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CYNGOR SIR
YNYS MÔN
ISLE OF ANGLESEY
COUNTY COUNCIL

Dr Gwynne Jones
Prif Weithredwr – Chief Executive
CYNGOR SIR YNYS MÔN
ISLE OF ANGLESEY COUNTY COUNCIL
Swyddfeydd y Cyngor - Council Offices
LLANGFNI
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, 24 GORFFENNAF, 2018 am 2:00 y.p.	TUESDAY, 24 JULY 2018 at 2.00 pm
YSTAFELL BWYLLGOR 1, SWYDDFEYDD Y CYNGOR, LLANGFNI	COMMITTEE ROOM 1, COUNCIL OFFICES, LLANGFNI
Swyddog Pwyllgor	Ann Holmes 01248 752518 Committee Officer

AELODAU / MEMBERS

Cynghorwyr / Councillors:-

PLAID CYMRU / THE PARTY OF WALES

John Griffith, Dylan Rees, Alun Roberts, Margaret M. Roberts

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 PREVIOUS MEETING (Pages 1 - 16)

To present the minutes of the previous meeting of the Audit and Governance Committee held on 27 June, 2018.

3 INTERNAL AUDIT PROGRESS UPDATE (Pages 17 - 28)

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

4 TREASURY MANAGEMENT ANNUAL REVIEW 2017/18 (Pages 29 - 46)

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

5 FORWARD WORK PROGRAMME (Pages 47 - 52)

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

AUDIT AND GOVERNANCE COMMITTEE

Minutes of the meeting held on 27 June, 2018

- PRESENT:** Councillor Peter Rogers (Chair)
Councillor R. Llewelyn Jones (Vice-Chair)
- Councillors John Griffith, G.O. Jones, Dylan Rees,
Margaret Roberts.
- Lay Members: Dilwyn Evans and Jonathan Mendoza
- IN ATTENDANCE:** Chef Executive
Assistant Chief Executive (Partnerships, Community and
Service Improvement)
Head of Function (Resources) and Section 151 Officer
Head of Function (Council Business)/Monitoring Officer (for
item 4)
Head of Internal Audit & Risk (MP)
Corporate Information Governance Manager (HP) (for item 4)
Committee Officer (ATH)
- APOLOGIES:** Councillors Richard Griffiths, Alun Roberts, Robin Williams
(Portfolio Member for Finance)
- ALSO PRESENT:** Councillor Llinos Medi Huws (Leader), Councillor Carwyn Jones
(Portfolio Member for Major Projects and Economic
Development) (for item 6) Accountancy Services Manager
(BHO), (for item 3), Mr Huw Lloyd Jones (Wales Audit Office),
Mr Gwilym Bury (Performance Audit Lead - Wales Audit Office)
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1. DECLARATION OF INTEREST

No declaration of interest was received.

2. MINUTES OF THE 9TH FEBRUARY, 2017 MEETING

The minutes of the previous meetings of the Audit and Governance Committee held on the dates noted below were presented and were confirmed as correct –

- 24th April, 2018

Arising thereon – The Committee sought an update on the position with regard to the review of the Committee's terms of reference, the task having been postponed over the course of several meetings due to the delay in the publication of new CIPFA guidance.

The Head of Audit and Risk said that it was planned that the review would take place at the Committee's July meeting; however due to the proximity of the Committee's meetings in June and July, it is unlikely that the timescale for the July meeting will be met. The review is now scheduled to take place at the Committee's September meeting. The Officer said that the Committee's two Lay Members have indicated that they are happy to look at a first draft of the revised terms of reference with the aim being to forward the documentation to them in the next few weeks.

- 15th May, 2018 (election of Chair/Vice-Chair)

3. STATEMENTS OF ACCOUNTS 2017/18 AND ANNUAL GOVERNANCE STATEMENT

The report of the Head of Function (Resources) and Section 151 Officer incorporating the draft pre-audit Statement of Accounts for the 2017/18 financial year along with the draft Annual Governance Statement for 2017/18 was presented for the Committee's consideration.

The Head of Function (Resources) and Section 151 Officer reported that the Council has a statutory duty to approve and publish a Statement of Accounts for each financial year. Before External Audit can commence, the Section 151 Officer is required to sign the Statement of Responsibilities for the Statement of Accounts prior to the statutory deadline of 30th June each year. The Statement of Accounts for 2017/18 was completed well in advance of this date in readiness for the earlier closedown of accounts in 2018/19 when the legal deadline for the completion of the draft accounts becomes 15th June, 2019. As from 2020/21 onwards, the legal deadline for completing and signing the draft Accounts will again be brought forward to 31 May. The Officer said that the structure and contents of the accounts have not materially changed with the prefatory narrative report, which is a key section of the accounts, providing a guide to the most significant matters reported in the accounts in an accessible and easy to understand way along with contextual information about the Isle of Anglesey County Council. The format of the Statement is prescribed by accounting regulations and practices and contains the Comprehensive Income and Expenditure Statement, the Expenditure and Income Analysis; the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and the Notes to the Accounts which elaborate in an explanatory way on the figures in the main accounts. Also included are the Housing Revenue Account and accompanying notes and the Annual Governance Statement for 2017/18.

