Public Document Pack

Dr Gwynne Jones
Prif Weithredwr – Chief Executive
CYNGOR SIR YNYS MÔN
ISLE OF ANGLESEY COUNTY COUNCIL
Swyddfeydd y Cyngor - Council Offices
LLANGEFNI
Ynys Môn - Anglesey
LL77 7TW

Ffôn / tel (01248) 752500
Ffacs / fax (01248) 750839

RHYBUDD O GYFARFOD		NOTICE OF MEETING
PWYLLGOR ARCHWILIO A LLYWODRAETHU		AUDIT AND GOVERNANCE COMMITTEE
DYDD MAWRTH, 13 CHWEFROR, 2018 am 2:00 y. p.		TUESDAY, 13 FEBRUARY 2018 at 2.00 pm.
YSTAFELL BWYLLGOR 1, SWYDDFEYDD Y CYNGOR, LLANGEFNI		COMMITTEE ROOM 1 - COUNCIL OFFICES, LLANGEFNI
Swyddog Pwyllgor	Ann Holmes 01248 752518	Committee Officer

AELODAU / MEMBERS
Cynghorwyr / Councillors:-

PLAID CYMRU / THE PARTY OF WALES

Dylan Rees, Alun Roberts, Margaret M. Roberts, Robin Williams

Y GRWP ANNIBYNNOL / THE INDEPENDENT GROUP

Gwilym O. Jones, Richard Griffiths

ANNIBYNNWYR MÔN / ANGLESEY INDEPENDENTS

R. Llewelyn Jones *(Is-Gadeirydd/Vice-Chair),* Peter Rogers *(Cadeirydd/Chair)*

AELODAU LLEYG / LAY MEMBERS

Dilwyn Evans, Jonathan Mendoza

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 OF THE 5 DECEMBER, 2017 MEETING** (Pages 1 - 12)

To present the minutes of the previous meeting of the Audit and Governance Committee held on 5 December, 2017.

3 **INTERNAL AUDIT UPDATE** (Pages 13 - 46)

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

4 **OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS, ISSUES AND RISKS** (Pages 47 - 56)

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

5 **EXTERNAL AUDIT - PERFORMANCE WORK PROGRAMME UPDATE** (Pages 57 - 68)

To present the report of External Audit.

6 **INTERNAL AUDIT STRATEGY AND ANNUAL PLAN 2018/19** (Pages 69 - 82)

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

7 **TREASURY MANAGEMENT STRATEGY STATEMENT 2018/19** (Pages 83 - 118)

To present the report of the Head of Function (Resources) and Section 151 Officer.

8 **FORWARD WORK PROGRAMME** (Pages 119 - 124)

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

9 **EXCLUSION OF THE PRESS AND PUBLIC** (Pages 125 - 126)

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”.

10 **CORPORATE RISK REGISTER** (Pages 127 - 136)

To present the report of the Head of Function (Resources) and Section 151 Officer.

AUDIT AND GOVERNANCE COMMITTEE

Minutes of the meeting held on 5 December, 2017

PRESENT:	Councillor Peter Rogers (Chair) Councillors Richard Griffiths, Dylan Rees, Alun Roberts, Margaret M. Roberts, Robin Williams Lay Members: Dilwyn Evans, Jonathan Mendoza
IN ATTENDANCE:	Chief Executive Head of Function (Resources) and Section 151 Officer ICT Business Transformation Manager (JT) (for item 2) IT Service and Performance Manager (LE) (for item 2) Risk and Insurance Manager (JJ) Principal Internal Auditor (EW) Senior Internal Auditor (SAJ) Committee Officer (ATH)
APOLOGIES:	Councillors G.O. Jones, R. Llewelyn Jones, Marion Pryor (Head of Audit and Risk)
ALSO PRESENT:	Councillor John Griffith (Portfolio Member for Finance), Gwilym Bury (Performance Audit Lead, Wales Audit Office)

1. DECLARATION OF INTEREST

No declaration of interest was received.

2. MINUTES OF THE 21ST SEPTEMBER, 2017 MEETING

The minutes of the previous meeting of the Audit and Governance Committee held on 21 September, 2017 were presented and were confirmed as correct.

Arising thereon –

- The Committee sought clarification of progress or otherwise with deciding to renew the Orchard Housing Information Management System

  The Committee was informed that a decision had been made to extend the existing Orchard system and to work with the supplier to make better use of the Business module.

- The Committee sought clarification of whether the Corporate Scrutiny Committee had considered the Internal Audit review report of School Transport to whose attention the Audit Committee had referred the matter.

  The Committee was informed that the matter is scheduled to be considered by the Corporate Scrutiny Committee at its meeting to be held on 31 January, 2018.

- In accordance with the Committee's request at its meeting held on 21 September, 2017 the ICT Business Transformation Manager reported on the Council's approach to dealing with the threat from malicious hacking activities and other forms of cyber-crime.

  The ICT Business Transformation Manager reported that cyber threats are increasing as testified to by a number of press reports. This year's cyber-attacks have reached unprecedented levels and are likely to be exceeded again next year. Attacks can be perpetrated by state actors or by individuals; they can be low level where the likelihood of success against an organisation such as a local authority is very low, or sophisticated. The Council has to ensure that IT is sufficiently protected against the whole spectrum of attacks. An emerging threat is that posed by Ransomware which is typically delivered by e-mail and associated links. In light of such a threat, user awareness training is critical for all individuals who use the technologies within the Council to ensure they remain vigilant about e-mails, attachments and what they contain or ask for. Phishing attacks for example seek to induce individuals to disclose sensitive information whilst a whaling attack is one that is targeted at senior officers. The Council subscribes to national bodies and organisations to receive alerts and updates in relation to cyber security and is a member and attendee of Cymru Warp, a national community of IT security officers who share and exchange information and experiences. Additionally, all staff are to be provided with training on cyber security and data protection via the e-learning portal. The ICT service is also looking to strengthen capacity to take a proactive approach to ICT security monitoring. Hopefully, the picture presented will help the Committee gain a better appreciation and understanding of the risks the Council faces whilst also being assured that it has in place an array of measures to obstruct potential attacks.

  The IT Service and Performance Manager reported on the technologies deployed by the Council to deal with the various levels of threats faced by it, the nature of the attacks it has experienced and how it has successfully defended against these attacks to minimise and/or avert ensuing loss and/or disruption.

  The Committee noted and took assurance from the information provided. The Committee referred back to the previous meeting where the Senior Information Risk Owner had reported that a data breach risk had been identified in connection with the autocomplete function on the Council's e-mail system. The Committee sought clarification of whether the autocomplete function should, or is to be disabled.

  The ICT Business Transformation Manager said that autocomplete has its advantages and disadvantages. In mitigation of the function, it can be useful in business terms and whilst it should be left on it requires staff on the e-mail system to regularly update their details in order to validate their credentials.

  The Chief Executive confirmed that work is being done to enable the Council's staff to upload their photo card, or alternatively if they do not wish to provide a photo, their business card onto the e-mail system. All the Council's staff will be required in due course to provide one or the other form of credentials.

  It was resolved to accept the information and to note that the Committee takes assurance from the Officers' account of the arrangements in place to protect the Council from the cyber/technological threats it faces.

  NO FURTHER ACTION WAS PROPOSED

3. INTERNAL AUDIT UPDATE

The report of the Head of Audit and Risk which provided an update on Internal Audit's progress with regard to service delivery, reviews completed, follow up action taken and implementation of management action was presented for the Committee's consideration.

The Head of Function (Resources) and Section 151 Officer summarised the main points as follows –

- That 3 internal audit review reports were finalised in the period as detailed in paragraph 3.2 of the report. Two of the reports – Licensing Services and Council Tax and Non Domestic Rates resulted in a Substantial Assurance opinion and Reasonable Assurance opinion respectively. The third Internal Audit Review report in relation in Sundry Debtors resulted in a Limited Assurance opinion and in accordance with agreed practice, the Committee has been provided with a copy of the full report separately to the agenda.
- That a second follow up review of Building Regulations Fees – Inspection and Enforcement Regimes was carried out. Although this report had a Reasonable Assurance rating and would not normally be the subject of a formally reported follow-up, no progress had been made in implementing the management actions at the first follow up visit. The second follow-up review confirmed that from the four risks raised, actions have been partially implemented to address all risks and the priority ratings have been reassessed to take into account the actions implemented to date. The Building Control Team has demonstrated good progress in implementing the actions agreed to address the risks identified and the rating remains as Reasonable Assurance for the arrangements for governance, risk management and/or internal control.
- That the graph at section 5.3 of the report shows that the Council has steadily improved its performance in implementing Internal Audit recommendations over the last 12 months, notwithstanding a slight trailing off of performance over the last month.
- That to date, 41% of the Internal Audit Operational Plan had been completed with a further 31% currently work in progress. Due to a significant slippage of work from 2016/17, the retirement of the Senior Fraud Officer and the long-term absence of a Senior Auditor, the resource available to complete the Operational Plan for 2017/18 has been reduced. Consequently, the Head of Audit and Risk has undertaken a risk assessment with Heads of Service and the Head of Function (Resources)/ Section 151 Officer. Audit reviews have been prioritised to ensure resources are targeted to the areas of highest risk.
- That the Committee should periodically review its terms of reference for appropriateness. In accordance with the Committee's Forward Work Programme, the terms of reference were due to be considered at the Committee's September meeting. It was determined that the review be postponed until the December meeting after publication of the new CIPFA guidance expected in November, 2017. However, CIPFA has confirmed it will now publish the guidance in December, 2017. Therefore, it is recommended that the review of the terms of reference be further postponed until the Committee's February, 2018 meeting.

  The Head of Function (Resources) and Section 151 Officer provided the Committee with the context to the **Limited Assurance Internal Audit review report on Sundry Debtors**. The Officer said that the audit was undertaken during a period of change within the Income section which has been undergoing a restructure since January, 2016.The purpose of the restructure amongst other things is to ensure that the Revenues section is sufficiently resourced to operate at full capacity and that there is a correct balance of resources between the various elements of the Revenue and Benefits Team. The restructure has taken longer than expected due to the appointment of two new managers for Revenues and Benefits externally and to allow them an input into the new structure. The overall aim within the Resources Service has been to develop and improve the

Council's financial systems and to make the best use of the technology available. As the developments are in addition to the staff's normal day jobs and both financial and IT resources are limited, developments have been prioritised and improving the debtors system has had a lower priority. However, the service has secured funding to improve the cash system to enable collection of more income on-line before the service is provided, which will reduce the number of invoices needing to be raised. So the service was aware of issues arising with the sundry debtors system and those are now in the process of being addressed. Despite the inefficiencies identified in the sundry debtors system, the percentage of overall debt collected over the course of the last three years is 98.9%.

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

- The Committee noted with regard to the internal audit reviews of Licensing Services and Council Tax and Non Domestic Rates that although the risks identified are identical in number and level, the assurance rating for both differs with the former assessed as providing Substantial Assurance and the latter Reasonable Assurance only. The Committee's Lay Members noted that in order to be able to appreciate the reasons for the difference in rating which they could not do from the summary provided, they would require access to the full reports. It was suggested by the Lay Members that it would in any case be helpful for them - and perhaps the Committee - to be able to see all completed internal audit reports to understand how conclusions are reached and assurance ratings determined. The Head of Function (Resources) and Section 151 Officer said that many of the review reports which Internal Audit produces can be lengthy and carry a level of detail which the Committee may not require especially if the assurance provided of the areas reviewed is Reasonable or Substantial. The Committee has to ensure that the information it receives is pertinent and manageable, it should not be so voluminous as to deflect from its main responsibility which is to satisfy itself that the Council's system of internal control is effective in managing identified risks having particular regard to any shortcomings in internal control that have been reported. To this end, the Committee is provided with Limited Assurance reports on areas where significant weaknesses in internal control have been identified so that it can be assured that action to rectify the weaknesses has been agreed and that its implementation will be monitored. Otherwise the quarterly Internal Audit update provides the Committee with assurance as to areas where the internal controls have been found to be robust and functioning properly.
- The Committee noted with regard to the Internal Audit Operational Plan that there seemed to be noticeable variances between the planned days assigned to some audits and the actual days spent on them – the audit of the Housing Benefit and Council Tax Reduction Scheme being a case in point where 15 days were assigned to the audit and 23 days actually spent on it. The Committee sought clarification of the extra days especially as the assurance provided was Reasonable suggesting that no complications requiring additional time to resolve were encountered. The Head of Function (Resources) and Section 151 Officer said that the Housing Benefit and Council Tax Reduction Scheme is a complex area so the 15 days planned allocation would have been a conservative estimate. The Committee also noted that the 11.25 days out of a planned 15 days spent on scoping the Housing Rents Readiness for Welfare Reform appeared excessive. The Senior Internal Auditor said that the service could check for an update on this position.
- The Committee noted that the Audit Plan at Appendix A makes no reference to follow-up action; the Committee sought clarification therefore of the process for allocating resources to monitoring the implementation of Internal Audit recommendations. The Head of Function (Resources) and Section 151 Officer said that a batch of days is

allocated to follow-up work with the Head of Audit and Risk then determining how these are to be allocated taking into account the views of the Committee.

- With regard to the Limited Assurance report in relation to Sundry Debtors, the Committee was concerned that although the value of invoices written off at the 2016/17 year end was only 1% of income which in a period of austerity is still a substantial amount, it has taken a length of time to recognise how inefficient the system is which suggests that the level of internal controls in place and their oversight were inadequate in bringing to Management's attention the shortcomings in what is a significant element of the Council's revenue raising function. The Committee sought assurance that the Internal Audit process is now sufficiently robust to avert a similar situation of cumulative inefficiencies over time from reoccurring, The Head of Function (Resources) and Section 151 Officer said that since his appointment to post, the priority has been to restructure the Revenues and Benefits service; the debtors system although it was not working as well as it could, was functioning in terms of recovering debt and was therefore a lesser priority. Having completed the restructure, changes can now be made to the debtors system. Additionally, the Council's financial systems are subject to more rigorous scrutiny and testing than any other service systems both by way of internal audit and also by external audit as part of the audit of accounts process. It is reasonable to assume therefore that the external auditors at the time found the level of assurance provided by the Debtors system to be adequate in terms of allowing them to certify that the Council's income was properly accounted for in its accounts otherwise the audit certificate would have specified differently.
- The Committee sought clarification of the processes for recovering Home Care debts and whether any best practices in other areas have been identified as well seeking assurance that arrangements will be put in place to ensure the collection of school transport income given that the school reorganisation programme is likely to make this task more vital. The Head of Function (Resources) and Section 151 Officer said that due to the nature of its clients, Home Care debts are difficult to recover because withdrawal of the service due to non-payment is not an option. However, the Finance Service and Social Services will have to review arrangements to ensure that recovery procedures for Home Care debtors are established. The Officer said that he was not aware of the availability of benchmarking data in relation to the recovery of Home Care debts. With regard to school transport, the Finance Service plans to make available by September, 2018 a facility that will allow parents to pay for school bus passes on-line in advance of receiving the pass as opposed to the current arrangement whereby parents are billed for the pass after it has been issued. The new system is intended to reduce the need to chase for non-payment which in the case of home to school transport is difficult because enforcement on the bus can be problematic as can recovery as the level of income involved often does not justify the costs of recovery.
- The Committee noted that due to the number of officers across a range of services which the Sundry Debtors review affects, one officer should be designated to oversee progress to ensure the recommended actions are implemented in full and in a timely way. The Head of Function (Resources) and Section 151 Officer said that the responsibility for implementation rests with the Revenues and Benefits Manager with oversight to be provided by the Section 151 Officer.

It was resolved -

- **To note Internal Audit's latest progress in term of its service delivery, assurance provision, and reviews completed, performance and effectiveness in driving improvement and to accept the assurance provided with regard to the areas reviewed and actions taken and/or proposed.**

- **To postpone the review of the Committee's terms and conditions until CIPFA issues its new guidance document.**

ADDITIONAL ACTION PROPOSED: The Chair, Portfolio Member for Finance and Head of Function (Resources) /Section 151 Officer to meet with the Committee's two Lay Members to consider how best to enable them to have access to the range of Internal Audit reports in support of their role on the Committee.

4. EXTERNAL AUDIT: ANNUAL AUDIT LETTER

The Annual Audit Letter for 2016/17 along with the notice of the certification of the completion of the audit of the 2016/17 accounts were presented for the Committee's information.

The Audit Letter confirmed the following –

- That the Council complied with its responsibilities relating to financial reporting and use of resources
- That the Auditor General is satisfied that the Council has in place appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources
- That the Auditor General issued a certificate confirming the completion of the audit of accounts on 29 September, 2017
- That to date external audit work on the certification of grant claims and returns has not identified significant issues that would impact on the 2017/18 accounts for key financial systems.

It was resolved to accept and to note the external audit documentation.

NO ADDITIONAL ACTION WAS PROPOSED

5. MID-YEAR REVIEW OF TREASURY MANAGEMENT

The report of the Head of Function (Resources) and Section 151 Officer incorporating a review of the Treasury Management position at mid-year 2017/18 was presented for the Committee's consideration.

