countries for investments

Based upon lowest available sovereign credit rating

AAA

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

AA+

- Finland
- Hong Kong
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Qatar
- U.K.

AA-

- Belgium

Newyear16

ISLE OF ANGLESEY COUNTY COUNCIL

REPORT TO:	**AUDIT COMMITTEE**
DATE:	**06 DECEMBER 2016**
SUBJECT:	**TREASURY MANAGEMENT PRACTICES (TMP)**
LEAD OFFICER:	**MARC JONES**
CONTACT OFFICER:	**CLAIRE KLIMASZEWSKI (TEL:1865)**

Nature and reason for reporting

For scrutiny - consistent with professional guidance.

1. This report is presented to ensure that the Council is implementing best practice in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management. The code recommends that the Council document their treasury management procedures as Treasury Management Practices (TMPs)

2. The CIPFA Code of Practice on Treasury Management (Section 7) recommends that the Authority's Treasury Management Practices (TMPs) should be approved, documented and monitored. It goes on to state that the nature and extent of the involvement of an organisation's responsible body in approving and monitoring its TMPs and accompanying schedules is a matter for local decision and recognises that in some organisations this may be delegated to the responsible officer. In all cases it should be subjected to scrutiny by the responsible body following recommendations by the responsible officer. Appendix 1 presents the Authority's TMPs.

3. Recommendations:

- To note the contents of this covering report;
- To endorse the Treasury Management Practices included in Appendix 1.

R MARC JONES
HEAD OF FUNCTION (RESOURCES) & SECTION 151 OFFICER 28 NOVEMBER 2016

Isle of Anglesey County Council

Treasury Management Practices

Introduction

The Council is committed to implementing best practice and to complying with the CIPFA Code of Practice on Treasury Management (2011) in all aspects of its Treasury Management.

Treasury Management is the management of the Council's cash-flows and investments to ensure that there is sufficient cash to pay the authority's bills on a day-to-day basis. Any surplus cash is invested in accordance with the Authority's Treasury Management Strategy Statement (TMSS).

Another important aspect of Treasury Management is the management of the Council's debt portfolio to ensure that loans are only taken out to fund capital expenditure and that all loans are affordable. The key objectives of the TMSS is that Treasury Management activities are low risk and will ensure that the authority has access to cash to meet its cash-flow needs.

The Code states that all authorities are required to produce a statement of Treasury Management Practices (TMPs). Section 7 and schedule 2 of the code include suggestions on what should be included in authorities' Treasury Management Practices. To ensure compliance with the Code and good practice these Treasury Management Practices endorse and include many of the suggestions provided in the CIPFA Code. These Treasury Management Practices also take into account and supplement the Authority's Treasury Management Strategy Statement.

TMP1 Risk Management

The Head of Function (Resources) / S151 Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk. The Head of Function (Resources) / S151 Officer will report at least annually on the adequacy/suitability of treasury risk management practices, and will report, as a matter of urgency any actual or likely difficulty in achieving the organisation's objectives in this respect, in accordance, with the procedures set out in TMP6 Reporting Requirements and Management Information Arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out below.

1.1 Credit and Counterparty Risk Management

Credit and counterparty risk management relates to minimising the risks to the council from loss of investment monies or breach of a borrowing arrangement with reference to counterparties reduced creditworthiness. The Council regards the security of its deposits and investments to be the key objective of its TMSS. The Council will ensure that the organisations with whom funds may be deposited or invested are selected on a prudent basis i.e. with caution with the security of the investment in mind not their rate of return. The Treasury Management Strategy Statement lists the minimum criteria an organisation must meet for deposits and investments. This includes cash-limits; time limits and the list of approved countries for investments. These provide additional controls in order to reduce risks (see Table 1).

Table 1 Extract from TMSS 2017/18 – Counterparty Criteria

Category	Short Term Credit Rating (Fitch)	Short Term Credit Rating (Moody's)	Short Term Credit Rating (Standard & Poor's)	Long Term Credit Rating (Fitch)	Long Term Credit Rating (Moody's)	Long Term Credit Rating (Standard & Poor's)	Cash Limit	Time Limit
Bank and Building Societies (not nationalised or part nationalised)	**F1+**	**P-1**	**A-1+**	**AAA**	**Aaa**	**AAA**	**£10m**	**5 years**
	F1+	**P-1**	**A-1+**	**AA**	**Aa2**	**AA**	**£10m**	**3 years**
	F1+	**P-1**	**A-1+**	**AA-**	**Aa3**	**AA-**	**£10m**	**364 days**
	F1	**P-1**	**A-1**	**A**	**A2**	**A**	**£7.5m**	**6 months**
Nationalised / Part Nationalised UK Banks	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**£10m**	**364 days**
UK Central Government (irrespective of credit rating)	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**No maximum**	**No maximum**
UK Local Authorities**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**£5m**	**364 days**
Money Market Funds	**n/a**	**n/a**	**n/a**	**AAA**	**AAA**	**AAA**	**£5m**	**6 months**

** as defined in the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003*
****** *as defined in the Local Government Act 2003*
**** Counterparty refers to the organisations that the Council invests in surplus balances in*

Criteria for creating and managing approved counter-party lists/limits	• The Head of Function (Resources)/S151 is responsible for setting prudent criteria; with advice from the Council's Treasury advisors; • The criteria will be included in the annual Treasury Management Strategy Statement (TMSS) each year; • The criteria will be scrutinised by the Audit and Governance Committee and will be approved by the Executive and Full Council; • The Council's Treasury Management advisors will advise on credit policy and creditworthiness.
Procedures for changing limits and changes to counterparties	• All changes relating to counterparty limits and / or criteria within the TMSS will be scrutinised by Audit and Governance Committee and will be submitted to the Executive and subsequently Council for approval.
Counterparty Lists and Limits	• Counterparties and market conditions will be monitored regularly. The Council receives information and advice from the Council's specialist Treasury Management Consultant to help monitor counterparties; • A full individual listing of counterparties and their limits will be maintained. These will be in accordance with the criteria and limits set within the TMSS. The Section 151 Officer will approve any amendments to the list of counterparties in so far as they are consistent with the TMSS approved by Full Council. Any changes which do not fall within the TMSS will require an amendment to the TMSS if the change is necessary to achieve its key aims i.e. to ensure secure investments. The TMSS including the revised counterparty criteria will then go to Full Council for approval after being scrutinised by Audit and Governance Committee and considered by the Executive; • Any investment in any counterparty which falls below the Council approved minimum criteria will be called back and invested in counterparties which do meet the minimum requirements and in accordance with the list. Where the Council is locked into a fixed-term arrangement, the investment will have to remain until the end of the term but will then be returned and invested in counterparties which do meet the criteria and who are on the list;

	• The investments will be diversified as far as possible within the confines of ensuring the investment is secure.