The Officer highlighted the following as main points of consideration within the Statement of Accounts for 20-17/18:

- That although the Statement of Accounts is meant to give electors, local taxpayers, member of the Council, employees and other interested parties clear information about the Council's finances, it is a complicated and technical document which is set out in accordance with the Code of Practice on Local Authority Accounting - compliance with the requirements of the Code in preparing the accounts being one of the factors which the External Auditor assesses in conducting the audit of the accounts.
- That paragraph 3.4 of the narrative report gives a summary of the Council's financial performance for the financial year ending 31 March, 2018 including its revenue and capital expenditure. In 2017/18, the Council reported an overspend of £1.78m against a planned activity of £126.2m (net budget) and achieved £1.704m of savings. The table in paragraph 3.4.1 reflects the final budget for 2017/18 and the actual income and expenditure against it by service. The Capital Budget was underspent in the year with the total spend amounting to £29.355m against a Capital Budget of £52.572m. The Capital Programme has made steady progress in the year achieving a delivery rate of 55.73%. It is expected that the remaining schemes will be delivered over the coming few years. The information presented in section 3.4 is in line with that provided in financial monitoring reports presented to the Council's Executive in May and June, 2018.
- That the Comprehensive Income and Expenditure Account Statement (CIES) shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices rather than the amount to be funded from taxation. The CIES for 2017/18 shows a deficit on continuing operations of £143.869m compared to £122.889m in 2016/17 the main variance being in Lifelong Learning net expenditure which is £18m

higher than in 2016/17 but which includes an item of capital which does not have an impact on how the Council is funded. The total comprehensive income and expenditure for 2017/18 was a surplus of £21.764m compared with a deficit of £9.242m in 2016/17 the additional income being attributable to the revaluation of non-current assets (£43.058m) and the re-measurement of net pension liability (£7.413m). These are items which are included in the accounts because of accounting requirements as opposed to being items which are funded from local taxation.

- That the **Expenditure and Funding Analysis** for 2017/18 shows the closing Council Fund Balances (usable reserves) and HRA Balance to be £27.856m down from £31.345m for 2016/17.
- That the **Movement in Reserves Statement** shows movement in the year to and from the reserves held by the Council divided into usable reserves (i.e. those that derive from the Council's activity and can be spent) and other unusable reserves (those deriving from accounting adjustments and cannot be spent). The surplus/(deficit) on the provision of services line reflect the true economic cost of providing the Authority's services more details of which are provided by the CIES. The Statement shows that the General Council Reserve reduced by £2.003m for 2017/18 resulting in a total general reserve of £6.352m due primarily to the Revenue Budget overspend of £1.7m referred to earlier. The Earmarked Reserves Fund has also reduced from £13.357m to £11.910m as has the Housing Revenue Account (HRA) in the amount of £139k making a balance of £7.405m as at 31 March, 2018. The Capital Receipts Reserve has generated a surplus of £320k whilst School Balances have reduced from £2.089m to £1.869m mostly within the primary sector with secondary sector balances having increased marginally. The Council's total usable reserves as at 31 March 2018 were £27.856m whereas the total unusable reserves stood at £158.727m.
- That the **Balance Sheet** shows the value of the assets and liabilities recognised by the Authority as at the Balance Sheet date i.e. 31 March, 2018. The net assets are matched by reserves held by the Authority. The Balance Sheet shows that the value of the Council's assets has risen from £164.819m as at 31 March, 2017 to £186.583m as at 31 March, 2018 due mainly to an increase in the value of the Council's property, plant and equipment (line 1 of the Balance Sheet). The Council's cash and cash equivalent balances have reduced from £14.949m as at 31 March, 2017 to £7.789m as at 31 March, 2018. However, the Balance Sheet provides a snapshot only of the Council's financial position at a specific point in time showing the value of its assets and its liabilities as at 31 March, 2018. It does not provide a true reflection of the Council's financial standing.
- That the **Cash Flow Statement** shows the changes in cash and cash equivalents of the Council during the reporting period. The decrease in the Council's cash balances tallies with the Treasury Management Strategy as approved by Council of using available cash balances to minimise borrowing requirements as the cost of borrowing is higher than the returns on investments.
- That the **Notes to the core Financial Statements** provide more details about the Council's accounting policies, items and the figures contained within the main financial statements referred to above. They clarify items that are included in the accounts because of accounting rules as well as providing additional information about items such as grant income, officer remuneration, the local government pension scheme and contingent assets and liabilities (possible income which the Council may receive and/or possible costs which it may incur) The Officer highlighted the notes likely to be of main interest to the Council's stakeholders in reading the statements.
- The **Annual Governance Statement for 2017/18** – this sets out the processes, systems, principles and values by which the Authority is directed and controlled. The Statement enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost

effective services. It also set out the arrangements that have been put in place to manage and mitigate the risks it faces in undertaking its activities and responsibilities.