The Head of Function (Resources) and Section 151 Officer reported on the main points as follows:

- That the Treasury Management Strategy Statement (TMSS) for 2017/18 was approved by the Council on 28 February, 2017. There are no policy changes to the TMSS; the details provided in the mid- year review report updates the position in the light of the updated economic position and budget changes already approved.
- The table at 5.2 of the report shows the revised estimates for capital expenditure in comparison to the capital budget. The current estimate for capital expenditure is behind the original estimate mainly due to the New Highways to Wylfa being delayed until the next financial year and the Holyhead Strategic Infrastructure still awaiting WEFO funding. However, there are no significant changes to the financing of the capital programme to report at this stage.
- The table at 5.4.2.1 of the report shows the Capital Financing Requirement (CFR) which is the underlying need to borrow externally to fund capital expenditure. The Council is currently slightly below the original forecast CFR due to the forecast underspend in the 21st Century schools programme meaning less borrowing will be undertaken in 2017/18. The table also shows the expected debt position (or operational boundary) over the period. The Council is at present £47m approximately within the boundary.

- Section 6 of the report outlines the position with regard to the Council's investment portfolio for 2017/218. A full list of investments as at 30 September, 2017 is provided in Appendix A to the report. The approved limits within the Annual Investment Strategy were not breached during the first six months of 2017/18.
- The projected CFR for 2017/18 is £138.1m.The Council has projected year end borrowing of £118m and will have used £20.1m 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. Whilst no borrowing was undertaken during the first half of the financial year, it is anticipated that borrowing will need to be undertaken during the second half of the year. Paragraph 7.3 gives details of two separate long term loans with the PWLB that matured during the first six months of the financial year.
- No debt rescheduling has been undertaken to date in the current financial year.
- Paragraph 9 of the report outlines activity since the end of Quarter 2, principally the arrangements made with regard to borrowing £5m from Tyne and Wear Pension Fund South Shields.
- Section 11 of the report provides an update on TM related matters in relation to revised CIPFA codes and regulations under MIFID ll - these govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities as from 3 January, 2018 and the options available to the Council in terms of opting up to professional status or retaining retail client status.

The Committee considered the information presented and commented as follows –

- The Committee noted the interest rate forecast provided by the Council's treasury advisors as at paragraph 3.1 of the report. The Committee sought clarification as to the reliability of the forecast and consequently how much reliance the Council should be placing on it for treasury management planning purposes given that it assumes the bank rate will be 0.25% in March, 2019 when it has already risen to 0.50% in November, 2017. The Head of Function (Resources) and Section 151 Officer said that the forecast will influence the timing of the Authority's borrowing (although PWLB loans tend to be fixed rate) and is meant to be indicative of trends and as such, is more relevant to the loans which the Authority has over the long-term. The Council's treasury advisors are not predicting a significant rise in interest rates over time and their projections will be taken into account by the Authority in deciding the most opportune time to commit to a loan. However, it is not the Authority's policy to borrow on the basis of the rate because unless it is for a specific purpose, a loan will cost more for the Authority to carry than it can hope to make up by way of investment return.
- The Committee sought clarification of the variance with regard to the original and revised estimates for capital grants. The Head of Function (Resources) and Section 151 Officer said that the variance is due mainly to the delay in the new highways to Wylfa; whilst the original plan provided for the work to be undertaken prior to the submission of the Development Consent Order (DCO) for the new nuclear build, the revised plan sees the highways element become part and parcel of the DCO meaning that little actual work on the new road to Wylfa will take place before permission for the new nuclear power station is granted. The Council as Highways Authority will be undertaking the work which is being funded by Horizon; this is being treated as a capital grant and although the new highways programme has slipped into 2018/19 the funding for it will still be available at that time.
- The Committee sought clarification of the funding position with regard to the 21st Century Schools programme given that the report refers to a forecast underspend on the programme with the result that less borrowing will be undertaken in 2017/18. The Head of Function (Resources) and Section 151 Officer said that funding for the 21st

Century Schools Programme is shared between the Authority and the Welsh Government; the Authority's share is made up of borrowing whilst one third of the Welsh Government's share is made up of a grant and two thirds is made up of supported borrowing i.e. the Authority does the borrowing whilst Welsh Government provides additional funding as part of the annual settlement to cover the cost of the Minimum Revenue Provision (MRP) and interest. The Authority can use capital receipts from the sale of redundant school assets as part of its share of the funding meaning it only has to borrow the balance through unsupported borrowing i.e. borrowing whereby the Authority has to fund the cost of the MRP and interest from its own budget. If the Authority is able to make savings by way of realising the sale of schools that have closed, then those can reduce its borrowing commitment and the associated revenue costs that come with borrowing.

- The Committee noted that the capital expenditure rate has to accelerate in order to progress from the September, 2017 position to the current estimate. The Committee sought clarification of whether this is realistic. The Head of Function (Resources) and Section 151 Officer said that while capital schemes usually take some time to get started, the Finance Service will hold discussions with project managers regarding the progress of expenditure leading to a joint Finance and Service projection of spend. Historically, capital expenditure has been weighted towards the second half of the financial year; this might be because Services are not able to commence expenditure until late February when the capital budget is approved – until then they have no authority to do so. The Finance Service will seek to ensure that no grant funding is lost due to slippage on capital schemes particularly in relation to the 21st Century Schools programme which is the Authority's largest grant where a specific level of expenditure is required. Should adverse weather conditions delay or prevent work being undertaken on the latest phase of the programme so that the required level of spending has not happened then the Authority will consult with the Welsh Government on ways to maximise the grant.

It was resolved to accept the TM mid-year review report 2017/18 with the recommendation to the Executive that with regard to financing the Council's part of the Twenty-first century schools programme expenditure, a proactive approach is taken to ensure the timely sale of assets so as to reduce the Council's need to borrow along with the associated revenue costs arising from the borrowing.

NO ADDITIONAL ACTION WAS PROPOSED

6. REVIEW OF RISK MANAGEMENT STRATEGY AND FRAMEWORK

The report of the Head of Function (Resources) and Section 151 Officer incorporating the Risk Management Policy and Guidance was presented for the Committee's consideration.

The Insurance and Risk Manager reported on the outcome of the review of the Risk Management Strategy and Framework which was undertaken by the Head of Audit and Risk and the Risk and Insurance Manager in conjunction with the Senior Leadership Team and Heads of Service during Quarter 2. The review highlighted areas where improvements can be made mainly in relation to fully embedding risk management processes within the Council's working practices so that it becomes an integral part of informed decision making rather than a tick-box paper exercise, as well as the steps being taken or already implemented to ensure the improvements take place. The review also found that Elected Members and Officers are not always fully informed of the risks involved when taking decisions; neither has training on risk management been offered to Elected Members although senior and middle managers have received the training.

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

- The Committee having considered the Risk Management Guidance noted that the document sets out an approach to risk that appears to be onerous in terms of its complexity and level of detail. As such, it could be off-putting to managers and could reinforce the impression of risk management as a tick-box exercise rather than as a practice to be applied in a meaningful way as part of day to day operational activities and decision making. The Insurance and Risk Manager said that the guidance has been put together with the support of an external consultant and is pitched at a level which it was agreed Management required at the time; an abridged version covering the principal considerations is available on the Council's intranet site.
- In light of the recent flooding event the Committee sought clarification of the process for reviewing the risk of reoccurrence or if flooding does reoccur, the steps that will be taken to reduce the impact on the Council. The Chief Executive confirmed that the Council has commenced the lessons to be learnt process after the flood; the Head of Function (Resources) and Section 151 Officer said that with regard to the Council office building specifically, the review of what happened will generate a lessons learnt log which will in turn feed into the relevant risk register.
- The Committee sought clarification as to what level of decision making does the Risk Management process come into effect i.e. whether there is a risk to the Council in any way from decisions that may be taken at a more junior level. The Insurance and Risk Manager said that risks are assessed according to impact and likelihood against agreed criteria using descriptive scales; having made this assessment it is then a matter for Management and the level of authority and scope to act which an individual has. The Head of Function(Resources) and Section 151 Officer said that decision making and responsibility are commensurate with post, so that decisions taken at a more junior level would not be expected to have an impact on the service.
- The Committee noted that given Risk Management is a vitally important part of Council activities, it is therefore equally important that the Risk Management process is clearly articulated to staff so that they know what is expected of them. The Committee sought assurance therefore that appropriate direction is provided to staff on risk managing and risk assessing as part of their day to day activities. The Insurance and Risk Manager said that the message about the importance of risk management has been imparted to Heads of Service and that it has also been agreed that they will meet with the Insurance and Risk Manager twice a year to review their service registers – the most recent update was in the Autumn. The Head of Function (Resources) and Section 151 Officer said that repositioning the Insurance and Risk Manager so that the latter reports directly to the Head of Audit and Risk has invested the role with more authority thereby raising the profile of risk management within the Council. The Insurance and Risk Manager now attends meetings of the Senior Leadership Team every quarter and is able to update the SLT on any non-compliance by services.
- The Committee further noted that the Senior Leadership Team (SLT) had not reviewed the Corporate Risk Register during the first half of 2017.The Committee therefore sought assurance of the Officers that Risk Management is now embedding within SLT as well as Heads of Services' practices and it sought clarification also of the actions that would be taken to ensure that this is the case going forwards. The Head of Function (Resources) and Section 151 Officer said that the Audit Committee will be provided with regular updates on risk management and if as part of those reports the Head of Audit and Risk and/or the Insurance and Risk Manager find that the SLT and/or Heads of Service are not complying with established processes then the Audit Committee will be informed.

It was resolved that the Committee having considered the information presented and the assurances given on the issues raised verbally, accepts and notes the content of the report and takes assurance that although there remains work to be

done to fully embed risk management throughout the Council, progress has been made and is continuing.

NO ADDITIONAL ACTION WAS PROPOSED

7. 2017/18 FORWARD WORK PROGRAMME

The Committee's Forward Work Programme to September, 2018 was presented for the Committee's consideration and review.

With regard to the Children's Services Improvement Plan, Councillor Richard Griffiths as the Corporate Scrutiny Committee's representative on the Children's Services Improvement Panel confirmed that regular progress reports are being made to the Corporate Scrutiny Committee and that progress is currently on target.

It was resolved to accept the Work Programme as presented.

NO ADDITIONAL ACTION WAS PROPOSED.

Councillor Peter Rogers
Chair

ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Audit and Governance Committee
Date:	13 February 2018
Subject:	Internal Audit Update
Head of Service:	Marc Jones, Head of Function (Resources) / S151 Officer 01248 752601 MarcJones@ynysmon.gov.uk
Report Author:	Marion Pryor, Head of Audit and Risk 01248 752611 MarionPryor@ynysmon.gov.uk
Nature and Reason for Reporting: This report provides information on work carried out by Internal Audit since the last Committee meeting. It allows the Committee to monitor Internal Audit's performance and progress as well as providing summaries of Internal Audit reports so that the Committee can receive assurance on Council services and corporate areas.	

1. Introduction

1.1. The report provides an update as at 26 January 2017 on:

- Internal Audit reports issued since 17 November 2017
- Follow up of previous internal audit reports
- Implementation of management actions
- Progress in delivering the Internal Audit Annual Plan 2017/18
- Specific updates requested by the Audit and Governance Committee
- A review of the Committee's terms of reference

2. Recommendation

2.1. That the Audit and Governance Committee notes Internal Audit's latest progress in terms of its service delivery, assurance provision, reviews completed, performance and effectiveness in driving improvement and decides whether it needs any further assurance on audit reports.

2.2. That the Audit and Governance Committee approves the postponement of the review of its terms and conditions until the Chartered Institute of Public Finance and Accountancy (CIPFA) issues its new guidance document.

CYNGOR SIR
YNYS MÔN
ISLE OF ANGLESEY
COUNTY COUNCIL

Internal Audit Update

February 2018

Marion Pryor BA MA CMIIA CPFA
Head of Audit & Risk

Internal Audit reports recently issued

1. This section provides an overview of recent Internal Audit reports, including the overall Assurance Rating and the number of Issues / Risks raised in the report's action plan.

2. I have considered the Committee's comments made during the December 2017 meeting about the apparent inconsistency in the assurance rating awarded and therefore increased the level of detail I have provided about each audit below. This provides the Committee with more information to allow members to understand the reason for the assurance rating.

3. We have finalised five reports in the period, summarised below:

Title	Assurance Level	Catastrophic	Major	Moderate	Minor	Total
General Data Protection Regulations (Interim Report)	**Reasonable**	0	0	3	0	3
Capital Expenditure	**Substantial**	0	0	0	0	0
Housing Rents – Readiness for Universal Credit	**Reasonable**	0	3	7	1	11
Supporting People Programme	**Substantial**	0	0	0	0	0
Referral – Payroll Overpayment	**n/a**	0	0	0	0	0

General Data Protection Regulations (Interim Report)

	Risks / Issues	
Reasonable Assurance	**0**	**Catastrophic**
	0	**Major**
	3	**Moderate**
	0	**Minor**

4. The purpose of our audit was to provide assurance of the readiness of the Council to implement changes under GDPR and whether the Council will be in a position of compliance by 25 May 2018. We will deliver a follow up report during 2018/19.

5. The Council's senior managers have been informed and made aware of the new regulation and the Head of Council Business/Senior Information Risk Owner (SIRO) has reported to the Senior Leadership Team and the Audit and Governance Committee.

6. A Corporate Implementation Plan and an incremental Action Plan has been established for senior managers to ensure GDPR is considered. Although the Corporate Information Governance Board is managing Corporate Implementation Plan, it does not include target dates and accountability, and as a result, there is a risk that it cannot be effectively monitored for progress and completion by 25 May 2018.

7. As at November 2017, only the Learning Service has highlighted the risk of data processing activities not meeting requirements under the General Data Protection Regulations leading to the ICO imposing financial penalties. There is a risk that the remaining services have not considered GDPR to be of high risk and priority, leading to actions not being prioritised for implementation by the compliance date.

8. In considering the preparatory work carried out to date, we are able to provide **'Reasonable Assurance'** regarding the Council's preparations for the General Data Protection Regulations. This is based on services being able to implement the action plan in accordance with the target dates, in particular stage 2 of the action plan, where services are required to map their data by March 2018. Where the action plan cannot be completed within the stated timeframe, the Council will have to ensure implementation on a priority basis i.e. identify where personal information is most at risk and implement GDPR in that order.

9. On a separate issue, we found that the Corporate Information Governance Board has not circulated information on GDPR compliance to schools/ Head Teachers. This was not included in the corporate plan as a priority at the time due to limited resources. Schools are separate establishments acting as independent bodies under the new regulations and will need to establish their own compliance. As the schools have not been included as part of the corporate communications on GDPR, there is a risk that schools are unaware of the regulations and requirements for GDPR compliance and cannot prepare by the compliance date. This issue will be the subject of a separate internal audit during 2018/19.

Capital Expenditure

Substantial Assurance	Risks / Issues	
	0	Catastrophic
	0	Major
	0	Moderate
	0	Minor

10. The purpose of the audit was to provide assurance on the governance of the capital programme, systems for assessing, approving and funding capital projects, risk management procedures, performance monitoring and reporting arrangements and systems for review and reconciliation of contract final accounts including assessment and reimbursement of any recoverable funding.

11. The Council has developed a capital strategy to ensure it uses its resources in an efficient and effective way. Procedures allow flexibility, subject to formal approval, and the Council holds funds in reserve to accommodate emerging priorities. The Full Council approves the Capital Plan on an annual basis as part of the budget setting process.

12. Capital spending decisions in the period under review were in accordance with the Council's approved prudential indicators and limits.

13. There is an on-going programme of financial monitoring. The Council recently established a Finance Scrutiny Panel as a permanent panel of the Corporate Scrutiny Committee. Although arrangements are not finalised, the Panel's work programme will include scrutiny of expenditure against budget profile and scrutiny of the response of the Executive to budget monitoring arrangements.

14. Corporate Scorecard reports to Scrutiny Committee include status updates for key projects and an assessment of the deliverability risk for each scheme. Assurance is provided in the report that the two Corporate Transformation Programme Boards oversee key programmes and projects in which the Council is involved. In addition, the Council has established a Corporate Land & Built Assets Group to ensure a co-ordinated corporate approach to the management of assets and alignment of assets with current and future service delivery.

15. Business cases support all capital projects and include details of options appraisals conducted. Testing on a sample basis confirmed that capital bids are assessed in accordance with the scoring scheme.

16. There is a process for routine review of all final accounts relating to contracts over £250k.

17. No risks were raised as part of this audit review. Consequently, considering all these factors, we are able to provide **'Substantial Assurance'** on the governance and management of risk and control for the arrangements for Capital Expenditure.

Housing Rents – Readiness for Universal Credit

	Risks / Issues	
Reasonable Assurance	**0**	**Catastrophic**
	3	**Major**
	7	**Moderate**
	1	**Minor**

18. The purpose of this audit was to provide assurance on the readiness of the Council's Housing Rents Section for the introduction of Universal Credit. We did not look at the effect of Universal Credit on the corporate structure. We will review the Council's Welfare Reform Strategy separately during 2018/19, which will cover the effects of welfare reform and the Council's response, including items such as the Anti- Poverty Strategy, the Corporate Debt Policy and Welfare Reform Framework.

19. Universal Credit is gradually replacing six existing means-tested benefits and is intended to simplify the benefit system and improve work incentives. It will become full-service in Anglesey in June 2018. Numbers in receipt of this benefit will remain low in the short-term, but analysis from external consultants (Policy in Practice, May 2017) estimates that at least 3,774 households in Anglesey will receive the new benefit when it is fully implemented.