1.2 Liquidity Risk Management

Liquidity risk management aims to protect the Council from running out of cash to ensure that the Council can pay its day-to-day costs. This Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives. The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities. (see section 3.4 of the TMSS 2017/18 for additional information). In addition, the organisation may need to convert previous internal borrowing into external borrowing to ensure the ongoing liquidity of the organisation.

Cash-flow Forecast and Daily Cash-flow Management	• An annual forecast of cash-flow balances is maintained covering a twelve-month period. This is to help inform more medium and long-term investment decisions; • The Treasury Management team will ensure that the balance on the main bank accounts is adequate to minimise the risk of any increased charges from an overdraft and to maximise interest receivable; • The banking arrangements have been implemented so that all bank accounts under the corporate contract with the Council's bank are taken into account when determining the Council's overall balance. This means, that if any account is overdrawn, if the other accounts are in credit to the amount overdrawn or more the council will not be in an overdraft position. There is no approved overdraft facility, however, the bank will honour all payments in the unlikely event of an overdraft for a small charge; • A minimum £5m will be kept in instantly accessible investments. This is consistent with the rule of thumb minimum level of £5m in Council general reserves.
Duration of investments	• Balances are generally held in short-term investments in line with the low risk and liquidity aims of the TMSS. This ensures that the Council has access to cash as needed; • Balances will be transferred from the general account to short-term investments when the interest/income is greater than the cost of transferring the balance taking into account transaction costs e.g. CHAPS fees. As a general rule a minimum balance of £200k will be maintained across all the Natwest accounts to reduce the risk of overdraft fees and interest, however, this may fluctuate by up to £50k if it is impractical to transfer to or from a counterparty; • A maximum time limit and cash amount is set per investment/deposit to reduce risks. See table 1 above.
Other contingency arrangements	• The Authority has used internal borrowing over a number of years to fund its capital programme. This has reduced the Council's cash balances in order to save on interest payable costs. If there is the risk of a shortfall of cash, the Council will externalise internal borrowing to the amount required to ensure liquidity and taking into account the minimum instantly accessible cash target of £5m as noted above; • The Council can also borrow temporarily up to a maximum of 364 days from other local authorities or the money market should there be a cash-flow shortage during the year. •

Borrowing in advance of need	• As a general rule the Council will not borrow in advance of need. However, in exceptional cases this may be considered with the approval of the Section 151 Officer and the Portfolio holder for Finance with a full business case.

1.3 Interest Rate Risk Management

Interest rate risk management relates to the actions taken by the Council to reduce the risk of increased interest costs and to maximise interest receivable, within the constraint that all investments need to be highly secure and relatively liquid. The Authority will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.

Approved interest rate exposure limits	• The Council will use a combination of variable and fixed interest rate investments to maximise returns while minimising risks. The investments/deposits will be low risk counterparties investments rather than high interest return investments. Fixed interest rate investments will be in secure short-term investments which are higher than the variable rates offered; • Similarly, the Council's debt portfolio is comprised of loans some of which charge a fixed interest rate and some a variable rate. However, the significant majority of the current portfolio is fixed rate interest to ensure certainty and maximise lower interest rates; • The Section 151 Officer and TM team will monitor interest rates and will make investment and borrowing decisions which are the most cost effective at the time using up-to-date information provided by the Council's Treasury Management Consultants.
Trigger points and guidelines for managing changes to interest rates	• The significant majority of the Authority's debt portfolio is fixed interest to ensure certainty and stability of payments and to avoid exposure to any potential increased costs; • Re-financing decisions and unsupported borrowing decisions will also consider interest rates at the time; • Re-financing will be considered viable if the discount received outweighs premium charges.
Minimum/maximum proportions of variable rate debt/ interest and fixed rate debt / interest	• The upper limits for fixed rate and variable rate exposures are reviewed each year and documented in the TMSS.
Use of financial derivative	• The Council will not use Financial Derivatives as these are considered too high risk for the aims of the Council's TMSS.

1.4 Exchange Rate Risk Management

The Council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

Exchange rate Exposure limits	• Investments/debt will all be made in sterling. The Council will not invest in other currencies as part of its Treasury Management practices as this would expose the Council to too high a risk and could compromise liquidity. The only time the Council will be exposed to exchange rate risks will be in relation to operational activities where a grant is paid to the Council in another currency or the Council is required to pay a supplier in another currency. The Council is exposed to the risk of interest rate fluctuations as European grants are paid at the exchange rate on the date of the grant claim. However, there is usually several months' delay in the payment of the grant. Any foreign currencies paid to the Council will be converted to Sterling as soon as possible.

1.5 Refinancing Risk Management

Refinancing risk management relates to managing the Council's debt portfolio in a way which reduces the risk of increased costs from refinancing activities. The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented. The maturity profile of the monies borrowed are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the Council as can reasonably be achieved in the light of market conditions prevailing at the time. The Council will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

Debt/other capital financing maturity, policies and practices	• The Council will seek to manage its debt portfolio and other capital financing sources in the most cost effective way. The Council will use the cheapest sources of capital financing available first and unsupported borrowing would be used if the financial business case is viable; • The Council will use council cash balances and reserves for internal borrowing to reduce its capital financing costs if this is cost effective. However, there will be a limit to how much the Council can use internal borrowing. The Council will not use cash balances to internally borrow if it would compromise liquidity. The Internal borrowing should not be used where it would leave Council cash balances below £10m; • Longer-term borrowing will be in accordance with the Prudential Code and will therefore be affordable; • Longer-term borrowing will be in accordance with the Treasury Management Strategy Statement and prudential indicators, for example, borrowing will be kept within the authorised borrowing limit; • Debt will be rescheduled only if it is cost effective i.e. if the discounts received are higher than the premiums charged for early termination of the loans. This would be to benefit from lower interest rates and to prevent a number of loans being repayable at the same time to an extent which would be too costly. The Council will take advice from its Treasury Management Consultants on the benefits and costs of rescheduling debt;