20. The current average rent arrears per tenant is £245. If they were to double as suggested[1], average rent arrears would increase to £490, increasing the total arrears, including the former arrears, to just over £1.1m.

21. Flintshire County Council was the first Welsh local authority to commence the rollout of Universal Credit a year ago and it has £354,000 of outstanding rent arrears by tenants on the new benefit.

22. A draft Arrears policy is available although no formal procedures are currently available on how to deal with Universal Credit tenants, including issues related to safeguarding and tackling poverty, in addition to collecting rental income and arrears due to a delay in the award and receipt of payments.

23. The current gap between people receiving their legacy benefit and Universal Credit is five weeks. However, there is also a need for claimants to submit accurate claims in the first instance to reduce any opportunities for delay in receiving payments. Advance payment applications are encouraged where necessary, to bridge the gap/delay in the awarding of Universal Credit and receipt of payment as applications for advance payment will be accepted up to 100% of the expected award.

[1] Welfare Weekly's report, headlined "Universal Credit has pushed 86% of claimants in council housing into rent arrears" suggests the average value of rent arrears owed by Universal Credit claimants living in council housing has almost doubled from £321 to £615.

24. The Service has established a Welfare Reform Action Plan and a separate Housing Services Action Plan on preparing for Universal Credit although the temporary leave of a senior manager places additional pressures on delivering both plans.

25. Currently, there is no profiling of tenants or a service strategy on identifying vulnerable clients. There is a risk that tenants will not be identified to enable the Housing Service to provide pro-active targeting of vulnerable clients prior to the roll out, possibly increasing arrears, placing pressure on resources and possible loss of funds to the Council. The lack of profiling also means that the Council is less able to accurately measure and forecast the potential effect of Universal Credit on Housing Rents.

26. Administrative delays in the processing of payments increases the risk of placing pressure on the Recovery Section, possibly wasting Council resources. Individual accounts may show inaccurate arrears due, possibly prompting recovery sequences and causing reputational damage to the Council.

27. The Housing Rents system's current configuration does not reflect the Council's policy. As a result, resources are wasted in reviewing unnecessary records and if unresolved prior to the roll out, there is a risk that the system is ineffective in the prompt recovery of arrears, increasing pressure on resources, increasing rent arrears and possibly causing financial loss to the Council. There is also a risk that management is unable to identify true issues for review.

28. Considering the above and the preparatory work undertaken by the Housing Service in readiness for the introduction of the new benefit, we are able to provide **'Reasonable Assurance'** for the Housing Services' readiness for Universal Credit with regards to Housing Rents. We have therefore raised 11 Issues/Risks for management attention.

Supporting People Programme

Substantial Assurance	Risks / Issues	
	0	Catastrophic
	0	Major
	0	Moderate
	0	Minor

29. The Welsh Government distributes the Supporting People Grant on an annual basis. The Council has received £2.6m per annum over the last few years, which has been confirmed for 2018/19.

30. Third parties and other sections within the Council provide services. Testing highlighted that contracts are managed appropriately. Although audit testing of procurement activity was limited to high level testing only, it was found that permission was granted to postpone some procurement exercises due to their complexity and changes to services. There is a process in place to ensure that payments are monitored against the budget. The terms and conditions of the Grant were mostly found to be adhered to. The Supporting People Team recognised that some provisions related to learning disabilities were not eligible to receive the Supporting People Grant and has taken steps to address this issue.

31. Consequently, we were able to provide **'Substantial Assurance'** for the arrangements for the administration and governance of the Supporting People Programme. We have not raised any Issues / Risks for management attention.

Referral – Payroll Overpayment

32. The Accountancy Services Manager notified Internal Audit that a member of staff employed to work as a cleaner had continued to receive wages despite the establishment being closed and subsequently sold.

33. We established that the cleaner did not receive formal notice of termination of her contract from either the Service or HR. Investigations concluded that there was no fraudulent intent on the part of the employee and the root cause was due to lack of clarity in the responsibility for the management of the cleaner and an oversight by a manger. HR has informed Internal Audit that there is a drive to bring all cleaners under the control of Property Services so that they are consistently managed and their work and attendance is monitored.

34. As the employee is in the process of repaying the overpaid amount, we have not made any formal recommendations at this time. However, we advised that the Service should consider whether its current budget monitoring process addresses the risk of inaccurate payments being made and/or to staff after they have left the Council or the service.

Follow up of previous Internal Audit reports

35. Currently, we follow up all reports with an assurance rating of ‘Limited’ or below.

36. One ‘Limited Assurance’ report is currently in the process of being followed up and will be reported to the April meeting of the Committee:

- School Transport

37. We have finalised six follow up reviews of ‘Limited Assurance’ reports in the period:

Title	Follow Up	Progress	Assurance Level	Catastrophic	Major	Moderate	Minor	Total
Logical Access & Segregation of Duties	**2**	**Little**	**Limited**	0	3	2	0	5
Affordable Housing, Houses into Homes and Self-Build Loan Scheme	**2**	**Reasonable**	**Reasonable**	0	1	1	0	2
Extra Care Housing – Commissioning Arrangements (First Follow Up)	**1**	**Good**	**Substantial**	0	0	0	0	0
Payment Card industry Data Security Standards	**1**	**Little**	**Limited**	0	6	4	1	11
Child Care Court Orders	**1**	**Reasonable**	**Limited**	1	3	3	1	8
Corporate Procurement Framework	**1**	**Good**	**Limited**	1	1	9	1	12

Logical Access & Segregation of Duties (Second Follow Up)

		Original Issues / Risks	Outstanding Issues / Risks (First Follow Up)	Outstanding Issues / Risks (Second Follow Up)
Little Progress	Report Date	September 2014	January 2015	December 2017
	Assurance	Red	Red	Limited
	Catastrophic	7	5	0
	Major			3
	Moderate	6	6	2
	Minor	2	1	0

38. We originally undertook a review of logical access and segregation of duties controls as part of the annual Internal Audit Plan in 2014/15. The review covered the maintenance of lists of applications and computerised systems operated by the Council; applications and procured systems meeting Council requirements; appropriate segregations of duties and the control of user access rights.

39. Our first review resulted in a ‘Red’ rating, equivalent to a ‘Limited Assurance’ under the new audit approach. The review resulted in fifteen recommendations and one suggestion being made.

40. We undertook a follow up review in January 2015, which again resulted in a ‘Red’ rating and confirmed that 12 recommendations remained outstanding.

41. Our second follow up review has confirmed that from the 12 outstanding recommendations, seven have been implemented or superseded and five have been partly implemented.

42. The ‘Major’ risks outstanding include evidence of the staff’s acceptance of ICT policies and issues around the separation of duties within the Payroll system.

43. Recommendations assessed as not fully implemented have been amended in accordance with the new audit approach of raising Issues and Risks, which are aligned to the corporate risk matrix.

44. Due to the length of time the risks have been outstanding, the Council has demonstrated **‘little progress’** in implementing actions agreed to address all the audit recommendations and as a result and due to the nature of the risks outstanding, the level of assurance remains as ‘**Limited’**. We will therefore continue to monitor the outstanding risks to ensure they are addressed.

Affordable Housing, Houses into Homes and Self-Build Loan Scheme (Second Follow up)

		Original Issues / Risks	Outstanding Issues / Risks (First Follow Up)	Outstanding Issues / Risks (Second Follow Up)
Reasonable Progress	Report Date	December 2015	December 2016	December 2017
	Assurance	Red	Red	Reasonable
	Catastrophic	3	3	0
	Major			1
	Moderate	11	5	1
	Minor	7	4	0

45. We undertook a review of Affordable Housing, Houses into Homes and Self-Build Loan Scheme as part of the 2014/15 Audit Plan. The final report issued in December 2015 resulted in a ‘Limited Assurance’ rating.

46. Since the last follow up review, the outstanding recommendations have been replaced with Issues / Risks in line with the new audit approach. One ‘Major’ risk remains, where the Council may not be fully accounting for income related to commuted sums payable. The Housing Business Manager and the Planning Development Management Manager are working together to address this issue by the end of January 2018.

47. The Council has demonstrated **‘reasonable progress’** in addressing the audit risks. Taking account of the issues identified in the remainder of the report the level of assurance has increased to **‘Reasonable Assurance’**.

Extra Care Housing – Commissioning Arrangements (First Follow Up)

		Original Issues / Risks	Outstanding Issues / Risks
Good Progress	Report Date	December 2016	December 2017
	Assurance	Limited	Substantial
	Catastrophic	1	0
	Major	3	0
	Moderate	2	0
	Minor	0	0

48. We undertook a review of the commissioning arrangements of the Extra Care Housing unit as part of the annual Internal Audit Plan in 2016/17. The final report issued in December 2016 resulted in a 'Limited Assurance' rating.

49. Our review confirms that management has addressed all six recommendations, or management has put processes in place to ensure they are addressed when the situation arises again in the future. These actions have been included in a Lessons Learnt Log.

50. The Council has demonstrated **'good progress'** in addressing the Issues / Risks and as a result the assurance rating has increased to **'Substantial Assurance'**.

Payment Card Industry Data Security Standards Compliance (First Follow Up)

		Original Issues / Risks	Outstanding Issues / Risks
Little Progress	Report Date	September 2016	January 2018
	Assurance	Limited	Limited
	Catastrophic	0	0
	Major	12	6
	Moderate	7	4
	Minor	0	1

51. We undertook a review of compliance with the Payment Card Industry Data Security Standard compliance (PCI DSS) during 2016/17. The final report issued in September 2016 resulted in a 'Limited Assurance' rating.

52. Our follow up review confirms that although little progress has been made, there is a plan to address the outstanding issues and where action has been taken, the reduction in the risk has been taken into account.

53. The Revenue and Benefits Manager made a request for ICT support in working towards PCI DSS compliance. However, the ICT Service did not have the resources available to assist with this, although the ICT Service is assisting with the mapping of the card payment environment.

54. An upgrade has been purchased for the income management system and will be implemented in the near future. This upgrade will provide new features to meet PCI DSS requirements and it was therefore decided to postpone the work towards PCI DSS compliance until this is completed and then procure the services of a PCI DSS Assessor to create an action plan to work towards compliance.

55. The need to ensure compliance with PCI DSS requirements has been included in the Resources Service Delivery Plan for 2017/18 with a target to "complete review of current compliance and draw up action plan" for the year. It is also included in the service risk register and has been discussed at length during the review of the Resources Risk Register.

56. As the Council has demonstrated **'little progress'** in addressing the Issues / Risks, the assurance rating remains as **'Limited Assurance'**. We will revisit during October 2018 to monitor progress with addressing the risks.

Child Care Court Orders under the Public Law Outline (First Follow Up)

		Original Issues / Risks	Outstanding Issues / Risks
Reasonable Progress	Report Date	January 2017	January 2018
	Assurance	Limited	Limited
	Catastrophic	5	1
	Major	8	3
	Moderate	13	3
	Minor	3	1

57. A review of the process relating to childcare court cases under the Public Law Outline was undertaken as part of the annual Internal Audit Plan in 2016/17. The final report issued in January 2017 resulted in a 'Limited Assurance' rating.

58. The removal of a child from its parent is in some cases essential to ensure the safety and wellbeing of a child. The Public Law Outline (PLO) is a protocol attempting to reduce unwarranted delays in family court cases.

59. A CSSIW Inspection of Children's Services report was issued in March 2017 with a number of critical-rated and some positive findings. The Service has produced an improvement plan and is currently working towards implementing the improvement plan.

60. Our follow up review confirms that from the 29 recommendations made, 11 have been implemented to date with a further 14 partly implemented.

61. Since the beginning of the original audit in 2016, there has been significant staff turnover and the service has experienced difficulties in filling some posts. The current Head of Service has been in post since 27 November 2017. A new IT system was implemented in August 2017 to replace the previous RAISE system with work undertaken to ensure a smooth crossover between the two systems.

62. The Service has undergone a re-structuring process during the year aiming for Practice Leaders to be responsible for three to four Social Workers to ensure they have more access to their manager resulting in quicker advice and a more adequate support and supervision process. A Quality Assurance Framework has also been approved aiming to provide safe professional practice; supporting the right children / adults, in the right way, at the right time; evaluating whether it is making a difference to practice improvement; providing a professional context that supports learning, reflection, openness and supportive challenge.

63. The service is focused on improving the quality of the services provided, including Court work (with the development of a Court Action Plan), case recording, assessments, reviews, visits and analysis of risk.

64. A report presented to the Scrutiny Committee on 13 November 2017 states that the number of children on the Child Protection Register has reduced significantly from 102 in March 2017 to 56 on 31 August 2017. This is a reduction of 55%. This is believed to be as a result of working proactively with families and helping them to change.

65. The outstanding ‘Catastrophic’ risk relates to Support worker visits being conducted in accordance with the care plan during court proceedings. This could result in children not being seen and supported for a longer period than what was assessed to be necessary according to the risk identified. Management states that all Support Worker visits do comply with all care plans and that failure to comply could lead to disciplinary proceedings being followed against the member of staff. While certain documents such as letters before proceedings, and pre-proceedings meetings were not always found on the system, it was assured that relevant letters and meetings have taken place and the weakness is in the uploading of information onto the system.

66. We therefore conclude that significant work has been undertaken to improve the efficiency and the quality of services provided and to improve the recruitment of Social Workers. However, further work is required to ensure that policies / procedures are fully embedded in the daily staff processes.

67. Recommendations have been amended in accordance with the new audit approach of raising Issues and Risks. As a result, it has been possible to combine some of the original recommendations.

68. The Council has demonstrated **‘reasonable progress’** in implementing actions agreed to address the audit recommendations. However, due to the outstanding ‘Catastrophic’ risk, the level of assurance remains as ‘**Limited’**. We will undertake a further follow up review during 2018/19.

Corporate Procurement Framework (First Follow Up)

		Original Issues / Risks	Outstanding Issues / Risks
Good Progress	Report Date	September 2017	January 2018
	Assurance	Limited	Limited
	Catastrophic	1	1
	Major	1	1
	Moderate	16	9
	Minor	2	1

69. From the 20 Issues/Risks raised in September 2017, 10 (nine of moderate priority and one minor) had management actions that were due to be completed by 31 December 2017 and were the subject of our follow up review. We have confirmed that action has been completed for seven of the 10 Issues/Risks raised, with one partially completed. A further action with a target date of February 2018 was also found to have been implemented.

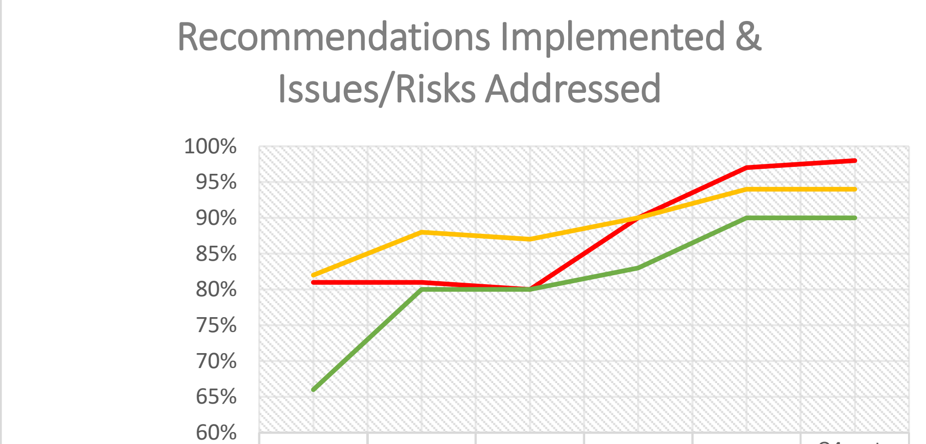
70. The two Issues/Risks where action has not been completed involves the updating of draft terms and conditions available for use on the intranet to include safeguarding and the most recent Welsh Language Standards. It was confirmed that the Legal Department has contacted the relevant officers for advice on wording but is yet to receive a response.

71. The Council has demonstrated **'good progress'** in implementing actions with an agreed target date of December 2017. However, the assurance level of the report remains as a **'Limited Assurance'** level due to the priority level of the remainder of issues raised which are yet to reach their target implementation date. We will undertake a further follow up review in July 2018 to monitor the progress of addressing the Issues/Risks.

Implementation of Management Actions

72. As part of the new internal audit approach, we have moved away from making recommendations to raising ‘Issues’ and ‘Risks’. To encourage management to have ownership for the risks, we place the responsibility on them to develop the action to address the issues / risks we have identified.

73. To provide the Committee with trend information, the graph below highlights the performance in implementing the recommendations / addressing the risks:



	Q3 2016/17	Q4 2016/17	Q1 2017/18	Q2 2017/18	Q3 2017/18	Q4 up to 26/01/18 2017/18
High Red Amber	81%	81%	80%	90%	97%	98%
Medium Yellow	82%	88%	87%	90%	94%	94%
Low Green	66%	80%	80%	83%	90%	90%

74. As can be seen, the Council has steadily improved its performance over the last 13 months with a significant increase over the last six months.

75. Analysis of the outstanding Issues/Risks has highlighted that the extension to the target dates for addressing the Payment Card Industry Data Security Standards and the Children’s Court Orders under the Public Law Outline Issues/Risks has been the main contributor to the increased performance. The percentage could creep down once these reach their target dates.