	• The debt portfolio will be managed in such a way to avoid any significant refinancing problems in the future. When considering new borrowing the maturities of the current debt portfolio must be assessed so as to avoid future problems; • Before any new borrowing is taken out an option appraisal must be completed to determine the most cost effective and affordable time period to take the loan for. This appraisal will also take into account the existing debt profile and any refinancing requirements. The differing types of loan should be considered to determine the optimal impact on the Council. For example whether to take out a maturity which is a loan repayable at the end of the period or an annuity where some of the loan is paid off each year in addition to interest. For example, a maturity is more appropriate when interest rates are low to maximise on the low interest rates. Annuities are more appropriate when interest rates are high and the Council would benefit from regular instalments on the principal loan and reduced interest costs as the principal reduces over time. • The Council's Treasury Management Consultants provide the Council with interest rate projections to support treasury management decisions on investment and borrowing. These projections are included in the TMSS each year.
Projected capital investment requirements	• The annual TMSS provides details of the actual capital expenditure and funding for the last audited financial year. It also includes, projections for the year before the TMSS period, the year of the TMSS and two years beyond. This helps to identify the capital programme financing needs for each year; • The Council's long-term borrowing requirement is linked to the capital financing requirement (CFR); • The Council will complete option appraisals to ensure the most cost effective methods of capital financing are selected and that cheapest sources of capital financing are applied first.
Policy concerning capital financials limits on revenue consequences	• The Council is bound by the Prudential code and the requirement that borrowing must be affordable; sustainable and prudent; • The Council's debt must not except in the short-term exceed the total of the Capital Financing requirement in the preceding year plus the next two financial years; • Capital and revenue budgeting are interlinked. Capital external financing incurs financial costs which impacts on the revenue budget through interest costs and the MRP; • The estimated capital financing costs for each forthcoming year are built into annual budget setting; • Capital financing costs are also taken into account longer term in the Medium Term Strategy for the Council which covers a three-year period;

	• The Council's Capital Strategy approved in September 2016 highlights that one of the main priorities for the Council is to reduce revenue expenditure to deliver a balanced budget. The strategy advocates that new capital projects should be limited to the level of capital financing which does not incur additional revenue costs. The strategy requires that unsupported borrowing should only be considered where the relevant service budget can be reduced by a sum greater than the MRP and interest costs. This excludes the 21st Century Schools programme with Welsh Government which has already been committed to.

1.6 Legal and Regulatory Risk Management

Legal and regulatory risks relate to the risk that the Council or third parties dealing with Treasury Management on the Council's behalf, fail to act in accordance with the Authority's legal powers or regulatory requirements. The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] *credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged. This organisation recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

Legislation which impact on Treasury Management Activities	• Local Government Act 2003; • The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 No. 3239 (W. 319) and subsequent amendments including the most recent; • The Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2016; • The Accounts and Audit (Wales) Regulations 2014 3362 (W337); • CIPFA, Treasury Management Code 2011; • CIPFA, Prudential Code 2013; • CIPFA Code of Practice on Local Authority Accounting; • Isle of Anglesey, Treasury Management Strategy Statement; • Isle of Anglesey, Finance Procedures Rules; • Isle of Anglesey, Contract Procedure Rules.
Procedures for evidencing the Council's powers/authorities to counterparties	• The Authority's powers and duties are enshrined in law. The Local Government Act 1972 is a key legislation in relation to councils' functions. The Local Government Act (Wales) 1994 is important legislation which led to the creation of the unitary authorities in Wales of which the Isle of Anglesey County Council is one and provides the law for the transfer of functions from the former authorities; • Section 3.5.3.5 of the Council's constitution outlines the delegated authority of the Head of Function (Resources)/Section151 Officer. 3.5.3.5.3 provides the acknowledgement that this role will be the Council's responsible finance officer under Section 151 of the Local Government Act 1972. The Section 151 Officer's responsibility for Investment and Capital Planning is noted under 3.5.3.5.8. In addition, 3.5.3.5.17 outlines the Section 151 Officer's responsibility to manage the authority's borrowing, lending and banking arrangements;

	• Constitution 4.3 budget and policy framework procedure rules outline the responsibilities within the Council in relation to Budgeting and Policy; • Constitution 4.8 outlines the Authority's financial procedure rules; • Constitution 4.9 provides the contract procedure rules the Council is bound by; • These can all be shared with counterparties and are also available on the Council's website.
Information required from counterparties in relation to their powers/authorities	• The Council will only make investments / deposits in organisations which have been independently rated by three credible sources. These ratings have to be above the minimum credit rating as specified in the TMSS. The Council's Treasury Management Consultants provide information to assist the Authority with monitoring these on a regular basis; • Lending to third party organisations will be an exception and will only be made to organisations which have been subject to a thorough financial appraisal; • The Council will only undertake borrowing from approved sources such as the PWLB, other local authorities and other commercial banks who are on the Council's list of authorised institutions.
Statement on the Council's political risks and management of these risks	• Legislation is in place to regulate any internal political risks. The Local Government Act 2000 legislates on the conduct of Members and officers; • The constitution of the Council and schemes of delegation help to reduce political risks; • Adoption by Council of each annual TMSS and the CIPFA Treasury Management Code of Practice provide further risk reduction; • The Members' and officers' codes of conduct also provide a framework for reduced risk; • The organisation's Corporate Governance Framework and in particular compliance with TMP12 mitigate risk; • External political risks are mitigated by having a robust TMSS and Treasury Management Practices (TMPs). Daily updates from the Council's Treasury Management Consultant will support action needed to mitigate risks.

1.7 Fraud, Error and Corruption, and Contingency Management

The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

Systems and procedures to reduce the risk of loss through fraud, error and corruption	• There are several stages of segregation of duties which are outlined in TMP5 below. The Treasury Management team monitor cash-flows and recommend transfers. The initial arrangement of investments/deposits is completed by the Treasury Management team with the approval of the S151 officer or his deputies. The Treasury Management team are not involved in any processing of treasury management transactions;

	• Treasury Management transactions are only made with counterparties which the Council is authorised to deal with. All of the transactions will go from/to the general account. Bank reconciliations are completed which would also mitigate against risks; • All treasury management transactions are processed via CHAPs using the Natwest online banking system. This is a secure system which in addition to passwords requires use of card readers to authorise transactions. Segregation of duties exists so that no team member with direct responsibility for Treasury Management has access to process payments/transfers. The officers in the technical team who process the payments/transfers are not involved with authorisation of payments/transfers; • The Natwest Bankline system has been set up to ensure segregation of duties and allows access levels to the appropriate level for example the Treasury Management team have view only access to bankline; • The Council has a List of named officers who have the authority to transact loans and transactions. Brokers and counterparties with whom the Council deals directly with are provided with a copy of the named officers; • Treasury management reconciliations are completed monthly as a quality control check; • The treasury management team use Logotech a specialist treasury management software to support monitoring of treasury management activities; • Internal audit will undertake regular audits of the Treasury Management function.
Emergency and contingency planning	• There is a hard copy of all treasury management decisions and activities; • All IT systems including the Treasury Management systems are backed up by the ICT function and can be restored; • Each service / function of the Council has a Business Continuity plan; • In the event of a failure of the Natwest bankline system, balances can be gained from the Natwest branch in Llangefni. Most treasury management transactions are moving towards internet banking. If a counterparty's online banking facility is not available, the relationship manager would be contacted for their alternative procedures. This would involve the bank separately contacting an authorised signatory for approval. If the Council's internet is not available an internet source as part of the smarter working agenda could be used.
Insurance cover details	• Fidelity Guarantee Insurance is taken out by the Council to protect itself against any fraudulent activity within Treasury Management activities. It provides for a guaranteed sum of £10m should any of the officers directly involved with treasury management cause loss to the Authority and £1m for any other employee.

1.8 Market Risk Management

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

Approved procedures and limits for controlling exposure to investments whose capital may fluctuate	• The Treasury Management Strategy Statement (TMSS) does not allow high risk investments which are likely to fluctuate. Investments can only be made in accordance with the criteria set out in the TMSS as approved by Council. Where the Council invests or temporarily borrows from money markets, these can only be in AAA rated funds which are diversified over a number of investments which reduces the exposure to risk and capital fluctuations. (The counterparty criteria is included in Appendix 6 of the TMSS 2017/18 and is included above in table 1)

TMP 2 – Performance Management

The Authority is committed to the pursuit of value for money in its treasury management activities and to the use of performance methodology in support of that aim. Value for money must be within the framework set out in the TMSS. Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements.

Methodology to evaluate the impact of treasury management decisions	• The core aims of the TMSS is that treasury management activities will prioritise security, liquidity and then return. The function is therefore not judged solely on the returns made. Treasury management decisions are evaluated against its core aims; • The Treasury Management Mid-year and Outturn reports enables scrutiny of the performance of the key Treasury Management aims; • The Prudential indicators included in the TMSS and above reports are fundamental for monitoring treasury management activity; • Treasury management returns and activity are also monitored quarterly in the Corporate Scorecards.
Methodology for testing value for money in treasury management	• The treasury management function is currently provided in-house. The market could be tested at any time via sell2wales; • The specialist Treasury Management Consultants/Advisory service is advertised on sell2wales at the end of each contract period. The current contract was subject to a tendering process last year via sell2wales. The successful tender was Capita Asset Services and the contract is from 1 April 2016 to 31 March 2019 with an option to extend for up to two years; • Banking services are tendered every five years via Sell2Wales. The current contract is with Natwest which is effective from 3 February 2016;

	• There is an approved list of money-broking services, where advice from 3 brokers will be sought when formulating options for treasury management investments; • The Council does not use cash/fund management services as part of its treasury management activities. However, fund managers are used for a number of charitable trusts which the Council is trustee for.

TMP 3 – Decision-making and analysis

The Council will maintain full records of its treasury management decisions and of the procedures and practices applied in reaching those decisions. The Council will learn from its past experiences and decisions and will build on its successes and take action to avoid any negative issues which may arise. The Council will record decisions so that the Authority can demonstrate that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

Delegated powers and record-keeping	• Council approves the Treasury Management Strategy Statement (TMSS) each year after being scrutinised by the Audit and Governance Committee and considered by the Executive, these decisions are recorded formally; • The Head of Function (Resources)/Section 151 Officer has the delegated authority for all aspects of treasury management. All decisions will comply with the TMSS. The treasury management team will provide options and recommendations for the Section 151 Officer to consider when a new investment or loan is required. This will be documented and signed off by the Section 151 Officer or his nominated deputy. Day-to-day decisions with existing counterparties are made by the treasury management team with one team member recommending a transaction and another more senior member of the team approving this recommendation.
Continuous improvement	• The Council will evaluate treasury management activities and seek to avoid any negative outcomes and build upon good practice and treasury management results. This is done on a day-to-day basis operationally; • On a more formal basis, treasury management will be evaluated through the mid-year and end of year treasury management reports which will be scrutinised by Audit and Governance Committee, considered by the Executive and Council; • The historic and forecast performance of prudential indicators are provided within the annual TMSS which is scrutinised by Audit and Governance Committee; considered by the Executive and approved by Council.

TMP 4 – Approved instruments, methods and techniques

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the scheduled below and within the limits and parameters defined in TMP1 Risk management and the Council's TMSS. All instruments, methods and techniques will be focussed on those which offer greatest security and liquidity. The Council will aim to maximise yield within these two main priorities. The Authority will seek proper advice from its commissioned specialist treasury management consultants/adviser and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

Approved Capital Financing instruments, methods and techniques	**<u>External:</u>** • Public Works Loan Board (PWLB); • Temporary money-market loans (up to 364 days); • Long-term money-market loans; • Bank overdraft (only in exceptional circumstances and if this is the cheapest option for a very short-term need); • Commercial loans; • Loans from other organisations if terms and conditions are favourable. The organisations will need to be authorised to lend and should be regulated; • Finance leases; • Operating leases; • Capital Government grants and European grants; • Capital Grants from other organisations for example, the National Lottery; • Contributions/donations; • PFI/PPP. **<u>Internal:</u>** • Capital receipts; • Revenue contributions; • Use of reserves.
Approved Investment instruments, methods and techniques	• The Council's investment policy has regard to the Welsh Government's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross-Sectorial Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, and then return; • In accordance with the above guidance from the Welsh Government and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings;

	• As with previous practice, ratings will not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings; • Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties. The following are approved investments in accordance with the TMSS: • Investments in banks and building societies which meet the minimum criteria in appendix 6 of the TMSS (see also table 1 above); • Nationalised/part-nationalised UK banks up in accordance with the TMSS; • UK Central Government; • UK Local authorities; • AAA rated money market funds in accordance with the TMSS.

TMP 5 – Organisation; clarity; segregation of responsibilities and dealing arrangements

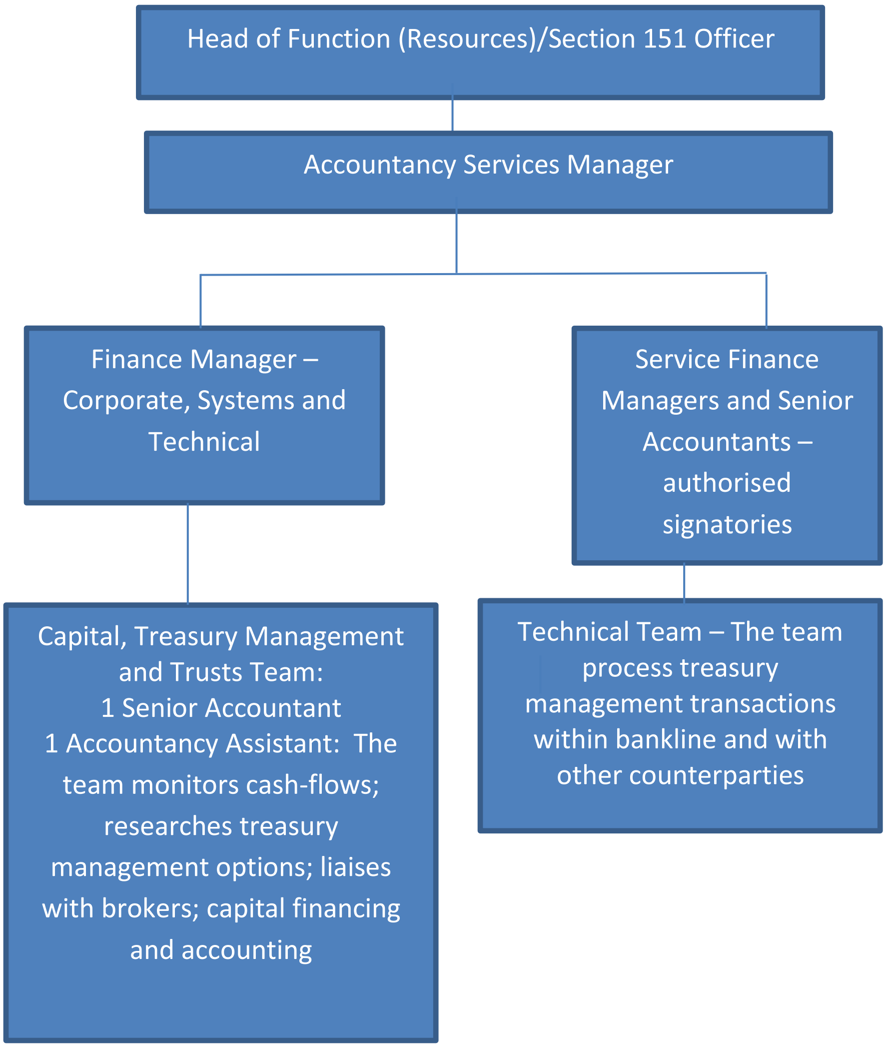
The Council considers that effective control and monitoring of its treasury management activities is essential, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance. These activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities. The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Authority intends, as a result of lack of resources or other circumstances, to depart from these principles, the S151 Officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated. The Section 151 Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The responsible officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed below.