76. This highlighted that managers assigned with implementing actions could extend the target implementation date without reference to Internal Audit. We have now withdrawn this facility from managers and all requests for the date to be extended must be made to Internal Audit, who will consider the circumstances before agreeing to extend. We expect that this will have an impact on the implementation rate and performance will worsen in the short-term.

77. A more detailed report of all outstanding recommendations and Issues/Risks is made twice a year and follows this report.

Progress in delivering the Internal Audit Operational Plan 2017/18

78. Due to a significant slippage of work from 2016/17, the retirement of the Corporate Fraud Officer and the long-term absence and resignation of a Senior Auditor, the resource available to complete the Operational Plan for 2017/18 has reduced.

79. Consequently, the Head of Audit and Risk has undertaken a risk assessment with Heads of Service and the Head of Function (Resources) / Section 151 Officer. Audit reviews have been prioritised to ensure resources are targeted to the areas of highest risk.

80. The Revised Annual Plan is attached at Appendix A. To date, we have completed 64% of the revised plan, with a further 23% currently work in progress – a combined total of 87%. Ninety-two percent of audits have been completed in time, against a target of 90%. We have submitted 84% of our reports to the targeted Audit and Governance committee meeting.

81. Following the Head of Audit and Risk's commencement in post in April 2017, work has been ongoing to revise and modernise the internal audit approach, including a *Systems Thinking* exercise to identify efficiencies and improve the process and reporting mechanisms. This work continues.

Items requested by the Audit and Governance Committee

82. No specific items were requested at its meeting of 5 December 2017.

Other Issues

Audit and Governance Committee Terms of Reference

83. The Committee should periodically review its terms of reference for appropriateness. It last reviewed and approved its terms of reference in February 2015, with approval granted by the Executive in April and the County Council in May 2015.

84. In accordance with the Committee's Forward Work Programme, the terms of reference were due to be submitted to the Committee's September meeting. However, at this meeting, the Committee approved the postponement of the review of the terms of reference until the Committee's December meeting, following publication of the new CIPFA guidance, anticipated to be November 2017.

85. Members of the Committee will recall from the December meeting that CIPFA had postponed publication until December 2017 and the Committee approved the postponement of the review of its Terms of Reference.

86. However, CIPFA has again postponed publication. Although the document is complete, CIPFA has to wait for the Home Office, which is bringing out a new Financial Management Code of Practice that impacts on police audit committees. It has confirmed it will now publish the new guidance in March 2018.

87. Therefore, it is proposed to postpone the review of this Committee's terms of reference until the following Audit and Governance Committee meeting.

88. The Committee is asked to approve this postponement.

Appendix A – Annual Internal Audit Plan 2017/18

Ref	Service	Title	Source	Current Status	Target to report to Audit & Governance Committee	Assurance Level	Planned Days	Revised Days	Actual Days	Reason for Amendment
AUTHORITY WIDE REVIEWS (CORPORATE)										
1	Corporate	Capital Expenditure	Cyclical IA	Final	December 2017 (T) February 2018 (A)	Substantial	15	15	15	
2	Corporate	Corporate Procurement Framework	IA Assessed Risk	Final	September 2017	Limited	10	6	6	
3	Corporate	Data Protection & Information Governance - General Data Protection Regulations - Readiness	Corporate Risk YM13 ICO Report	Final	February 2018	Reasonable	15	15	10	
4	Corporate	ICT Disaster Recovery	Corporate Risk YM10	Final	September 2017	Substantial	10	6	6	
5	Corporate	Risk Management	Cyclical IA	Deleted	n/a	n/a	10	0	0	Overview conducted in 2017 with Insurance & Risk Manager, SLT and Penaethiaid. Review in 2018/19
6	Corporate	Corporate Safeguarding	Corporate Risk YM12	Final	July 2017	Reasonable	20	20	20	
7	Corporate	Transformation Programme - Smarter Working	Section 151 Officer Request	Scoping			15	15	0.5	
8	Corporate	Ethical Culture	PSIAS Requirement	Final	September 2017	Reasonable	20	16	16	
9	Corporate	Social Services and Well-being Act - Part 9 requirements	New legislation	Fieldwork	*April 2018*		20	3	0.75	Extension from WG to implement pooled budgets.

Ref	Service	Title	Source	Current Status	Target to report to Audit & Governance Committee	Assurance Level	Planned Days	Revised Days	Actual Days	Reason for Amendment
										Therefore watching brief only with view to undertake audit in 2018/19
10	Corporate	Programme/Project Management	CEO Request - SLT Objective	Fieldwork	*February 2018*		15	15	3.75	
11	Corporate	Corporate Health & Safety	Audit Concern	Fieldwork	*February 2018*		15	15	4.25	
HEAD OF FUNCTION - RESOURCES & SECTION 151 OFFICER										
12	Resources	Council Tax & NDR	Key Financial System	Final	December 2017	Reasonable	20	20	19	
13	Resources	Fixed Asset Register & Capital Accounting	Key Financial System	Deleted	n/a	n/a	10	0	0	Work undertaken by external audit. Some overlap with Capital Expenditure audit. Audit deleted.
14	Resources	High Level Controls for Key Financial Systems	Key Financial System	Deleted	n/a	n/a	10	0	0	Days transferred to Sundry Debtors due to issues identified. Key financial systems have been covered individually except for Treasury Management which has been green for a number of years.

Ref	Service	Title	Source	Current Status	Target to report to Audit & Governance Committee	Assurance Level	Planned Days	Revised Days	Actual Days	Reason for Amendment
15	Resources	Housing Benefit & Council Tax Relief Scheme	Key Financial System	Final	September 2017	Reasonable	15	23	23	Excess days transferred from contingency
16	Resources	Main Accounting System	Key Financial System	Final	June 2017	Reasonable	10	7	7	
17	Resources	Income - Payment Card Industry Data Security Standard	Key Financial System	Final	February 2018	Limited	15	15	9.75	
18	Resources	Petty Cash/Imprest Accounts	Key Financial System				10	10	0	
19	Resources	Sundry Debtors	Key Financial System	Final	December 2017	Limited	10	27	26.5	Days transferred from Key Financial Systems and contingency due to issues identified.
HEAD OF FUNCTION - COUNCIL BUSINESS & MONITORING OFFICER										
20	Business	Democratic & Member Services - Members' Allowances	Service not audited for significant time	Deleted	n/a	n/a	8	0	0	Discussed with Monitoring Officer - not a risk. Days transferred to GDPR Readiness audit
21	Business	Legal Services	Service not audited for significant time	Deleted	n/a	n/a	6	0	0	Discussed Risk Register with Monitoring Officer - all actions on track. Days transferred to GDPR readiness audit.

Ref	Service	Title	Source	Current Status	Target to report to Audit & Governance Committee	Assurance Level	Planned Days	Revised Days	Actual Days	Reason for Amendment
HEAD OF FUNCTION - TRANSFORMATION										
22	Transformation	Data Centres	Fundamental to Council's Operations	Deleted	n/a	n/a	10	0	0	Postponed until 2018/19. Contingency planning covered under ICT Disaster Recovery audit.
23	Transformation	Active Directory	Fundamental to Council's Operations	Deleted	n/a	n/a	15	0	0	Postponed until 2018/19. Not a priority.
24	Transformation	Network Security Audit (Cyber Security)	Fundamental to Council's Operations	Fieldwork			15	15	3.75	
HEAD OF REGULATION & ECONOMIC DEVELOPMENT										
25	Economic Development	Economic Development Function	Annual Delivery Document 2016/17	Deleted	n/a	n/a	15	0	0	Not a high priority for Head of Service and not in risk register. Audit deleted.
26	Leisure	Leisure Function - Governance & Control	Head of Service request	Scoping			15	15	0.25	
27	Planning	Strategy & Support Team	Head of Service request	Deleted	n/a	n/a	10	0	0	Not a high priority for Head of Service and not in risk register. Audit deleted.
28	Trading Standards	Civil Registration	Service not audited for	Final	September 2017	Substantial	10	10	10	

Ref	Service	Title	Source	Current Status	Target to report to Audit & Governance Committee	Assurance Level	Planned Days	Revised Days	Actual Days	Reason for Amendment
			significant time							
29	Regulation	Licensing Services	Service not audited for significant time	Final	December 2017	Substantial	10	17	17	Excess days transferred from contingency. Not audited before and significant amount of legislation to consider.
HEAD OF HIGHWAYS, WASTE & PROPERTY SERVICES										
30	Highways	Car Park Services & Enforcement	Service not audited for significant time	Deleted	n/a	n/a	15	0	0	New pilot in place with external organisation for car parking enforcement. Delay audit until 2018/19 to have time for pilot to produce results. Other enforcement (dog fouling and littering) separate contract. Also move into 2018/19
31	Highways	Engineering & Design Services	Service not audited for significant time	Deleted	n/a	n/a	15	0	0	Scaling back of service and not a high priority area for Head of Service. Not in risk register.

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Ref	Service	Title	Source	Current Status	Target to report to Audit & Governance Committee	Assurance Level	Planned Days	Revised Days	Actual Days	Reason for Amendment
32	Property	Estate & Property Management - Schools Repair & Maintenance	Service not audited for significant time	Deleted	n/a	n/a	15	15	0	Postponed until 2018/19 - new process not yet implemented
33	Highways	Highways & Civil Engineering - Highways Contract Monitoring Arrangements	Service not audited for significant time	Scoping			15	15	0.25	
HEAD OF HOUSING										
34	Housing	Housing Rents - Readiness for Welfare Reform (Universal Credit)	Key Financial System	Final	February 2018	Reasonable	15	27	23	Excess days transferred from Affordable Housing audit
35	Housing	Affordable Housing, Housing into Homes & Bridging Loan Scheme	Corporate Business Plan	Final	February 2018	Reasonable	15	5	5	Excess days transferred to Housing Rents audit
36	Housing	Supporting People Programme	Service not audited for significant time	Complete	February 2018	Substantial	15	15	14.75	
HEAD OF ADULT SERVICES										
37	Adults	Deprivation of Liberty (DOLs)	Risk of Litigation in relation to Outstanding DOLs Assessments	Scoping			15	15	0.25	

Ref	Service	Title	Source	Current Status	Target to report to Audit & Governance Committee	Assurance Level	Planned Days	Revised Days	Actual Days	Reason for Amendment
45	Adults	Direct Payments	Head of Service request				0	15	0	Head of service concerns around the governance and controls around expenditure. Priority area. Days transferred from Joint Service Delivery and Management audit
38	Adults	Joint Service Delivery & Management in relation to older people services with Health Board	Annual Delivery Document 2016/17	Deleted	n/a	n/a	15	0	0	Not a high priority for Head of Service and not in risk register. Days transferred to Direct Payments audit.
39	Adults	Services for the Elderly - Home Care Contracts	Annual Delivery Document 2016/17	Deleted	n/a	n/a	15	0	0	Not a high priority for Head of Service and not in risk register. Days transferred to contingency
HEAD OF CHILDREN'S SERVICES										
40	Children's	Corporate Parenting Strategy - Plant Mewn Gofal Invest to Save - Maethu	External Assurance	Fieldwork	Fieldwork		15	10	3	

Ref	Service	Title	Source	Current Status	Target to report to Audit & Governance Committee	Assurance Level	Planned Days	Revised Days	Actual Days	Reason for Amendment
HEAD OF LEARNING										
41	Learning	Secondary Schools - 6th Form Funding - Ysgol Syr Thomas Jones	Cyclical Review	Deleted	n/a	n/a	10	0	0	Not a high risk area. Audit deleted
42	Learning	Primary Schools - Thematic Reviews - Schools Income Collection	Head of Service request				20	20	0	
43	Learning	School Sickness Absence	Head of Service request	Deleted	n/a	n/a	20	0	0	Significant work undertaken.
44	Learning	School Transport	Head of Service request	Final	September 2017	Limited	20	26	26	Excess days transferred from contingency. Significant issues identified.
CHARGEABLE NON PROGRAMMED DAYS (PRODUCTIVE)										
		Follow Up Work					35	70	71.25	Several limited assurance reports. Significant amount of work being undertaken to clear old outstanding recommendations, particularly in schools.
		General Counter Fraud Work, National Fraud Initiative and enquiries					155	80	85.25	Days reduced due to deletion of Corporate Counter Fraud Officer post

Ref	Service	Title	Source	Current Status	Target to report to Audit & Governance Committee	Assurance Level	Planned Days	Revised Days	Actual Days	Reason for Amendment
		Referrals:								
46	Referral	CSSIW Report - Governance around Action Plan	Request from Audit & Governance Committee	Complete	June 2017	n/a	0	2	2	
47	Referral	Payroll Overpayment	Request from Accountancy Services Manager	Complete	February 2018	n/a	0	7	7	
48	Referral	Registration of Financial Charges	Request from Section 151	Fieldwork	*February 2018*		0	11	19	
49	Referral	After School Club - Fund Irregularities	Request from Learning Services	Complete	n/a		0	14	13.75	
		Closure of Previous Year's Work					20	20	20	
		Grant Certification:					35	0	0	Grant certification work complete
50	Grant	School Uniform Grant	Request from Accountancy	Complete	December 2017	Substantial	0	2.5	2.5	
51	Grant	Rent Smart Wales Grant	Request from Accountancy	Complete	July 2017	Substantial	0	10	10	
52	Grant	Education Improvement Grant	Request from Accountancy	Complete	July 2017	Substantial	0	3	3	
53	Grant	Pupil Development Grant	Request from Accountancy	Complete	July 2017	Substantial	0	6	6	
54	Grant	Sixth Form & Adult Continuing Learning 2016-17	Request from Accountancy	Complete	February 2018	Substantial	0	0.5	0.5	
		Corporate consultancy					55	35	38.25	

Ref	Service	Title	Source	Current Status	Target to report to Audit & Governance Committee	Assurance Level	Planned Days	Revised Days	Actual Days	Reason for Amendment
		Audit & Governance Committee, including training for members					23	40	40.5	
		Management Review					0	40	36.25	Days transferred from Management
		Contingency					120	1	0	
		TOTAL					**1057**	**790**	**631**	
NON CHARGEABLE DAYS (NON-PRODUCTIVE)										
		Risk & Insurance					50	30	9.5	
		General Administration					70	60	59.5	
		Personal Development & Review, 121 & Team Meetings					8	25	21	Insufficient allocation. Days transferred from contingency.
		Management, including liaison with External Audit and audit plan preparation					75	45	38	Days transferred to Management Review
		Annual Leave (164), including statutory leave (41) and special leave (90)					245	295	270.25	Days amended due to retirement of Corporate Counter Fraud Officer and special leave and resignation of Senior Auditor.
		Sick Leave					45	10	13.75	Good sickness record in the team - days transferred to training

Ref	Service	Title	Source	Current Status	Target to report to Audit & Governance Committee	Assurance Level	Planned Days	Revised Days	Actual Days	Reason for Amendment
		Training and Development for staff, including induction and Welsh lessons					10	75	73	Insufficient allocation - days transferred from sickness allocation and contingency
		TOTAL					**503**	**540**	**485**	
		GRAND TOTAL					**1560**	**1330**	**1116**	

ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Audit and Governance Committee
Date:	13 February 2018
Subject:	Outstanding Internal Audit Recommendations / Issues & Risks
Head of Service:	Marc Jones, Head of Function (Resources) / S151 Officer 01248 752601 MarcJones@ynysmon.gov.uk
Report Author:	Marion Pryor, Head of Audit and Risk 01248 752611 MarionPryor@ynysmon.gov.uk
Nature and Reason for Reporting: This report provides an update on the status and detail of the outstanding risks that Internal Audit has raised.	

1. Introduction

1.1. The Audit and Governance Committee requested details of all the outstanding recommendations twice a year. I last submitted a report to the meeting of 21 September 2018.

2. Recommendation

2.1. That the Audit and Governance Committee notes the Council's progress in addressing the outstanding internal audit risks raised since 1 April 2014.

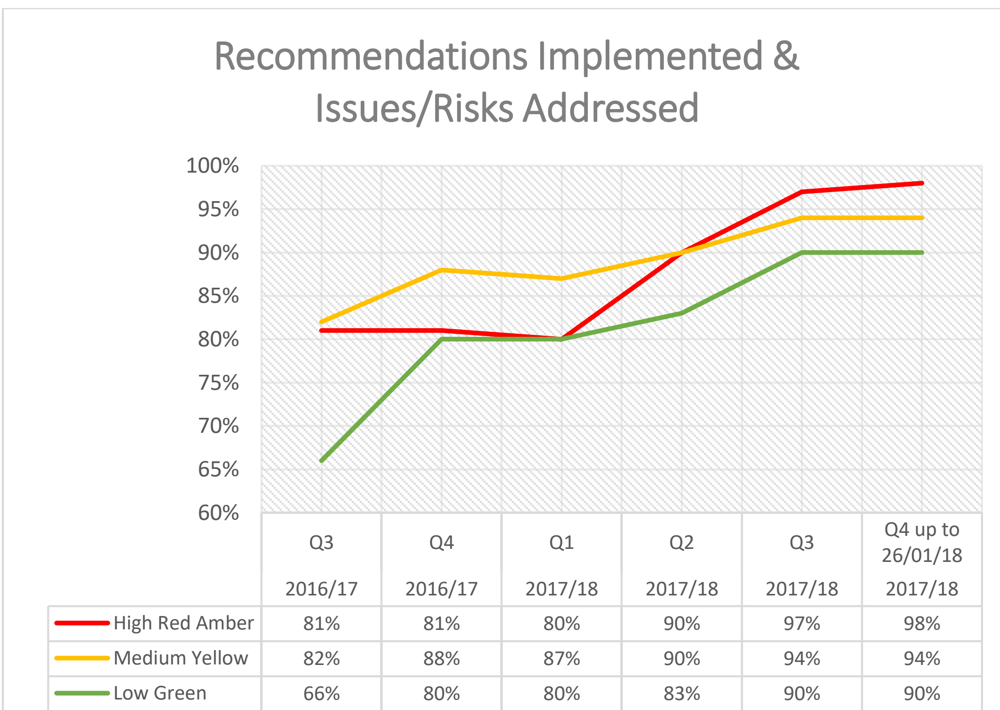
3. Performance of Implementing Outstanding Internal Audit Recommendations

3.1. As part of the new internal audit approach, we have moved away from making recommendations to raising ‘Issues’ and ‘Risks’. Previously, the recommendations were graded High, Medium and Low. Issues / Risks are now graded in accordance with the Council’s risk management framework so that internal audit work is aligned to the Council’s risk appetite.