The responsible officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the scheduled below. The delegations to the responsible officer in respect of treasury management are also set out below. The responsible officer will fulfil all such responsibilities in accordance with the organisation's policy statement, TMPs and, if a CIPFA member, the *Standard of Professional Practice on Treasury Management*.

Scheme of delegation	• Full council approves the TMSS and receives a mid-year review report and end of financial year report on the performance of the treasury management function; • The Executive consider the TMSS, mid-year and end of year report and makes recommendations to Council; • The Audit and Governance Committee scrutinises the TMSS, mid-year and end of year treasury management reports and the TMPs; • The Head of Function/(Resources)/Section 151 Officer has delegated authority for treasury management; • The Head of Function/(Resources)/Section 151 Officer has delegated day-to-day treasury management duties to the Finance Manager – Corporate, Systems and Technical and the Treasury Management team and the Technical team. The Service Senior Accountants and above are delegated to authorise treasury management transactions;
Principles and practices concerning segregation of duties	• The Council considers that segregation of duties is key to ensure robust controls and reduce risks in its treasury management activities. The above scheme of delegation in relation to treasury management ensures that there are adequate checks and balances and segregation of duties in the treasury management function; • Balances are checked each morning and assessed against known income due and payments being made by a treasury management team member (TM); • If payments are expected to exceed the minimum balance in the Natwest accounts, the Treasury Management TM team member will complete a transfer form detailing all the information for a transfer into the Natwest general account to meet the day's cash-flow needs. The details will be checked by the TM officer's line manager or a Finance Manager or higher and authorised if correct; • This transfer form is then passed to the Technical team to process the transfer; • Transfers are then approved by authorised signatories which are not part of the Corporate, Systems and Technical team and who have not authorised the transfer form to ensure segregation of duties before the transfer can take place; • The balances are checked regularly during the day to ensure the transfers are completed. An entry is made in the cash-flow summary sheet for that day with morning and afternoon balances counter-signed by the TM officer's line manager, a Finance Manager, a Senior Accountant not involved in the processing or authorisation of any required treasury management transactions or higher; • Any balances which are cost effective to invest with an approved counterparty will also follow all four stages of segregation of duties as the transfers into the Natwest.

Treasury Management Organisation Chart



Statement of duties/ responsibilities of each treasury post

The Head of Function (Resources)/Section 151 Officer has through the constitution delegated powers for the management of the Treasury Management function as follows:

- recommending clauses, treasury management policy / practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit; and
- recommending the appointment of external service providers.

	• Responsibility for the execution and administration of its Treasury decisions, including decision on borrowing, investment and financing, have been delegated to the Section 151 Officer, who will act in accordance with the Council's policy statements and TMPs; • The Accountancy Services Manager deputises for the Head of Function (Resources)/S151 Officer in relation to the above duties; • The Finance Manager – Corporate, Systems and Technical has responsibility for day-to-day management of the treasury management function; • The Capital, Treasury Management and Trusts team has responsibility for the operation of the Treasury Management function. This includes estimating future cash-flows; monitoring daily cash-flows; researching various options for investments and in the event of any new loans required and completing treasury management transfer requests authorised in line with the team's delegated powers. The team also produce the TMSS, the TMPs and treasury management reports; • The Technical Team process any treasury management transactions within the banking systems. The technical team will double check the information before entering the transactions; • The Service Finance Managers and Senior Accountants authorise treasury management transactions on the basis of documentary evidence that the transactions are appropriate.
Absence cover arrangements	• The Finance Manager – Corporate, Systems and Technical and Accountancy Services Manager will provide absence cover arrangements in the event of the two treasury management team members being absent.
Dealing limits	• £10m per deal.
List of Approved Brokers	• BGC Partners; • ICAP; • King and Shaxson; • RP Martin; • Tullet Prebon; • Tradition UK.
Policy on Brokers' Services	• The Council will use the above named brokers to research treasury management options and actions necessary. The S151 Officer or Accountancy Services Manager will authorise the deal request. The Council will seek information from three of the above named brokers for any potential treasury management transaction. The team will seek to spread the business between them to ensure value for money and maintain business relationships.
Policy on taping conversations	• Conversations with brokers are recorded by the broking organisations.

Direct dealing practices	• Dealing options will be researched by the treasury management team and recommendations for new deals will be made to the S151 Officer or his deputy; • The treasury management team members confirm the selected deal with the broker once agreed by the S151 Officer; • A treasury management request form is completed with backing information by the treasury management team; • A member of the technical team will enter the transaction into bankline and will check the details and that the S151 officer has approved the deal; • The online payment is authorised by two authorised signatories after the details and approval of the S151 Officer has been checked; • The online payment is processed by CHAPS once authorised; • Written confirmation is provided to the counterparty; • Written confirmation of the deal is received from the broker and/or counterparty and is checked carefully and signed by a Finance Manager or above; • Any differences in the documented confirmation from the broker and that negotiated will be investigated immediately and corrected; • The deal is recorded in the daily cash-flow and record of investments/loans as relevant; • Investments with a counter-party can be rolled-over with the permission of the Section 151 Officer or his deputy, this will reduce transaction costs.
Documentation requirements	• For each deal undertaken a record should be kept giving details of amount, period, counterparty, interest rate, dealing date, payments date(s), broker. **Investments** • deal ticket authorising the investment; • confirmation from the broker • confirmation from the counterparty • Chaps payment transmission document **Loans:** • deal ticket with signature to agree loan • confirmation from the broker • confirmation from PWLB/market counterparty • Chaps payment transmission document for repayment of loan.