3.2. To encourage management to have ownership for the risks, we place the responsibility on them to develop the action to address the issues / risks we have identified.

3.3. The process for following up is similar to the previous approach; we monitor the addressing of the risks in the same way as we would monitor the implementation of recommendations. However, we will not clear the risk until we are satisfied that the risk no longer remains.

3.4. To provide the Committee with trend information, the graph below highlights the performance in implementing the recommendations / addressing the risks:



3.5. As can be seen, the Council has steadily improved its performance over the last 13 months.

4. Current Outstanding Recommendations / Risks

4.1. As at the 26 January 2018, the Council has the following outstanding recommendations / risks and issues with a target implementation date of 31 December 2017 (detailed in Appendix A):

Up to 31/12/2017	High	Red	Amber	Medium	Yellow	Low	Green	Totals
Total Implemented	75	6	35	314	47	195	23	**695**
Total Not implemented	1	0	1	8	17	22	1	**50**
Total	76	6	36	322	64	217	24	**745**
% Implemented	**99%**	**100%**	**97%**	**98%**	**73%**	**90%**	**96%**	**93%**
% High & Red/Amber Implemented	**98%**							
% Medium & Yellow Implemented				**94%**				
% Low & Green Implemented						**90%**		

3

Appendix A – Outstanding Recommendations / Risks

All High, Red and Amber Rated Internal Audit Recommendations Outstanding with target date up to 31/12/2017

Ref	Report	Recommendation / Issue/Risk	Date Raised	Agreed Target Date	Responsible Officer	Comments
Children Services						
1	Partnerships – Governance Arrangements Follow Up 077 2016/17	3.2b Service Risk Registers, as appropriate should reflect risks in relation to partnership working.	21/12/16	30/06/17	Head of Children Services	Re-iterated from Partnerships – Governance Arrangements 003 2015/16. Original target date: 31/05/16
Housing Services						
2	Housing Maintenance Unit 084 2016/17	2.1.1 A handbook outlining the HMU's operations and permission rights should be drawn up. The handbook should be communicated to every employee who should sign to confirm that they understand and will comply with the policies and practices implemented by the Unit.	11/05/17	31/10/17 changed from 31/05/17	Performance Assets Team Leader	First Follow Up 161784f1 – In progress. Information is being gathered to map team activities and staff responsibilities and roles to establish a comprehensive handbook.

Medium and Yellow Rated Internal Audit Recommendations Outstanding with target date up to 31/12/2017

Ref	Report	Recommendation / Issue/Risk	Date Raised	Agreed Target Date	Responsible Officer	Comments
Corporate						
3	Risk Management Framework & Top 5 Risks Follow Up 062 2016/17	6.1 Heads of Services should ensure that Service Delivery Plans are submitted promptly and within deadline with all sections completed including links to Risk Registers.	27/07/16	31/03/17	Business Planning & Programme Manager	Re-iterated from Risk Management Framework & Top 5 Risks 011 2015/16. Original target date: 31/03/16 The SLT have agreed to instruct adherence to corporate timelines for Service Delivery Plan. Business Planning & Programme Manager to remind Service of timelines Autumn 2016. Update 31/08/17 – 89% of SDPs submitted with all sections completed. Translation of SDPs required prior to publication to Monitor. To be completed during Q2. Continual annual efforts undertaken to improve adherence to business planning timescales.
Finance						
4	Housing Benefit & Council Tax Reduction Scheme 092 2016/17	2 Testing highlighted that officers do not always maintain evidence to support claims on file. This results in a risk of not being able to verify that officers have assessed claims accurately and in accordance with policy and regulation.	31/08/17	31/12/17	Housing Benefit Manager	This has been an on-going issue for a number of years and attention and procedures to improve on this has been implemented over the years. With the department looking to move to a Document Image System during the year this should eradicate this issue with all documents being held electronically on the claimants' electronic file. Accuracy check have recently been developed and extended to look at wider issues relating to the claim, which also looks at whether the claim has been correctly verified. Due to the impending move to Document Image System this will be used as the assurance method to establish a control over this. Staff are also filing their own work on a weekly basis now which should also assist with ensuring that all paper work is filed. Control checks over whether this is being done are in place through regular 1-2-1 meetings with staff.

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Ref	Report	Recommendation / Issue/Risk	Date Raised	Agreed Target Date	Responsible Officer	Comments
5	Housing Benefit & Council Tax Reduction Scheme 092 2016/17	3 Testing highlighted errors in the calculation of benefit including errors in copying information regarding dates and sums from information received, incorrect calculation of shares and the input of follow up information.	31/08/17	31/12/17	Housing Benefit Manager	The revised Accuracy Checking process has identified the level of accuracy / error within the team. This has identified a number of 'trends' in terms of error. These will then be focussed on with a view of driving improvement. Monthly report on accuracy checks are completed and reported on to keep focus on this issue to drive improvement. The project to integrate Victoria forms and Northgate is being worked on – this will populate Northgate with information from Victoria forms, which should also reduce errors.
6	Housing Benefit & Council Tax Reduction Scheme 092 2016/17	4 Testing highlighted that the Revenues Team were not always informed when changes were required relating to Single Person Discount leading to discounts incorrectly applied.	31/08/17	31/10/17	Housing Benefit Manager	This has been identified within the Accuracy Checks and discussed with staff. A random sample of checks relating to this issue will be undertaken to establish a further control over this. Staff will also be frequently reminded about this issue. Update 19/09/17 – Checks in progress. The accuracy checks does provide a control check on this. Recent checks show an improvement on cases where the Council Tax Liability was incorrect on the benefit system. Sample checks will be undertaken in Quarter 3 to further analyse this.
7	Housing Benefit & Council Tax Reduction Scheme 092 2016/17	6 The Housing Benefits Team does not promptly undertake a reconciliation of overpayments written off in the Benefits System. There is a risk that financial information will be inaccurate and cannot be relied upon.	31/08/17	31/12/17	Housing Benefit Manager	Work undertaken by the Subsidy Officer concluded that the System Reports available on Northgate cannot correctly reconcile write-offs. A revised process to do this is therefore needed.
8	Housing Benefit & Council Tax Reduction Scheme 092 2016/17	7 An issue with the reporting facility within the Northgate Benefit system and that write-off amounts are sometimes returned onto the account automatically is causing data to inaccurate. This causes problems when reconciling write-offs and there is a	31/08/17	31/12/17	Housing Benefit Manager	Work undertaken by the Subsidy Officer concluded that the System Reports available on Northgate cannot correctly reconcile write-offs. A revised process to do this is therefore needed. Guidance will also be given to staff in terms of identifying when a write-off amount is returned to the claim.

Ref	Report	Recommendation / Issue/Risk	Date Raised	Agreed Target Date	Responsible Officer	Comments
		risk the financial information will be inaccurate and cannot be relied upon.				
9	Housing Benefit & Council Tax Reduction Scheme 092 2016/17	8 Although physical security to the section's information is recently improved, being a paper based system, information is vulnerable to being misplaced and there is a risk of lost information.	31/08/17	31/12/17	Housing Benefit Manager	As highlighted in 2, efforts to keep the filing up to date are in place. In relation to physical security, the control over access to the files and to the benefit room is secure and effective. The issue is in relation to documents and files being located. The Document Image System will eradicate this issue.
10	Ethical Culture 067 2016/17	1.1.4c The Corporate Procurement Unit does not publish the forward contract programme and contract register. There is a risk that competition and transparency will be limited.	06/09/17	31/12/17	Corporate Procurement Manager	The contract register will be revised to ensure that it contains all of the relevant information. This revision will also address the information that is commercially sensitive.
11	Ethical Culture 067 2016/17	1.1.5b The Procurement Handbook does not clarify officers' duty to declare an interest in any procurement exercise, which might, directly or indirectly, benefit the individual, their family members or friends. There is a risk officers may overlook this requirement and result in a conflict of interest.	06/09/17	31/12/17	Corporate Procurement Manager	This is to be addressed and included in the Procurement Handbook.
12	Sundry Debtors 171804	15 Testing highlighted that the Debtors system does not account for balances paid through the payroll system. This affects the data integrity of the system and as a result, the Section has undertaken recovery action on debts that have already been paid (through payroll). In addition system reconciliations to the general ledger have not been undertaken since April 2017. There is a risk that not all balances will be identified, wasting the Council's resources	22/11/17	31/12/17	Revenues Manager	This has previously been raised in Sundry Debtors Follow Up 051 and Sundry Debtors 1982 2014/15. The Team Leader will undertake the reconciliations up to date. The Income Section will make the correct adjustments to the Sundry Debtors system to the general ledger.

Ref	Report	Recommendation / Issue/Risk	Date Raised	Agreed Target Date	Responsible Officer	Comments
		and negatively affecting the Council's reputation.				
Housing						
13	Business Continuity Follow Up 081 2016/17	1.3 Services should ensure that Business Continuity and Emergency Planning arrangements are up to date and operational; the Service Delivery Plans should contain Business Continuity and Emergency Planning arrangements.	17/01/17	30/04/17 changed from 01/04/17	Head of Housing	Re-iterated from Business Continuity Management 007 2015/16 Original target date 31/12/15 Update 28/03/17 – The Service Business Team is currently working on this recommendation. They envisage that this recommendation will have been actioned by the 30th of April 2017.
Children's Services						
14	Business Continuity Follow Up 081 2016/17	1.3 Services should ensure that Business Continuity and Emergency Planning arrangements are up to date and operational; the Service Delivery Plans should contain Business Continuity and Emergency Planning arrangements.	17/01/17	01/04/17	Head of Children Services	Re-iterated from Business Continuity Management 007 2015/16 Original Target Date 31/12/15
Learning						
15	Business Continuity Follow Up 081 2016/17	1.3 Services should ensure that Business Continuity and Emergency Planning arrangements are up to date and operational; the Service Delivery Plans should contain Business Continuity and Emergency Planning arrangements.	17/01/17	01/04/17	Head of Learning	Re-iterated from Business Continuity Management 007 2015/16 Original target date 31/12/15
16	Council's Preparedness for General Data Protection Regulation (GDPR) 171801	No corporate guidance / awareness relating to GDPR compliance has been communicated to schools / Head Teachers. There is a risk that schools are unaware and do not prepare for GDPR.	27/11/17	31/12/17	Head of Learning	Learning Service to inform Head Teachers of the new regulation. Learning Service to decide with Head Teachers on whether schools seek a regional or externalised solution for the implementation and compliance of GDPR.

Ref	Report	Recommendation / Issue/Risk	Date Raised	Agreed Target Date	Responsible Officer	Comments
Education						
17	Ysgol Gynradd Bodedern 029 2015/16	5.6.1 The Governing Body Institution should formally appoint the auditor of the School Fund and this should be documented in the minutes of the meeting.	29/02/16	31/10/16	Head Teacher	
18	Ysgol Gynradd Bodedern 029 2015/16	5.7.1 The school should register with the Information Commissioner in accordance with the Data Protection Act 1988.	29/02/16	31/03/16	Head Teacher	
19	Ysgol Talwrn 030 2015/16	4.6.1 A risk assessment should be undertaken to identify risks associated with responding to the security alarm.	15/03/16	31/03/16	Head Teacher	
20	Ysgol Llanfair PG 057 2016/17	4.5.1 Driver records should be updated annually and every member of staff required to complete a form – Declaration for Drivers of Council or Private vehicles.	15/06/16	30/06/16	Head Teacher	

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WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Audit and Governance Committee Update – **Isle of Anglesey County Council**

Audit year: 2017-18

Date issued: January 2018

Document reference: 321A2017-18

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Contents

About this document

1 This document provides the Audit and Governance Committee of Isle of Anglesey County Council (the Council) with an update on current and planned Wales Audit Office work. It covers financial and performance audit work together with information on the Auditor General's programme of national value-for-money examinations.

Financial audit update – Isle of Anglesey County Council

2 Exhibit 1 provides members of the Audit and Governance Committee with a brief overview of the financial audit work reported to the Council. Progress against the planned key outputs and milestones from financial audit outputs and milestones, as set out in the draft outline, is summarised in Exhibit 1.

Exhibit 1: delivering the 2016-17 financial audit work

Planned output	Planned start date	Planned reporting date	Report finalised
Audit Deliverables document	February 2017	March 2017	March 2017
Audit of Financial Statements report	June 2017	September 2017	September 2017
Opinion on the Financial Statements	June 2017	September 2017	September 2017
Whole of Government Accounts	July 2017	September 2017	September 2017
Financial Accounts Memorandum	September 2017	October 2017	October 2017
Annual Audit Report	October 2016	November 2017	November 2017

Performance audit work 2016-17 – Isle of Anglesey County Council

Exhibit 2: performance audit work 2016-17 – Isle of Anglesey County Council

Activity	Scope	Status
Audit Plan	Plan of performance audit work for 2016-17.	Complete – Corporate Governance Committee March 2016.
Improvement Plan Audit	Audit of the discharge of the Council's duty to publish an improvement plan.	Complete – Review complete. Certificate issued.
Assessment of performance	Audit of the discharge of the Council's duty to publish an assessment of performance.	Complete – see above.
Annual Improvement Report (AIR)	Report from the Auditor General for Wales reviewing the Council's performance and arrangements.	Published June 2017.
Thematic Study: Financial Resilience	Focus: Savings Plans.	Local report issued February 2017.
Thematic Study: Governance	Focus: Governance of significant service changes.	Local report issued June 2017.
Thematic Study: Transformation	To gather the views of officers about the key issues they face in dealing with change/transformation.	Project complete. Feedback to Chief Executive Spring 2018.
Local Government Improvement Study – Improving wellbeing through housing adaptations	Fieldwork completed.	Publication Winter 2018.

Activity	Scope	Status
Local Government Improvement Study – Strategic commissioning of learning disability services by local authorities	Fieldwork completed.	Publication Winter 2018.
Local Government Improvement Study – How local government manages demand – Homelessness services	Fieldwork completed.	Published January 2018.

Performance audit work 2017-18 – Isle of Anglesey County Council

Exhibit 3: performance audit work 2017-18 – Isle of Anglesey County Council

Activity	Scope	Status
Audit Plan	Plan of performance audit work for 2017-18.	Report finalised March 2017.
Improvement Plan Audit	Audit of the discharge of the Council's duty to publish an improvement plan.	Complete – Certificate issued April 2017.
Assessment of performance	Audit of the discharge of the Council's duty to publish an assessment of performance.	Complete – Certificate issued November 2017.
Annual Improvement Report (AIR)	Report from the Auditor General for Wales reviewing the Council's performance and arrangements.	To be published Summer 2018.
Thematic Study: Well-being of Future Generations (WFG) – Baseline assessment	The Year One Commentary: the Wales Audit Office will gather evidence on how the 44 bodies are beginning to respond to the requirements of the WFG Act and identify examples of notable emerging practice. The work will be designed to support improvement and inform future audit work under the Act.	Fieldwork complete. National summary report Spring 2018.
Thematic Study: Scrutiny – Fit for the Future	This review will examine the impact of the WFG Act on the work of scrutiny committees.	To take place throughout the 2017-18 audit year. Project Brief issued. Fieldwork to be completed January 2018.

Activity	Scope	Status
Thematic Study: Service user review Welsh Housing Quality Standard (WHQS).	This project will test the service-user interface at all authorities. The review will evaluate what it feels like (as a member of the public) to deal with council services, involving a selection of services and scenarios. In addition the purpose of this local overview is to determine whether the Council has effective arrangements in place to enable it to continue to meet the WHQS.	To take place throughout the 2017-18 audit year. Fieldwork complete. Draft report to be issued February 2018.
Local Work: Wylfa Newydd readiness and its impact on Corporate Capacity.	This project will focus on the Council's capacity and readiness to support the delivery of the Wylfa Newydd project within the context of the Energy Island Programme and the Council's wider strategic objectives. The review will acknowledge progress and notable practice elements, but may also highlight areas of risk that the Council has yet to consider and/or where external support may add value by enhancing the Council's resilience.	Fieldwork complete. Draft report to be issued February 2018.
Local Government Improvement Study – Integrated Care Fund	The Intermediate Care Fund has recently been renamed as the Integrated Care Fund (ICF). The review will look at the governance arrangements associated with the ICF at both a national level and at a local level through the regional partnership boards.	Project Brief to be issued.