TMP 6 – Reporting requirements and management information arrangements

The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies. These will consider the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum:

The Council will receive:-

- an annual Treasury Management Strategy Statement which reports on the strategy and plan to be pursued in the coming year;
- a mid-year review;
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

The Audit and Governance Committee is responsible for scrutinising treasury management activities and indicators. The present arrangements and the form of these reports are detailed below:-

Content and frequency of board/committee reporting requirements	• All of the above reports will first go to the Audit and Governance Committee for scrutiny. They will then go to the Executive with any advice from the Audit and Governance Committee. Executive will recommendations and the reports will go to Council for approval. Any breaches of the TMSS and TMPs will be reported to the Audit and Governance Committee which will decide what additional reporting and actions are needed;

TMP 7 – Budgeting, accounting and audit arrangements

The responsible officer will prepare and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk management, TMP2 Performance measurement, and TMP4 Approved instruments, methods and techniques. The responsible officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 Reporting requirements and management information arrangements.

The Council will account for its treasury management activities; for decisions made and transactions executed, in accordance with appropriate accounting practices; standards, statutory and regulatory requirements in force for the time being.

Statutory/ regulatory requirements	• The Council will comply with all statutory and regulatory requirements relating to Treasury Management (see 1.6 above). The CIPFA Treasury Management Code 2011 and the CIPFA Prudential Code 2013 incorporate these legal requirements and supplement with practical guidance. The Council has therefore adopted the code and will manage its treasury management function in line with the CIPFA codes.
Accounting practices and standards	• The Council will as noted above comply with the following CIPFA codes to ensure proper accounting practice and compliance with standards in relation to its treasury management function:- • CIPFA Code of Practice on Treasury Management 2011 and related guidance; • CIPFA Prudential Code 2013; • CIPFA SerCOP; • CIPFA Code of Practice on Local Authority Accounting and related practioners' guide.

List of information requirements of external auditors	• Treasury management transactions, assets and liabilities are reported in the Council's annual Statement of Accounts which are subject to external audit; • The Council will provide access to all treasury management information that the audit team requires to verify that the accounts represent a true and fair view of the council's financial affairs including treasury management activities; • There are a number of specific notes in relation to treasury management. Each of these notes will have robust working papers, source evidence and transactions and balances held with the financial system relating to the financial year; • The following are examples of the types of treasury management information which will be needed for audit; • Treasury Management Strategy Statement; • Annual and mid-year treasury management report; • Treasury Management Practices; • New loans borrowed during the year, source documentation; • Complete list of loans outstanding and their maturity dates; • Loans restructured during the year including premiums and discounts; • Compliance with accounting requirements; • Amortisation of gains or losses on repurchase of borrowing; • Analysis of borrowing between short and long-term; • Debt financing and financing costs including calculations and workings; • MRP calculations and analysis of the movement in CFR; • Bank overdraft position (if any); • Brokerage, commissions and transaction related costs; • Investment transactions during the year including any transaction costs; • Cash and bank balances at year-end; • Short and long-term investments at yearend including source documents; • Calculation of interest and interest accrued; • Actual interest received; • Capita Fair Value report; • Evidence of title to investments; • Reconciliation of the movement in cash to the movement in net debt; • Cash inflows and outflows; • Net increase/decrease in short-term loans, short-term deposits and other liquid sources.
Internal Audit	• Internal audit review treasury management systems and test transactions on a regular basis. Any information requests by internal audit will be provided at the earliest opportunity and within 3 working days at the latest.

TMP 8 – Cash and Cash Flow Management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation will be under the control of the S151 Officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1[1] *liquidity risk management*. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

Arrangements for preparing/ submitting cash flow statements	• A detailed annual cash-flow forecast is prepared for each financial year following approval of the budget; • This will take into account the budget and will look at historical information; • The cash-flow forecast will provide estimates of cash inflows and outflows each month and will be reviewed regularly each month; • In addition, a daily cash-flow record of movements and balances is kept and updated morning and afternoon. This is signed off by either the Senior Accountant for Capital, Treasury Management or if it has been completed by the Senior Accountant his line manager or another Finance Manager, Senior Accountant or higher who is not involved with authorising any treasury management transactions that day; • The cash-flow forecast and daily cash-flow record helps with decision-making and the identification of cash shortages/surpluses; • Treasury management transactions and balances are recorded on the Council's treasury management software Logotech for monitoring and management information purposes.
Content and frequency of cash flow management	• Cash-flow is monitored morning and afternoon and the annual cash-flow forecast is reviewed regularly; • Information for the cash-flow is as follows:- • Regular known inflows: RSG, NNDR receipts; Council tax receipts; • Estimated inflows: grants, miscellaneous income (fees and charges etc.); capital receipts; • Estimated outflows: salaries, pensions, etc.; housing benefits; creditors' runs; etc.
Listing of sources of information	• Systems are in place to ensure that the treasury management team are notified of significant cash-flows. There is a specific Treasury Management email account to which creditors, payroll etc. send details of amounts to be paid out; • Creditors notify the team of the amount of each creditors' run which provides 2 days to ensure adequate cash balances; • Payroll confirm the payroll amounts 2 days before salaries are paid; • The legal and property services notify the team of any capital receipts expected; • The grants manager notifies the Treasury Management team of estimated grants usually once grant claim forms have been completed; • The team look at average miscellaneous income in the past to estimate this.

Bank Statements procedures	• Paper bank statements are sent monthly by Natwest and the counterparties we hold deposits in; • In addition, real-time access is available via bankline or the online banking facilities of counterparties.
Payment scheduling and agree terms of trade with creditors	• The Council pays creditors on the next creditor run after the invoices have been authorised. This is likely to be before the terms of trade has expired. This is to support the local economy and small businesses. However, if there were cash-flow difficulties the Council would re-consider and return to paying in accordance with terms of trade usually 30 days.
Arrangements for monitoring creditor/debtor levels	• The Civica financials system produces report which have been scheduled regularly to allow the management team to monitor creditor and debtor levels. Each quarter the bad debt provision is reviewed.
Procedures for banking of funds	• The norm is for funds to be transferred electronically; • Where cash is collected at authority venues for example, leisure centres, Securityplus collects these and pays the cash and cheques into the Natwest coin/cash centre; • Cash paid at the Council county offices and schools is paid into the closest Natwest bank at the earliest opportunity in line with the Finance Procedure Rules.

TMP 9 – Money Laundering

This organisation is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed below.