Activity	Scope	Status
Local Government Improvement Study – Using data effectively	This study will primarily focus on the role of local authorities on how effective they are at managing and using data. It will also consider how effective authorities are at accessing and using data held by partners. It is recognised, however, that councils are at very different stages in terms of how they use data. This audit will therefore assess each local authority on their performance identifying how well authorities are currently performing in collecting data, analysing data and using data to support decision-making and the use of resources.	Project Brief issued – June 2017. Survey issued to Isle of Anglesey County Council in Autumn 2017.
Local Government Improvement Study – How well do public bodies provide services to rural communities	This review will focus on assessing how effective public organisations in Wales are in working together to assess needs, identify priorities, deliver and maintain the provision of key operational services to meet the needs of people in rural communities.	Project Brief issued – June 2017. Survey issued to Ynys Môn in Summer 2017. Fieldwork planned for 2018.

Activity	Scope	Status
National Wales Audit Office reports: 2017-18 reports	• Public procurement landscape review • Waste management (waste prevention) • Supporting People programme • Implementation of the NHS Finances (Wales) Act 2014 (integrated medium term planning) • NHS Wales informatics services • Access to public services with the support of specialist interpretation and translation • Preparations for the implementation of fiscal devolution in Wales (follow-on report)	Supporting People report published August 2017. Public procurement report published November 2017. Preparations for the implementation of fiscal devolution in Wales (follow-on report) published December 2017. Remaining Reports being drafted. Publication Winter/Spring 2018.
National Wales Audit Office reports: 2018-19 reports	• Youth Services • EU Structural Funds 2014-2020 • EU Rural Development Programme • GP out of hours services • Primary care services	To be published in 2019. To be published in 2018. To be published in 2018. To be published in 2018. To be published in 2018.

Other inspection work 2017-18 – Isle of Anglesey County Council

Exhibit 4: other inspection work 2017-18 – Isle of Anglesey County Council

Activity	Scope	Status
2017-18 Estyn	Apart from local school inspection programme no inspection of the Isle of Anglesey County Council education service has yet been announced.	GwE follow-up report published November 2017.
2017-18 CSSIW	Nationally CSSIW are doing a joint review of community mental health services. No local follow-up work in Isle of Anglesey County Council has yet been announced.	National report.

Last updated: 16.12.17

Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ

Tel: 029 2032 0500
Fax: 029 2032 0600
Textphone.: 029 2032 0660

E-mail: info@audit.wales
Website: www.audit.wales

Swyddfa Archwilio Cymru
24 Heol y Gadeirlan
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500
Ffacs: 029 2032 0600
Ffôn testun: 029 2032 0660

E-bost: post@archwilio.cymru
Gwefan: www.archwilio.cymru

ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Audit and Governance Committee
Date:	13 February 2018
Subject:	Internal Audit Strategy and Annual Plan 2018/19
Head of Service:	Marc Jones, Head of Function (Resources) / S151 Officer 01248 752601 MarcJones@ynysmon.gov.uk
Report Author:	Marion Pryor, Head of Audit and Risk 01248 752611 MarionPryor@ynysmon.gov.uk
Nature and Reason for Reporting: This report submits the proposed Internal Audit Strategy and Annual Plan for 2018/19 for the Audit and Governance Committee's approval. The Public Sector Internal Audit Standards require the chief audit executive to establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals, which the Audit and Governance Committee must approve (Standard 1110).	

1. Introduction

1.1. The proposed Internal Audit Strategy and Annual Plan for 2018/19 is attached for review and discussion by the Committee.

2. Background

2.1. The Public Sector Internal Audit Standards (PSIAS) require me, as the chief audit executive, to establish risk-based plans to determine the priorities of the internal audit activity, consistent with the Council's goals.

2.2. In prioritising our finite resource, we have to undertake sufficient work to enable me to deliver an annual internal audit opinion for the Council to inform its Annual Governance Statement.

2.3. Traditionally, Internal Audit would plan its work using a three- or even five-year planning strategy. For the 2017/18 Audit Plan, the former Audit Manager rolled forward the three-year strategy, following consultation with SLT and Heads of Service.

2.4. However, the External Quality Assessment undertaken in March 2017 highlighted that although this planning methodology complied with the PSIAS, consideration should be given to whether three-year planning was effective and worthwhile. The assessor questioned whether Internal Audit was able to focus on what would matter to the Council in three years' time and further stated that the rate of change in local government suggests a maximum of one-year planning and perhaps even less.

2.5. Therefore, I have adopted a new approach to developing the Annual Plan for 2018/19. As its basis, I have used the corporate risk register to determine the priorities for internal audit activity, while also being mindful of the Audit Strategy for 2017/18 – 2019/20.

2.6. In addition, I have met with Wales Audit Office, the Head of Function (Resources) and Section 151 Officer, the Head of Function (Council Business) and most of the Heads of Service to discuss their views on the proposed areas for review.

2.7. This has resulted in a much more focused, relevant and risk-based plan for 2018/19.

2.8. It will be a dynamic plan; I will review and adjust the plan, as necessary, in response to changes in the Council's business, risks, operations and programmes to ensure that it remains relevant. I will report changes to the Head of Function (Resources) and Section 151 Officer and the Audit and Governance Committee.

3. Recommendation

3.1. That the Audit and Governance Committee approves the Internal Audit Strategy and Annual Internal Audit Plan 2018/19 and notes the new audit approach to audit planning.

CYNGOR SIR
YNYS MÔN
ISLE OF ANGLESEY
COUNTY COUNCIL

Internal Audit Strategy & Annual Plan 2018/19

March 2018

Marion Pryor BA MA CMIIA CPFA
Head of Audit & Risk

Introduction

1. The Internal Audit Service is an independent and objective internal team that provides assurance and advice to all levels of management and elected members on the quality of operations within the Council. We particularly focus on governance, risk management, performance, improvement, efficiency, and operational and financial control.

2. The service operates to the Public Sector Internal Audit Standards[1] (PSIAS), which defines internal auditing as:

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

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3. An important aspect of internal auditing is the extent to which it helps the organisation to achieve its objectives and improve. This means that the internal audit plan and the work of internal audit must focus on the things that matter to the organisation, and the opinions and improvement suggestions that internal audit provides must help the organisation and be valued by stakeholders.

4. The service's objectives are therefore as follows:

    - To provide independent assurance and advice to management and elected members on risk management, governance and internal control.

    - To develop and promote our role to make a significant contribution to the Council's aim to modernise, deliver efficiencies and improve services for our customers.

    - To add value in all areas of our work, providing excellent service to our customers.

[1] The Public Sector Internal Audit Standards (2017) are issued by the Relevant Internal Audit Standard Setters (CIPFA, Department of Health, Welsh Government, Department of Finance (NI), HM Treasury and the Scottish Government) and apply the Institute of Internal Audit International Standards to the UK Public Sector

Service structure and capacity

5. The Internal Audit service has undergone significant change in recent years and this will continue during 2018/19. For the past 10 years, the chief audit executive's post has been outsourced. From 1 April 2017, the service has appointed its own Head of Audit and Risk, who has introduced a new streamlined and modern audit approach, using '*Systems Thinking'*, sometimes referred to as *'Lean Audit'*.

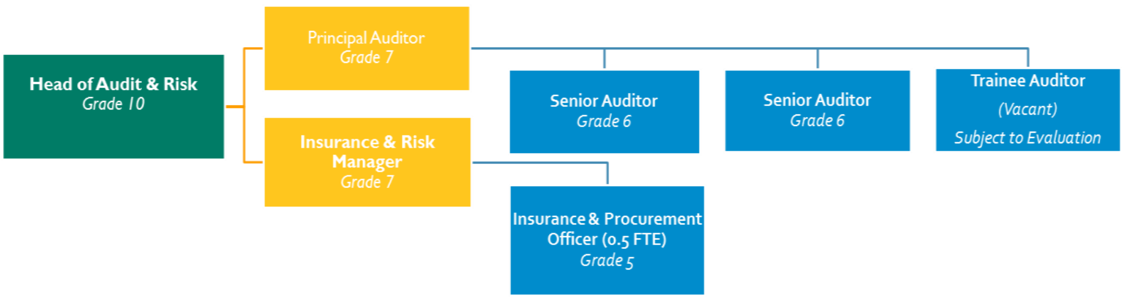
6. Risk Management and Insurance now forms part of the service. Close working between the two teams – Internal Audit and Risk Management will bring added benefits when adopting a risk-based approach to internal auditing, which is an integral part of the new audit approach and this Strategy.

7. The Corporate Counter Fraud Officer retired in August 2017 and the post was deleted from the structure. Although the team will continue to investigate fraud where appropriate, the National Fraud Initiative matches will be distributed to the relevant services to review their own matches. Internal Audit will maintain a coordinating and monitoring role.

8. A further change during the year was the resignation in December 2017 of one of the Senior Auditors after a long-term absence. We will take the opportunity to appoint a trainee to 'grow our own' in accordance with the Council's recruitment and retention aims.

9. The service includes an excellent mix of professional qualifications, including CIPFA[2], CIIA[3] and ACCA[4], along with academic qualifications in Change Management, Business and Accountancy.

10. The organisation chart below shows the planned structure for 2018/19:



[2] Chartered Institute of Public Finance and Accountancy
[3] Chartered Institute of Internal Auditors
[4] Association of Chartered Certified Accountants

Risk-based audit planning

11. There are various requirements of the Public Sector Internal Audit Standards to be satisfied when carrying out the planning of internal audit's work. Standard 2010 states that the chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals and Standard 2120 states that the internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

12. Over the last few years, the need to manage risks has become recognised as an essential part of good corporate governance practice. This has put organisations under increasing pressure to identify all the business risks they face and to explain how they manage them.

13. In addition, the activities involved in managing risks have been recognised as playing a central and essential role in maintaining a sound system of internal control.

14. While the responsibility for identifying and managing risks belongs to management, one of the key roles of internal audit is to provide assurance that management those risks have been properly managed.

15. A professional internal audit activity can best achieve its mission as a cornerstone of governance by positioning its work in the context of the organisation's own risk management framework.

16. Risk-based internal auditing allows internal audit to provide assurance to 'those charged with governance' that risk management processes are managing risks effectively, in relation to the risk appetite. It also seeks at every stage to reinforce the responsibilities of management and the elected members for managing risk.

17. Risk-based internal audit is at the cutting edge of internal audit practice. It is a dynamic process and therefore more difficult to manage than traditional methodologies. Monitoring progress against an annual plan that is constantly changing is a challenge. However, the rewards outweigh these difficulties and will provide assurance that:

    - management has identified, assessed and responded to risks above and below the risk appetite

    - responses to risks are effective but not excessive in managing inherent risks within the risk appetite

    - risk management processes, including the effectiveness of responses and the completion of actions, are being monitored by management to ensure they continue to operate effectively

- risks, responses and actions are being properly classified and reported.

18. Performance measures have been reviewed to ensure the difficulties in measuring internal audit's effectiveness have been taken into account (discussed later).

Fraud

19. The Public Sector Internal Audit Standards include a requirement for the internal audit activity to evaluate the potential for the occurrence of fraud, and how the organisation manages fraud risk (Standard 2120).

Improvement

20. Standard 2130 requires the internal audit activity to assist the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

21. One of the aims of Internal Audit is to help services to improve, so it is possible that some of these reviews will not be traditional audits and may take the form of consultancy projects. If that is the case, the resulting report will make it clear that this is not an audit and will not contain an audit opinion in the usual way.

Internal Audit Priorities

22. Historically, the audit planning process in Anglesey used a three-year rolling plan. By its nature, this involved predicting the audit reviews that needed to be undertaken three years in advance, which in an ever-changing environment is no longer appropriate.

23. The External Quality Assessment carried out in March 2017 concluded that:

> *"Although complying with PSIAS, consideration should be given to whether three-year planning is effective and worthwhile. Is IA really able to focus on what will matter to the organisation in three years' time? The rate of change in local government suggests a maximum of one-year planning and perhaps even less."*

24. To allow Internal Audit to provide a more flexible approach to internal auditing to take account of changes in the organisation and the risk environment, the Head of Audit and Risk will regularly meet with Heads of Service to discuss their latest risks, concerns and requirements. In this way, Internal Audit will be fully up to date with, and aware of, emerging issues and will be able to focus its resources in areas of greatest priority and risk at that time.

25. The Head of Audit and Risk has discussed this approach with Heads of Service during recent visits and all welcomed the new approach and the

improved customer service and focus that this will provide. The Senior Leadership Team also supports this new approach.

26. Rather than have a traditional ‘fixed’ annual audit plan, it may change during the year following the Head of Audit and Risk’s visits to services and changes to the corporate risk register. Therefore, this Strategy does not provide a definitive list of the projects that will be carried out during 2018/19 but provides the audits that have been identified as the main priorities now. These current priorities are listed in Appendix I.

27. In addition, once the results of the latest round of Service Challenges have been reported (expected in mid-February 2018), these may provide other priorities.

28. The traditional planning approach included an estimate of the number of days that would be spent on each audit but this would often change during the year once work started, so had no real benefit at the initial planning stage. The new approach means that only indicative days are shown at present, but will be agreed with services once the first audit-scoping meeting takes place and Internal Audit knows exactly what the project will entail.

29. Currently, the Plan is under resourced by 50 days, but changes to the risk environment during the year, and the use of a contingency, will enable us to deliver the plan and allow enough work to enable the Head of Audit and Risk to fulfil the requirement to produce an annual internal audit opinion, to support the Annual Governance Statement.

Follow Up

30. Standard 2500 states that the chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

31. Competing priorities, budget limitations and other factors may prevent managers from implementing agreed actions in the agreed timeline or as previously designed to mitigate the risk. The purpose of follow up is to ensure that management has implemented the action, and that it has addressed the Issue/Risk.

32. Managers who do not implement agreed actions arising from internal audit findings expose the organisation to risk. By following up on the actions, this helps to prevent it becoming an issue.

33. In accordance with our agreed Internal Audit Charter, we will follow up all Issues/Risks included within audit reports with a ‘Limited’ or ‘Minimal’ Assurance rating.

34. We will help the organisation to track the implementation of all actions and will log all agreed actions on an internal tracking system.

Consultation

35. The Head of Audit and Risk has met with the Senior Leadership Team, Heads of Service and the Wales Audit Office to discuss the Strategy and the proposed Annual Internal Audit Plan.

Reporting

36. The Head of Audit and Risk will report all changes to the Audit and Governance Committee and the Head of Function (Resources) and Section 151 Officer.

Performance Measures

37. Externally, where relevant, we will continue to benchmark our performance with the rest of Wales using the Welsh Chief Auditors Group performance measures. These are currently under review for their appropriateness.

38. Internally, we will adopt the following performance measures as an indicator of our efficiency, effectiveness and added value:

Performance Measure	WCAG Average 2015/16	Target 2017/18	Q3 2017/18 Actual	Target 2018/19
Percentage of internal audit Issues / Risks implemented within the agreed timescale (Catastrophic, Major and Moderate priority)	n/a	90%	92%	90%
Percentage of audits completed within the planned time	68%	80%	90%	90%
Percentage of clients' responses expressing at least 'satisfaction' with the conduct of audit assignments	99%	100%	100%	100%
Percentage of directly chargeable time against total available (productivity indicator)	67%	65%	57%	65%
Average actual number of days between the closing meeting and the issue of the draft report	7.2 days	6.5 days	8.8 days	6.5 days
Average actual number of days between receipt of the response to the draft report and issue of final report	3.4 days	2 days	2.3 days	2 days
The percentage of corporate risks (red and amber inherent risks) reviewed by Internal Audit	n/a	New	New	80%

Appendix I – Audit Priorities 2018/19

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Residual)	Proposed Days 2018/19
CORPORATE RISK REGISTER – HIGH & MEDIUM RESIDUAL RISKS				
Corporate	Business Continuity	Corporate Risk Register	C2 YM10	10
Corporate	Welfare Reform	Corporate Risk Register	C2 YM11	10
Corporate	Corporate Safeguarding	Corporate Risk Register	C1 YM12	10
Corporate	Energy Island Programme (including major schemes such as Wylfa Newydd)	Corporate Risk Register	C2/D2 YM15 YM19/20	10
Corporate	Sickness Management	Corporate Risk Register	C2 YM29	15
Corporate	CONTEST (Countering Terrorism and Preventing Radicalisation)	Corporate Risk Register	E1 YM34	10
Corporate	Payment Card Industry Data Security Standards (PCIDSS)	Corporate Risk Register	D1 YM41	10
Corporate	Risk Management	Limited assurance (August 2015). New process implemented October 2017.	n/a	10
Corporate	Well-being of Future Generations Act	High-profile legislation that has a significant impact on the way the Council works. It is subject to specific review by WAO.	n/a	10
Corporate	Social Services and Well-being Act - Part 9 requirements	High-profile legislation that has a significant impact on the way the Council works. Extension from WG to implement pooled budgets.	n/a	10
Corporate	Managing the Risk of Fraud	PSIAS requirement	n/a	20
HEAD OF FUNCTION – RESOURCES & SECTION 151 OFFICER				
Resources	Recovery and Write-offs	Key Financial System - S151 concerns	n/a	15
Resources	Income	Key Financial System - external audit assurance	n/a	20
Resources	Payroll	Key Financial System - external audit assurance	n/a	20
HEAD OF FUNCTION - COUNCIL BUSINESS & MONITORING OFFICER				
Legal Services	Land Registration	Corporate Risk Register	D1 YM33	10

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Residual)	Proposed Days 2018/19
HEAD OF FUNCTION - TRANSFORMATION				
ICT	IT Audit - Cyber Security	Corporate Risk Register	C1 YM35	15
ICT	IT Audit - IT Infrastructure	Service Risk Register	D2 T2	10
Corporate	Customer Care (including Cyswllt Môn)	Corporate Risk Register	B3 YM40	15
HR	Recruitment & Retention	Corporate Risk Register	C2/D2 YM5	15
HEAD OF REGULATION & ECONOMIC DEVELOPMENT				
Regulation & Economic Developme nt	Leisure Services	Corporate Risk Register	B3 YM39	20
HEAD OF HIGHWAYS, WASTE & PROPERTY SERVICES				
Highways	Car Park Services – Enforcement	New pilot in place from 2017/18 with external organisation for car parking enforcement.	n/a	20
HEAD OF HOUSING				
Housing / Regulation & Economic Developme nt	Council House Development	Corporate Risk Register	C1 YM42	15
Housing	Gypsies and Travellers (Requirements of the Housing Act 2014)	Corporate Risk Register	C2/A4 YM36/37	10
HEAD OF ADULT SERVICES				
Adults	Deprivation of Liberty Safeguards	Corporate Risk Register	C2 YM32	15
HEAD OF CHILDREN'S SERVICES				
Children's Services	Looked After Children	Corporate Risk Register	C2 YM43	20
HEAD OF LEARNING				
Learning	General Data Protection Regulations (GDPR) - Implementation within Schools	Corporate Risk Register	C2 YM38	10
Learning	Repairs and Maintenance of Schools	Head of Service Request; Learning Services Risk Register		20

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Residual)	Proposed Days 2018/19
CHARGEABLE NON PROGRAMMED DAYS (PRODUCTIVE)				
	Follow Up Work	Several limited assurance reports requiring follow up		90
	General Counter Fraud Work, National Fraud Initiative, enquiries and referrals	Days reduced due to transfer of NFI work to Insurance & Procurement and matches issued to services for review following the deletion of the Corporate Counter Fraud Officer post		110
	Closure of Previous Year's Work			20
	Grant Certification: School Uniform Grant Rent Smart Wales Grant Education Improvement Grant Pupil Development Grant Sixth Form & Adult Continuing Learning	Grant Requirement		25
	Corporate consultancy			40
	Audit & Governance Committee, including training for members			40
	Management Review			50
	Contingency			100
	TOTAL			**850**
NON CHARGEABLE DAYS (NON-PRODUCTIVE				
	Risk & Insurance			30
	General Administration			60
	Personal Development & Review, 121 & Team Meetings			35
	Management, including liaison with External Audit and audit plan preparation			50
	Annual Leave (160), including statutory leave (40) and special leave (15)			215
	Sick Leave			35
	Training and Development for staff, including induction and Welsh lessons			75

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Residual)	Proposed Days 2018/19
	TOTAL			**500**
	TOTAL RESOURCE REQUIREMENT			**1350**
	RESOURCE AVAILABLE			**1300**
	RESOURCE SHORTFALL			**-50**
	PRODUCTIVITY			**67%**

ISLE OF ANGLESEY COUNTY COUNCIL	
REPORT TO:	**AUDIT COMMITTEE**
DATE:	**13 FEBRUARY 2018**
SUBJECT:	**TREASURY MANAGEMENT STRATEGY STATEMENT 2018/19**
LEAD OFFICER:	**MARC JONES**
CONTACT OFFICER:	**GARETH ROBERTS (TEL: EXT 2675)** **CLAIRE KLIMASZEWSKI (TEL : EXT 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 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. This Authority has produced documented TMPs, and were approved by the Audit Committee on 6 December 2016. There is one proposed change to these TMP's, which needs to be approved by this Committee. The change is to increase the minimum cash balance from £6m to £6.5m in accordance with the latest approved reserve policy.

3. In terms of updates to the Treasury Management Strategy Statement the only proposed amendment to the core principals and policies of the 2017/18 Statement is to amend the Minimum Revenue Provision (MRP) Policy. The Authority's External Treasury Management Advisers (Link which was previously known as Capita Asset Management Services) completed a review of the Council's MRP policy. The principles highlighted in their report are included in the revised policy. The policy will lead to a consistent approach to MRP charges between supported and unsupported borrowing. The current policy charges MRP at 4% of the Capital Financing requirement for projects financed by supported borrowing. The MRP charge on assets funded by unsupported borrowing is based on the useful economic lives of those assets. The asset life approach is the one of two approaches permitted for projects funded by unsupported borrowing. The method for charging 4% of the CFR used for supported borrowing is not an option for unsupported borrowing. The asset life approach is a prudent method as it matches the MRP charged against revenue with the expected life of the asset. Therefore, it is recommended that the MRP policy is revised so that the MRP charge, going forward for both supported borrowing and unsupported borrowing will be based on the Asset Life basis. The proposals will lead to lower MRP charges over the next 10 to 15 years, but will then be higher until year 50. The revised policy will be applied back to 2008 to ensure the most prudent charge and consistency between the MRP charge for expenditure funded by supported borrowing and unsupported borrowing. The revised policy can be seen in Appendix 2. This will be subject to consultation and approval of External Audit.

4. The Council's external borrowing stood at £111.4m as at 7 November 2017, and is expected to be £118.0m at 31 March 2018. The borrowing is made up of maturity fixed loans and annuity fixed rate loans. At 7 November 2017, the maturity fixed loans stood at £111.2m with an average life of 23 years, and average interest rate of 5.15%. The annuity fixed rate loans stood at £0.2m with an average life of 8 years and an average interest rate of 9.44%. The anticipated cost of borrowing, which is the interest payable on existing loans, for 2017/18, is £5.9m for both the General Fund (£3.9m) 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 2017/18 this charge will be £4.7m for both the General Fund (£3.8m) 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 £138.1m, resulting in the Council being internally borrowed (see section 3.3.1) by £20.1m by the year end.

The Council's investments as at 7 November 2017 stood at £13.4m with an average rate of return of 0.15% and the average balance for the year to date is £16.6m. 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 2018/19; and
- To pass any recommendations and/or comments to the Executive Committee.
- To approve the change in TMP's, increasing the minimum cash balance from £6m to £6.5m, to reflect the increase in the minimum general reserve balance.

TREASURY MANAGEMENT STRATEGY STATEMENT

ANNUAL INVESTMENT STRATEGY, MINIMUM REVENUE PROVISION POLICY STATEMENT AND TREASURY MANAGEMENT POLICY STATEMENT 2018/19

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 2018/19

The strategy for 2018/19 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 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 The Link Group 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. 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.

Capita Asset Service has been sold to The Link Group, however, the services provided will not change under the new ownership.

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 2018/19. In addition the authority follows guidance in the CIPFA Prudential Code 2013 which supplements the CIPFA code of practice on Treasury Management. However, the Prudential code and Treasury Management code have been reviewed and were published in January 2018. The code considers 2018/19 to being a transition year, with full implementation from 2019/20.

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.

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts.

The Authority's capital expenditure projections for 2017/18 to 2020/21 are reflected in the Prudential Indicators (Appendix 11). The projected expenditure for 2018/19 to 2020/21 is based on the capital strategy that was approved by The Executive at its' meeting on 30 October 2017, and the draft proposal for Band B of the 21st Century Schools Programme. The projections for those years also includes the assumption that slippage from 2017/18 will be fully spent in 2018/19.

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 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	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Non-HRA	28,030	22,030	38,800	34,340	16,060
HRA	8,610	11,490	13,820	15,200	15,340
Total	**36,640**	**33,520**	**52,620**	**49,540**	**31,400**
Financed by:					
Capital receipts	5,240	3,100	1,260	500	500
Capital grants	14,800	11,360	30,800	25,230	8,940
Reserves	580	510	300	0	0
Revenue	5,050	8,830	11,160	9,040	9,380
Loan	150	1,000	0	0	0
Net financing need for the year	**10,820**	**8,720**	**9,100**	**14,770**	**12,580**

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 and the Council’s capital strategy. 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 2017/18 TO 2020/21				
	2017/18 Projected £'000	**2018/19 Estimate £'000**	**2019/20 Estimate £'000**	**2020/21 Estimate £'000**
Movement in the CFR				
New borrowing to support capital expenditure				
Supported Borrowing	*2,131*	*4,422*	*4,370*	*3,959*
Unsupported Borrowing	*6,583*	*4,679*	*10,404*	*8,620*
Total	**8,714**	**9,101**	**14,774**	**12,579**
Reduce by: Minimum Revenue Provision and set aside capital receipts	(4,667)	(3,223)	(3,328)	(3,584)
Net movement in the CFR	**4,047**	**5,878**	**11,446**	**8,995**
Potential movements in actual borrowing				
Movement in the CFR (above)	-	**5,878**	**11,446**	**8,995**
Externalisation of pre 2017/18 internal borrowing	-	20,100	**-**	**-**
Replacement Borrowing (included in unsupported borrowing above)	**-**	5,000	5,000	4,500
Total potential new borrowing	**-**	**30,978**	**16,446**	**13,495**

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 2017	0.50	1.50	2.80	2.50
March 2018	0.50	1.60	2.90	2.60
June 2018	0.50	1.60	3.00	2.70
September 2018	0.50	1.70	3.00	2.80
December 2018	0.75	1.80	3.10	2.90
March 2019	0.75	1.80	3.10	2.90
June 2019	0.75	1.90	3.20	3.00
September 2019	0.75	1.90	3.20	3.00
December 2019	1.00	2.00	3.30	3.10
March 2020	1.00	2.10	3.40	3.20
June 2020	1.00	2.10	3.50	3.30
September 2020	1.25	2.20	3.50	3.30
December 2020	1.25	2.30	3.60	3.40
March 2021	1.25	2.30	3.60	3.40

As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

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 more protracted move from bonds to equities after a historic long-term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to 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 in November 2016 has called into question whether the previous trend may go into reverse, especially now the Fed has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

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 stronger economic growth becomes more firmly established. The Fed. has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will 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 are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, 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 towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.

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 balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

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

- Bank of England monetary policy takes action too quickly to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea., but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- The result of the October 2017 Austrian general election is likely to result in a strongly anti-immigrant coalition government. This could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major block to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into impacting the Euro, EU financial policy and financial markets.
- Rising protectionism under President Trump
- A sharp Chinese downturn and its impact on emerging market countries

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

- The Bank of England is too slow in its initial pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in the Fed. Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

Investment and borrowing rates

- Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years.

- Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Apart from that, there has been little general trend in rates during the current financial year. 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 the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of 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 still an issue that needs to be considered (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 £20.100m 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 2018/19 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 2017/18 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 2018/19 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.

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. Counterparty limits will be as set through the Council's treasury management practices – schedules.

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 the longer term bias outside the central rating view) 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 Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (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 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are:

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

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

2017/18 0.40%
2018/19 0.60%
2019/20 0.90%
2020/21 1.25%
2021/22 1.50%
2022/23 1.75%
2023/24 2.00%
Later years 2.75%

The overall balance of risks to these forecasts is currently skewed to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

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 2017/18 YMLAEN GAN PWLB / PWLB LOANS MATURITY ANALYSIS 2017/18 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 %**
2017/18	0	5	0	0	0	0.0
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	4.0
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	1,539	21	0	0	1,560	1.4
2030/31	451	15	0	0	466	0.4
2031/32	1,941	9	0	0	1,950	1.7
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	0.5
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	3.1
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	25.3
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	7.6
2059/60	1,763	0	0	0	1,763	1.6
2066/67	6,200	0	0	0	6,200	5.6
	111,184	**246**	**0**	**0**	**111,430**	**100.0**
Cyfartaledd bywyd (blynyddoedd)/ Average life(years)	23.12	8.13	0.00	0.00	23.09	
Cyfartaledd graddfa (%)/ Average rate (%)	5.26	9.41	0.00	0.00	5.15	

PROFFIL AD-DALU BENTHYCIADAU ERAILL 2017/18 YMLAEN / OTHER LOANS REPAYMENT PROFILE 2017/18 ONWARDS						
	Llywodraeth Cymru / Welsh Government **£'000**	**Benthycaf Salix Loan 1** **£'000**	**Benthycaf Salix Loan 2** **£'000**	**Benthycaf Salix Loan 3** **£'000**	**Cyfanswm / Total** **£'000**	
2017/18	40	8	0	0	48	
2018/19	40	16	46	0	102	
2019/20	40	16	46	80	182	
2020/21	40	16	46	80	182	
2021/22	0	16	46	80	142	
2022/23	0	16	46	80	142	
2023/24	0	16	45	79	140	
2024/25	0	8	45	79	132	
2025/26	0	0	45	79	124	
2026/27	0	0	0	79	79	

Minimum Revenue Provision Policy Statement 2018/19

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 is 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 between 1 April 2008 and 31 March 2018, financed by supported borrowing, the MRP policy will be to charge MRP on the Equal Instalment method, Asset Life basis over 50 years. The MRP on capital expenditure funded by unsupported borrowing during this period has already been charged using the Equal Instalment method, Asset Life basis using the estimated lives of the assets, based on information available at that time. This change in policy realigns the MRP policies for assets funded by supported borrowing and assets funded by unsupported borrowing.

From 1st April 2018 for all supported and unsupported borrowing (including PFI and finance leases), the MRP policy will also be the Equal Instalment Annuity Method, the Asset Life basis. However, the estimated life periods, will be set by the S151 Officer based upon advice received from the relevant officers and will have regard to Welsh Government guidance in relation to MRP and asset lives. Where land is purchased, the asset life will be based on the asset life of the asset placed on the land, which in the majority of cases will be 50 years in line with the asset life for buildings.

MRP charges based on asset life would not be charged until the year the asset becomes operational. The S151 Officer may postpone the MRP charge until the financial year following the one in which the asset becomes operational. The estimated asset life of the asset would be determined in the year the MRP commences and would not change over the life of the asset. The estimated life periods, will be set by the S151 Officer based upon advice received from the relevant officers and will have regard to Statutory requirements and Welsh Government guidance in relation to MRP and asset life. Where land is purchased, the asset life will be based on the asset life of the asset placed on the land, which in the majority of cases will be 50 years in line with the asset life for buildings.

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

The Council retains the right to make additional voluntary payments to reduce debt if deemed prudent.

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 and will be consistent with the asset life basis over the life of the lease or PFI scheme.

Rhagolygon Graddfeydd Llog 2017/2021
Interest Rate Forecasts 2017/2021

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

Link Asset Services Interest Rate View	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%
3 Month LIBID	0.40%	0.40%	0.40%	0.40%	0.60%	0.60%	0.60%	0.70%	0.90%	0.90%	1.00%	1.20%	1.20%	1.20%
6 Month LIBID	0.50%	0.50%	0.50%	0.60%	0.80%	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%
12 Month LIBID	0.70%	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.10%	1.30%	1.30%	1.40%	1.50%	1.50%	1.60%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB Rate	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%
Bank Rate														
Link Asset Services	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%
Capital Economics	0.50%	0.50%	0.75%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	-	-	-	-	-
5yr PWLB Rate														
Link Asset Services	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
Capital Economics	1.70%	1.90%	2.30%	2.60%	2.90%	2.90%	2.90%	2.90%	2.90%	-	-	-	-	-
10yr PWLB Rate														
Link Asset Services	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
Capital Economics	2.30%	2.60%	2.80%	3.10%	3.30%	3.30%	3.30%	3.30%	3.30%	-	-	-	-	-
25yr PWLB Rate														
Link Asset Services	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
Capital Economics	2.95%	3.15%	3.45%	3.65%	3.90%	3.90%	3.90%	3.90%	3.90%	-	-	-	-	-
50yr PWLB Rate														
Link Asset Services	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%
Capital Economics	2.80%	3.10%	3.30%	3.60%	3.80%	3.80%	3.80%	3.80%	3.80%	-	-	-	-	-

Please note – The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012

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

Economic Background

GLOBAL OUTLOOK - World growth looks to be on an encouraging trend of stronger performance, rising earnings and falling levels of unemployment. In October, the IMF upgraded its forecast for world growth from 3.2% to 3.6% for 2017 and 3.7% for 2018.

In addition, **inflation prospects are generally muted** and it is particularly notable that **wage inflation** has been subdued despite unemployment falling to historically very low levels in the UK and US. This has led to many comments by economists that there appears to have been a fundamental shift downwards in the Phillips curve (this plots the correlation between levels of unemployment and inflation e.g. if the former is low the latter tends to be high). In turn, this raises the question of what has caused this? The likely answers probably lay in a combination of a shift towards flexible working, self-employment, falling union membership and a consequent reduction in union power and influence in the economy, and increasing globalisation and specialisation of individual countries, which has meant that labour in one country is in competition with labour in other countries which may be offering lower wage rates, increased productivity or a combination of the two. In addition, technology is probably also exerting downward pressure on wage rates and this is likely to grow with an accelerating movement towards automation, robots and artificial intelligence, leading to many repetitive tasks being taken over by machines or computers. Indeed, this is now being labelled as being the start of the **fourth industrial revolution.**

KEY RISKS - central bank monetary policy measures

Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as Quantitative Easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that that period of stimulating economic recovery and warding off the threat of deflation is coming towards its close and a new period has already started in the US, and more recently in the UK, on reversing those measures i.e. by raising central rates and (for the US) reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of an on-going reduction in spare capacity in the economy, and of unemployment falling to such low levels that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this then also encouraged investors into a search for yield and into investing in riskier assets such as equities. This resulted in bond markets and equity market prices both rising to historically high valuation levels simultaneously. This, therefore, makes both asset categories vulnerable to a sharp correction. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery by taking too rapid and too strong action, or, alternatively, let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.**

There is also a potential key question over whether economic growth has become too dependent on strong central bank stimulus and whether it will maintain its momentum against a backdrop of rising interest rates and the reversal of QE. In the UK, a key vulnerability is the **low level of productivity growth**, which may be the main driver for increases in wages; and **decreasing consumer disposable income,** which is important in the context of consumer expenditure primarily underpinning UK GDP growth.