Policy and procedures to reduce risk of fraud, bribery and money laundering	• Treasury Management activities will follow the Council's policies below to reduce the risk of fraud, bribery and money laundering: • Isle of Anglesey County Council Policy for the prevention of fraud and corruption, 2012; • Fraud response plan 2012; • The Section 151 Officer is the officer to whom money laundering concerns are raised.
Procedures for establishing identity/ authenticity of lenders	• The Council will only enter into borrowing arrangements with organisations which have been checked with the Financial Services Authority www.fsa.gov.uk and with advice from our specialist Treasury Management Consultants.
Methodology for identifying sources of deposits	• All counterparties will be on the approved counterparty list and will comply with the TMSS. All counterparties will be rated organisations on the credit ratings list provided by Capita. These have long and short-term ratings from Fitch, Moodys and S&P.
Treasury Management transactions	• The Council's segregation of duties documented above in TMP 5, reduces the risk of money laundering and fraud.

TMP10 – Training and qualifications

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Section 151 Officer will recommend and implement the necessary arrangements.

The Section 151 Officer will ensure that board/council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities. Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

Details of approved training courses	• CIPFA and Capita Treasury Management courses.
Details of approved qualifications	• CCAB accountancy qualifications, AAT, specific accredited Treasury Management qualifications.
Details of qualifications of treasury staff	• The Senior Accountant – Capital, Treasury Management and Trusts is a qualified CIPFA member and has a degree in Accounting and Finance; • The Finance Manager – Corporate, Technical and Systems is a qualified CIMA member, has a degree in Management Science – Economics and an MA in law.
Records of training received by training staff	• The team regularly attend CIPFA and Capita Treasury Management Courses to keep up-to-date with Treasury Management requirements; • Training records are kept by the function's Training Coordinator and HR.
Records of training received by those charged with governance	• Members' training is provided on an annual basis by Capita. Some members of SLT and the treasury management team attend these.

TMP 11 – Use of external service providers

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid overreliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the responsible officer, and details of the current arrangements are set out below:-

Details of contracts with service providers, including banking, brokers, consultants, advisers and details of the services provided	**<u>Banking:</u>** • The Councils main bankers are: NatWest which is part of the RBS group, Glanhwfa Road, Llangefni, Anglesey, LL77 7YW; • The Council also has accounts with Santander and the Cooperative bank for post office GIROs and paypoint. **<u>Treasury Advisor:</u>** • Capita Asset Services, 71 Victoria Street, Westminster, London, SW1H 0XA. **<u>Brokers</u>**: • BGC Partners; • ICAP; • King and Shaxson; • RP Martin; • Tullet Prebon; • Tradition UK. **<u>BACS Transmissions</u>** • Bottomline technologies.
Regulatory status of services provided	• All are regulated organisations.
Procedures and frequency for tendering services	• The Council is bound to follow the Contract Procedure rules which are part of the constitution. All contracts likely to be £25k or higher have to be advertised on sell2wales. The treasury management consultancy contract was also advertised on sell2wales and evaluated robustly even though the contract amount was less than the mandatory amount; • Contract periods are recommended as 3 years with up to 2 years option to extend with the agreement of both parties.

TMP 12 – Corporate Governance

The Authority is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed throughout this document, are considered vital to the achievement of proper corporate governance in treasury management. The S151 Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

List of public documents to be made available for public inspection	• Annual Statement of Accounts; • Treasury Management Strategy Statement; • Mid-year Treasury Management Report; • Annual Treasury Management Report; • Treasury Management Practices.
Procedures for consultation with stakeholders	• Stakeholders are consulted on the annual budget each year which includes treasury management revenue budgets.
List of external funds managed on behalf of others and the basis of attributing interest earned and costs to these investments	• There are a number of appointeeship/guardianship accounts managed by the Council on behalf of individuals. These are not part of the Corporate Contract but are with the Council's banker Natwest. Any costs attributable to the accounts will be charged to the accounts and any interest earned will also be paid on an actual basis for that account; • The Council is trustee to a number of charitable trusts and smaller trusts. The average interest rate on deposits is applied to these trusts' balances. Where the trust has its own specific bank account the trust will receive actual interest earned on that account. Each trust is charged costs relating to the administration and management of the trusts in accordance with the Charities Commission; • The Council sometimes holds money on behalf of organisations for example, Advance Payment Code (APC) Bonds where the Council will hold money as a guarantee until the organisation has fulfilled its contractual requirements. Interest is paid as the average on deposit accounts on the principal sum. Often the law will prescribe how interest is paid and what costs can be charged; • Other deposits, bonds advance payments will accrue interest at the average rate on all deposit accounts for the year unless there is a specific account for that deposit, bond or prepayment where actual interest is earned.

Date scrutinised by Audit and Governance Committee: 6 December 2016

Date Approved by the Head of Function (Resources)/Section151 Officer: 6 December 2016

Author: Claire Klimaszewski

Date for Review: November 2019 or earlier if there is a policy change included in the TMSS

Bibliography

CIPFA. 2011. Code of Practice on Treasury Management. CIPFA. London.

CIPFA. 2013. Prudential Code. CIPFA. London.

Isle of Anglesey. 2016. Treasury Management Strategy Statement 2017/18. Isle of Anglesey County Council. Anglesey.

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ISLE OF ANGLESEY COUNTY COUNCIL	
REPORT TO	**AUDIT AND GOVERNANCE COMMITTEE**
DATE	**6 DECEMBER 2016**
SUBJECT	**FORWARD WORK PROGRAMME**
LEAD OFFICER	**HEAD OF INTERNAL AUDIT – MIKE HALSTEAD**
CONTACT OFFICER	**AUDIT MANAGER - SIONED PARRY**

Nature and reason for reporting – To present a Forward Work Programme of the Audit and Governance Committee for the remainder of 2016/17 and 2017/18.

1. INTRODUCTION

1.1 The Audit and Governance Committee provides to those charged with governance independent assurance on the adequacy of the governance and risk management frameworks, the internal control environment, and the integrity of the financial reporting. By overseeing internal and external audit and other regulators, it makes an important contribution to ensuring that effective assurance arrangements are in place.

1.2 The Audit and Governance Committee agendas have a number of regular reports that members need to be updated and consider on a regular basis – either at every meeting or at prescribed points in the financial year. In addition, there are some member requests for further specific reports to the Audit and Governance Committee and sometimes previous comments given to return to Committee.

1.3 In light of comments made by Members in previous meetings and the concerns raised by the Head of Function (Resources) it is believed that in order to assist the Audit and Governance Committee to fulfil its functions as set out in the terms of reference approved on 9 February 2015, a programme of work has been prepared and is attached in **Appendix A**. The programme will in effect provide a provisional draft agenda for each scheduled meeting.

1.4 The forward work programme would act as a record of ongoing concerns of the Audit Committee and to ensure that progress to address those concerns are considered on a regular basis in a planned way by the Committee. It would also allow Members to request items to be considered at future meetings and allow Officers sufficient time to present the information and updates.