A further question that has come to the fore is whether **an inflation target for central banks of 2%**, is now realistic given the shift down in inflation pressures from internally generated inflation, (i.e. wage inflation feeding through into the national economy), given the above mentioned shift down in the Phillips curve.

- Some economists favour a shift to a **lower inflation target of 1%** to emphasise the need to keep the lid on inflation. Alternatively, it is possible that a central bank could simply 'look through' tepid wage inflation, (i.e. ignore the overall 2% inflation target), in order to take action in raising rates sooner than might otherwise be expected.
- However, other economists would argue for a **shift *UP* in the inflation target to 3%** in order to ensure that central banks place the emphasis on maintaining economic growth through adopting a slower pace of withdrawal of stimulus.
- In addition, there is a strong argument that central banks should **target financial market stability**. As mentioned previously, bond markets and equity markets could be vulnerable to a sharp correction. There has been much commentary, that since 2008, QE has caused massive distortions, imbalances and bubbles in asset prices, both financial and non-financial. Consequently, there are widespread concerns at the potential for such bubbles to be burst by exuberant central bank action. On the other hand, too slow or weak action would allow these imbalances and distortions to continue or to even inflate them further.
- Consumer debt levels are also at historically high levels due to the prolonged period of low cost of borrowing since the financial crash. In turn, this cheap borrowing has meant that **other non-financial asset prices**, particularly house prices, have been driven up to very high levels, especially compared to income levels. Any sharp downturn in the availability of credit, or increase in the cost of credit, could potentially destabilise the housing market and generate a sharp downturn in house prices. This could then have a destabilising effect on consumer confidence, consumer expenditure and GDP growth. However, no central bank would accept that it ought to have responsibility for specifically targeting house prices.

UNITED KINGDOM - After the UK surprised on the upside with strong economic growth in 2016, **growth in 2017 has been disappointingly weak**; quarter 1 came in at only +0.2% (+2.0% y/y), quarter 2 was +0.3% (+1.7% y/y) and quarter 3 was +0.4% (+1.6% y/y). The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the EU referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 80% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the **manufacturing sector** which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year while robust world growth has also been supportive. However, this sector only accounts for around 10% of GDP so expansion in this sector will have a much more muted effect on the overall GDP growth figure for the UK economy as a whole.

While the Bank of England is expected to give forward guidance to prepare financial markets for gradual changes in policy, the **Monetary Policy Committee, (MPC), meeting of 14 September 2017** managed to shock financial markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise soon. The Bank of England Inflation Reports during 2017 have clearly flagged up that it expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. The Bank revised its forecast for the peak to just over 3% at the 14 September meeting MPC. (Inflation actually came in at 3.0% in September and is expected to rise slightly in the coming months.) This marginal revision in the Bank's forecast can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment having already fallen to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that **the amount of spare capacity in the economy was significantly diminishing** towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of automation and globalisation. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a *decrease* in such globalisation pressures in the UK, and so this would cause additional inflationary pressure over the next few years.

At Its 2 November meeting, the MPC duly delivered a 0.25% increase in Bank Rate. It also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020. This is, therefore, not quite the 'one and done' scenario but is, nevertheless, a very relaxed rate of increase prediction in Bank Rate in line with previous statements that Bank Rate would only go up very gradually and to a limited extent.

However, some forecasters are flagging up that they expect growth to accelerate significantly towards the end of 2017 and then into 2018. This view is based primarily on the coming fall in inflation, (as the effect of the effective devaluation of sterling after the EU referendum drops out of the CPI statistics), which will bring to an end the negative impact on consumer spending power. In addition, a strong export performance will compensate for weak services sector growth. If this scenario was indeed to materialise, then the MPC would be likely to accelerate its pace of increases in Bank Rate during 2018 and onwards.

It is also worth noting the **contradiction within the Bank of England** between action in 2016 and in 2017 **by two of its committees**. After the shock result of the EU referendum, the **Monetary Policy Committee (MPC)** voted in August 2016 for emergency action to cut Bank Rate from 0.50% to 0.25%, restarting £70bn of QE purchases, and also providing UK banks with £100bn of cheap financing. The aim of this was to lower borrowing costs, stimulate demand for borrowing and thereby increase expenditure and demand in the economy. The MPC felt this was necessary in order to ward off their expectation that there would be a sharp slowdown in economic growth. Instead, the economy grew robustly, although the Governor of the Bank of England strongly maintained that this was *because* the MPC took that action. However, other commentators regard this emergency action by the MPC as being proven by events to be a mistake. Then in 2017, we had the **Financial Policy Committee (FPC)** of the Bank of England taking action in June and September over its concerns that cheap borrowing rates, and easy availability of consumer credit, had resulted in too rapid a rate of growth in consumer borrowing and in the size of total borrowing, especially of unsecured borrowing. It, therefore, took punitive action to clamp down on the ability of the main banks to extend such credit! Indeed, a PWC report in October 2017 warned that credit card, car and personal loans and student debt will hit the equivalent of an average of £12,500 per household by 2020. However, averages belie wide variations in levels of debt with much higher exposure being biased towards younger people, especially the 25 -34 year old band, reflecting their lower levels of real income and asset ownership.

One key area of risk is that consumers may have become used to cheap rates since 2008 for borrowing, especially for mortgages. It is a major concern that **some consumers may have over extended their borrowing** and have become complacent about interest rates going up after Bank Rate had been unchanged at 0.50% since March 2009 until falling further to 0.25% in August 2016. This is why forward guidance from the Bank of England continues to emphasise slow and gradual increases in Bank Rate once they start. However, consumer borrowing is a particularly vulnerable area in terms of the Monetary Policy Committee getting the pace and strength of Bank Rate increases right - without causing a sudden shock to consumer demand, confidence and thereby to the pace of economic growth.

Moreover, while there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two to three years will actually pan out.

EUROPEAN UNION - Economic growth in the EU, (the UK's biggest trading partner), had been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and has now gathered substantial strength and momentum thanks to this stimulus. GDP growth was 0.5% in quarter 1 (2.0% y/y), 0.6% in quarter 2 (2.3% y/y) and +0.6% in quarter 3 (2.5% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in October inflation was 1.4%. It is therefore unlikely to start on an upswing in rates until possibly 2019. It has, however, announced that it will slow down its monthly QE purchases of debt from €60bn to €30bn from January 2018 and continue to at least September 2018.

UNITED STATES OF AMERICA - Growth in the American economy was notably erratic and volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1% and quarter 3 coming in at 3.0%. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.2%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with four increases in all and three increases since December 2016; and there could be one more rate rise in 2017, which would then lift the central rate to 1.25 – 1.50%. There could then be another four increases in 2018. At its September meeting, the Fed said it would start in October to gradually unwind its $4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

CHINA. Economic growth has been weakening over successive years, despite repeated 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.

JAPAN has been struggling to stimulate consistent significant growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

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: initial two-year negotiation period on the terms of exit. In her Florence speech in September 2017, the Prime Minister proposed a two year transitional period after March 2019.
- UK continues as a full EU member until March 2019 with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy will leave the single market and tariff free trade at different times during the two year transitional period.
- 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 could also exit without any such agreements in the event of a breakdown of negotiations.
- 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 full 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.

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

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 2018/19 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 2018/19 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 24 October 2017]

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
- U.K.

AA-
- Belgium
- Qatar

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; and
- 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;
- recommending the appointment of external service providers; and
- 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.

PRUDENTIAL & TREASURY INDICATORS
BUDGET SETTING 2018/19 **APPENDIX 11**

No.	Indicator Affordability	2016/17 out-turn	2017/18 estimate	2018/19 proposal	2019/20 proposal	2020/21 proposal
1,2	Estimates of [or actual] ratio of financing costs to net revenue stream:					
	Council Fund	6.20%	6.25%	5.12%	5.47%	5.73%
	Housing Revenue Account (inclusive of settlement)	19.82%	23.02%	20.15%	15.88%	15.42%
	Total	7.68%	8.14%	6.86%	6.86%	7.10%
3	Estimates of incremental impact of capital investment decisions on the Council Tax			£0.00	£21.16	£56.31
	for the Band D Council Tax					
4 a	Estimates of incremental impact of capital investment decisions on housing rents			£48.74	£44.57	£45.53
	on average weekly rent levels					
4 b	Estimates of incremental impact of capital borrowing on housing rents for HRA			£0.00	£17.25	£16.02
	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	28,030	22,030	38,810	34,350	16,060
	Housing Revenue Account	8,610	11,490	13,820	15,200	15,340
	Total	36,640	33,520	52,630	49,550	31,400
8,9	Estimates of [or actual] Capital Financing Requirement					
	Council Fund	91,510	96,410	108,120	121,880	132,950
	Housing Revenue Account	42,500	41,650	40,820	43,500	45,930
	Total	134,010	138,060	148,940	165,380	178,880
External Debt		**£000**	**£000**	**£000**	**£000**	**£000**
10	Authorised Limit					
	: General Borrowing	166,000	166,000	174,000	190,000	203,000
	: Other long term liabilities	3,000	3,000	3,000	3,000	3,000
	: Total	169,000	169,000	177,000	193,000	206,000

11	HRA Limit on Indebtedness;					
	HRA Limit on Indebtedness	58,533	58,533	58,533	58,533	58,533
	HRA CFR	42,500	41,650	40,820	43,500	45,930
	HRA headroom	16,033	16,883	17,713	15,033	12,603
12	Operational Boundary					
	: General Borrowing	161,000	161,000	169,000	188,000	201,000
	: Other long term liabilities	3,000	3,000	3,000	3,000	3,000
	: Total	164,000	164,000	172,000	191,000	204,000
13	Actual External Debt	117,110				
Treasury Management		**2016/17 out-turn**	**2017/18 estimate**	**2018/19 proposal**	**2019/20 proposal**	**2020/21 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)					
			2017/18 upper limit		**2017/18 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)

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Information on Prudential & Treasury Management 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 2018/19 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 2017/18 to 2020/21, and is based on the Capital Programme for 2017/18 and the Capital Strategy for 2018/19.

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, and so charges the economic consumption of capital assets as they are used.

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

CH) External Debt

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 and the ability to fund under-borrowing by other cash resources.

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.

AUDIT & GOVERNANCE COMMITTEE

FORWARD WORK PROGRAMME

13 February 2018

Contact Officer:	Marion Pryor, Head of Internal Audit & Risk
E-Mail:	MarionPryor@ynysmon.gov.uk
Telephone:	01248 756211

Date	Subject	Responsible Officer (including e-mail address)
13 February 2018 **24 April 2018**	**Internal Audit Update** • An update on Internal Audit's latest progress in terms of its service delivery, assurance provision, reviews completed, performance and effectiveness in driving improvement.	**Head of Internal Audit & Risk** MarionPryor@ynysmon.gov.uk
13 February 2018 **24 April 2018**	**External Audit Progress Report** • An update on External Audit's work: ○ Performance Audit ○ Financial Audit	**Performance Audit Lead – Wales Audit Office** Gwilym.bury@audit.wales **Financial Audit Manager – Deloittes** cedge@deloitte.co.uk
13 February 2018	**Internal Audit Strategy and Annual Plan 2018/19** • The Public Sector Internal Audit Standards (2017) requires the chief audit executive to present the Internal Audit Strategy and Annual Plan to the Audit and Governance Committee for approval.	**Head of Internal Audit & Risk** **MarionPryor@ynysmon.gov.uk**
13 February 2018	**Treasury Management Strategy 2018/19 and Actual Prudential Indicators for 2018/19** • CIPFA's Treasury Management Practice Reporting requirements and management information arrangements recommend that local authorities should, as a minimum, report annually on their treasury management strategy and plan, before the start of the year. • The report will cover the actual Prudential Indicators for 2018/19 in accordance with the requirements of the Prudential Code.	**Head of Function (Resources) / S151 Officer** **MarcJones@ynysmon.gov.uk**

Date	Subject	Responsible Officer (including e-mail address)
13 February 2018	**Corporate Risk Register** • In accordance with its terms of reference, the Audit and Governance Committee is required to review the Corporate Risk Register and, where appropriate, request a response from management on actions to manage risks.	**Insurance & Risk Manager** JulieJones@ynysmon.gov.uk
13 February 2018	**Progress made on External Regulatory Reports** • The Audit and Governance Committee is requested 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@ynysmon.gov.uk
24 April 2018	**Review of the Audit and Governance Committee's Terms of Reference** • The Audit and Governance Committee should periodically review its terms of reference for appropriateness, with consideration given to sector guidance and the needs of the Council.	**Head of Function (Resources) / S151 Officer** **MarcJones@ynysmon.gov.uk**
24 April 2018	**Annual Report of the Audit & Governance Committee – Chair's Report** • The Committee are asked to approve the Chair's Report for submission to full Council	**Head of Function (Resources) / S151 Officer** MarcJones@ynysmon.gov.uk
June 2018	**Draft Report of the Head of Function (Resources) / S151 Officer regarding the Annual Finance and Governance Statement 2017/18** • The Audit and Governance Committee is requested to comment on the content of the draft Annual Finance and Governance Report 2017/18 and contribute to the evaluations, conclusions and recommendations proposed to further develop or strengthen elements of the Council's governance arrangements during 2018/19.	**Head of Function (Resources) / S151 Officer** MarcJones@ynysmon.gov.uk **Programme, Business Planning & Performance Manager** GethinMorgan@ynysmon.gov.uk

Date	Subject	Responsible Officer (including e-mail address)
June 2018	**Internal Audit Annual Report 2017/18** • The Public Sector Internal Audit Standards requires the chief audit executive to deliver an annual internal audit opinion and report that can be used by the Council to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. • The Committee is asked to note the report from the Head of Internal Audit & Risk on the conclusion of the internal audit work carried out during 2017/18.	**Head of Internal Audit & Risk** MarionPryor@ynysmon.gov.uk
July 2018	**Annual Treasury Management Report 2017/18** • The annual treasury report is a requirement of the Council's reporting procedures and covers the treasury activity for 2017/18.	**Head of Function (Resources) / S151 Officer** MarcJones@ynysmon.gov.uk
September 2018 **February 2019**	**Outstanding Internal Audit Recommendations** • A report of all outstanding internal audit recommendations	**Head of Internal Audit & Risk** MarionPryor@ynysmon.gov.uk
September 2018	**Internal Audit Charter** • Annual review of the Internal Audit Charter will be submitted to the Committee for approval	**Head of Internal Audit & Risk** MarionPryor@ynysmon.gov.uk
September 2018 **February 2019**	**Corporate Risk Register** • In accordance with its terms of reference, the Audit and Governance Committee is required to review the Corporate Risk Register and, where appropriate, request a response from management on actions to manage risks.	**Insurance & Risk Manager** JulieJones@ynysmon.gov.uk

Date	Subject	Responsible Officer (including e-mail address)
September 2018 February 2019	**Progress made on External Regulatory Reports** • The Audit and Governance Committee is requested 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@ynysmon.gov.uk
September 2018	**Report of the Head of Function (Resources) regarding the Annual Finance and Governance Report 2017/18** The Audit and Governance Committee is charged with approving the accounts on behalf of the Council. The Audit and Governance Committee is therefore required to: • approve the Annual Finance and Governance Report 2017/18, including the Statement of Accounts 2017/18, • receive the Appointed Auditor's report on the accounts and the ISA 260, and to • approve the Final Letter of Representation.	**Head of Function (Resources) / S151 Officer** MarcJones@ynysmon.gov.uk
December 2018	**Review of the Risk Management Strategy and Framework** • In accordance with its terms of reference, the Audit and Governance Committee is required to keep under review the Risk Management Strategy for the Council.	**Insurance & Risk Manager** **JulieJones@ynysmon.gov.uk**
December 2018	**Mid-year Report on Treasury Management for 2018/19** • CIPFA's Treasury Management Practice Reporting requirements and management information arrangements recommend that local authorities should, as a minimum, report the treasury management position mid-year. The Committee is requested to note the current position on investments and borrowing.	**Head of Function (Resources) / S151 Officer** **MarcJones@ynysmon.gov.uk**

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DDIM I'W GYHOEDDI
NOT FOR PUBLICATION

(Teitl yr Adroddiad:Y Gofrestr Risg Corfforaethol /Title of Report:Corporate Risk Register)

PRAWF BUDD Y CYHOEDD
PUBLIC INTEREST TEST

Paragraff(au) Paragraph(s)	Atodlen 12A Deddf Llywodraeth Leol 1972 Schedule 12A Local Government Act 1972 14 & 16
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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