1.5 At the end of each Committee the last item would allow Members to update the future work programme taking into account the items considered by the Committee and any concerns that have resulted.

2. RECOMMENDATION

2.1 Members are asked to consider and approve the proposed forward work programme for the remainder of 2016/17 and 2017/18.

2.2 Any amendments to the programme are reported as a standard item on the agenda of each meeting of the Audit and Governance Committee.

Appendix A

AUDIT & GOVERNANCE COMMITTEE

FORWARD WORK PROGRAMME

6 DECEMBER 2016

Contact Officer:	Sioned Parry
	Audit Manager
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Telephone:	01248 756211

Date	Subject	Responsible Officer (including e-mail address)
9 Feb 2017 **25 July 2017** **21 Sep 2017** **5 Dec 2017** **13 Feb 2018**	**Progress made on External Regulatory Reports** To consider the progress made on External Regulatory Reports which are directly related to the issues of governance or the management of risk within the Council.	**Programme, Business Planning & Performance Manager** GethinMorgan@anglesey.gov.uk
9 Feb 2017 **21 Sep 2017**	**Housing Benefit and Council Tax Benefit Investigations** The report will set out the details of the claims successfully investigated by the Benefits Investigation Team.	**Head of Function (Resources)** MarcJones@anglesey.gov.uk
9 Feb 2017 **28 June 2017** **25 July 2017** **5 Dec 2017** **13 Feb 2018**	**Internal Audit Performance against the Annual Audit Plan** To review the Internal Audit Service's performance against the Annual Audit Plan on a quarterly basis.	**Audit Manager** SionedParry@anglesey.gov.uk
28 June 2017	**Draft Report of the Head of Function (Resources) regarding the Annual Finance and Governance Report 2016/2017**	**Head of Function (Resources)** MarcJones@anglesey.gov.uk
21 Sep 2017	**Half Yearly Report on Treasury Management for 2017/2018** The report will detail the Council's position as regards compliance with its Treasury Management Strategy and Investment Strategy, and to note the current position on both investments and borrowing.	**Head of Function (Resources)** MarcJones@anglesey.gov.uk

Date	Subject	Responsible Officer (including e-mail address)
21 Sep 2017	**Treasury Management Activity and Actual Prudential Indicators for 2017/2018** The annual treasury report is a requirement of the Council's reporting procedures and covers the treasury activity for 2017/2018. The report also covers the actual Prudential Indicators for 2017/2018 in accordance with the requirements of the Prudential Code.	**Head of Function (Resources)** MarcJones@anglesey.gov.uk
21 Sep 2017	**Report of the Head of Function (Resources) regarding the Annual Finance and Governance Report 2016/2017** The Audit Committee is charged with approving the accounts on behalf of the Council, and is also charged with governance. The Audit Committee is therefore required to approve the Annual Finance and Governance Report 2016/2017, including the Statement of Accounts 2016/2017, to receive the Appointed Auditor's report on the accounts and the ISA 260, which also requires the Committee to approve the Final Letter of Representation.	**Head of Function (Resources)** MarcJones@anglesey.gov.uk
6 Dec 2016 **28 Jun 2017** **5 Dec 2017**	**Corporate Risk Register** To consider the corporate risks detailed in the Register.	**Insurance & Risk Manager** JulieJones@anglesey.gov.uk
March 2017	**Internal Audit Strategy and Annual Plan 2017 to 2018** To comply with the Public Sector Internal Audit Standards 2013, whereby the Internal Audit Strategy and Annual Plan are presented to the Audit & Governance Committee for approval.	**Audit Manager** SionedParry@anglesey.gov.uk

Date	Subject	Responsible Officer (including e-mail address)
6 Dec 2016 **9 Feb 2017**	**Investment Strategy/Minimum Revenue Policy (MRP)** To advise Members of the Investment Strategy and Minimum Revenue Policy for the forthcoming year.	**Head of Function (Resources)** MarcJones@anglesey.gov.uk
Future Items		
28 Jun 2017	**Annual Governance Statement Action Plan 2016/2017** To report on the progress made in relation to the recommendations contained within the Annual Governance Statement Action Plan 2015/2016.	**Programme, Business Planning & Performance Manager** GethinMorgan@anglesey.gov.uk
28 Jun 2017	**Internal Audit Annual Report 2016/2017** Under the terms of the Accounts and Audit Regulations, the Council is required annually to conduct a review of the effectiveness of its system of internal control and to review the Internal Audit Service's performance against the Annual Audit Plan for 2016/2017.	**Audit Manager** SionedParry@anglesey.gov.uk
25 July 2017	**Annual Governance Statement** Audit & Governance Committee are requested to comment on the content of the draft Annual Governance Statement 2016/2017 and contribute to the evaluations, conclusions and recommendations proposed to further develop or strengthen elements of the Council's governance arrangements during 2017/2018.	**Programme, Business Planning & Performance Manager** GethinMorgan@anglesey.gov.uk
9 February 2017	**Internal Audits Updates:** Business Continuity ICT Disaster Recovery	**Audit Manager** SionedParry@anglesey.gov.uk
28 Jun 2017	**Internal Audit Update:** Corporate Safeguarding	**Audit Manager** SionedParry@anglesey.gov.uk

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DDIM I'W GYHOEDDI
NOT FOR PUBLICATION

Teitl yr Adroddiad : Cofrestr Risg Corfforaethol
Title of Report : Corporate Risk Register

PRAWF BUDD Y CYHOEDD
PUBLIC INTEREST TEST

Paragraff(au) Paragraph(s) 14	Atodlen 12A Deddf Llywodraeth Leol 1972 Schedule 12A Local Government Act 1972
[un neu fwy o /one or more of 12,13,14,15,16,17,18,18A,18B,18C]	
Y PRAWF – THE TEST	
Mae yna fudd y cyhoedd wrth ddatgan oherwydd / There is a public interest in disclosure as:- Mae'r mater yn ymwneud â materion busnes y Cyngor. The matter concerns the business affairs of the Council.	Y budd y cyhoedd with beidio datgelu yw / The public interest in not disclosing is:- Mae'r mater yn cyfeirio at materion busnes y Cyngor a all niweidio buddiannau'r Cyngor yn fasnachol, ariannol ac yn gyfreithlon. The matter refers to the business affairs of the Council which could prejudice the interests of the Council commercially, financially and legally.
Argymhelliad: *Mae budd y cyhoedd wrth gadw'r eithriad yn fwy o bwys/~~llai o bwys~~ na budd y cyhoedd wrth ddatgelu'r wybodaeth [* dilewch y geiriau nad ydynt yn berthnasol] Recommendation: *The public interest in maintaining the exemption outweighs/~~does not outweigh~~ the public interest in disclosing the information. [*delete as appropriate]	

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By virtue of paragraph(s) 14 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 9

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