The Committee considered the information presented in the accounts and raised the following points –

- The Committee noted that the draft Accounts for 2017/18 had been prepared in a timely way and well in advance of the current statutory deadline of 30 June.
- The Committee noted that the narrative foreword provides a fair and understandable summary of the Council's financial performance and financial position for the financial year ending 31 March, 2018 and that it sets out the key events and their effect on the financial statements.
- The Committee noted that the Table in 3.4.1 of the narrative report shows the final budget outturn for each service for 2017/18. The Committee sought clarification of whether it is possible to trace the figures in Table 3.4.1 to the financial statements.

The Head of Function (Resources)/Section 151 Officer said that the figures are traceable through the Comprehensive Income and Expenditure Statement (CIES) as well as explanatory Note 1 (a) and Note 11. The CIES contains items which are included because of accounting requirements e.g. pensions liability and depreciation which are then removed from Council Tax setting because as accounting items, they do not have a bearing on how Council services are funded and are therefore not actual costs which affect the Council's General Fund balances. The explanatory notes do the job of removing these accounting adjustments and re-inserting the items that are funded from taxation thereby giving a clearer view of the Council's financial position. The narrative report is the Management Accounts i.e. figures that are based on the Council's activities and the cost of services whilst the financial statements are the statutory accounts which are prepared to a set format according to regulations and which include items that are not directly related to how the Council is funded.

The Committee requested that it be provided with information that shows how the figures in table 3.4.1 are reconciled to the financial statements.

- The Committee noted that the Council is approaching its minimum reserves threshold and that £1.78m was taken from the General Reserves in 2017/18 to fund the over expenditure on the Revenue Budget due mainly to overspending by Children and Families Services on out of county placements for looked after children. The Committee further noted that the narrative report acknowledges that increasing numbers of looked after children and other social care demands are a considerable risk to the Council's balances due to the high cost of placements (as much as £250k per looked after child per annum) for individuals with complex needs. Given this context therefore and the recognised risk, the Committee sought clarification of whether the Council should be making a separate contingency provision for the very real likelihood of these pressures continuing and their implications for the Council's financial position.

The Head of Function (Resources)/ Section 151 Officer said that the Council was in the fortunate position of having £8.3m general reserves at the beginning of the 2017/18 financial year. The Section 151 Officer is required to come to an assessment based on a number of factors including the Council's financial standing and management and the risks it faces, of the prudent level of reserves which the Council should hold. For 2017/18 the minimum level of reserves which the Section 151 Officer assessed as adequate was in the region of £6m to £6.5m. Although due to the overspend on the Revenue Budget the level of reserves has dropped and is now approaching the minimum value, it does not necessarily follow that the Section 151 Officer will not countenance any further drop

and could allow the reserves to dip below the threshold providing he is satisfied that there is a plan to then restore the balances to a desired level through a budget provision. The Head of Function (Resources) said that the sum of £1.3m has been incorporated within the Council's Medium Term Financial Plan (MTFP) to cover the additional cost of placements for looked after children together with the cost of the education provision that comes with the placements if they are out of county. Both Children's Services and the Lifelong Learning Service are working on various projects to in an effort to reduce the costs. At the root of the matter is the lack of provision locally be that through foster carers or specialised residential placements. The Service is seeking to increase the number of foster carers on Anglesey which would then allow more of the Authority's looked after children to remain in mainstream education on the Island thereby reducing the need and therefore the cost of out of county provision. It is however recognised that the strategy of reducing the average placement cost by increasing local provision might not be sufficient to bridge the whole of the £1.7m budget gap, so the MTFP allows for a budget increase as well. Other relevant factors are the value of the local government settlement and the Welsh Government's spending priorities when it comes to allocating funding. The Council is planning on the basis of a worst case scenario i.e. a £10m budget shortfall over the next 3 years but which allows for additional funding for Children's Services.

The Leader and Portfolio Member for Social Services gave an example of the kind of specialist therapy and provision a looked after child with a troubled background might require the costs of which can quickly escalate. She said that as a demand led service, it is difficult to project costs for the Looked-After Children's budget and although the Authority is seeking to develop local solutions as far as possible, the steady increase in the number of looked after children is a national phenomenon and needs to be addressed at national level.

- The Committee noted that that the net liability on the Local Government Pension Scheme is £104.633m. The Committee sought clarification of whether this is a matter that the Council should be concerned about in terms of being able to meet its liabilities and also in terms of the potential future effect on the Council's financial standing. The Committee sought assurance that it is a risk that the Council is able to manage.

The Head of Function (Resources)/Section 151 Officer said that the deficit on the Pension Scheme is historical with local government reorganisation in 1996 being a factor in contributing to it. At that time, a large number of council employees were allowed to retire early as a result of the restructuring some of whom were made redundant and some of whom took early retirement. This puts a strain on pension costs as does longevity as individuals live longer in retirement meaning they are paid pension benefits for a longer period. However as their pension contribution would have been lower in the early part of their employment the deficit in the Fund builds over time. Over the past 10 year the Pension Scheme has been remodelled with reforms taking place in 2008 and again in 2014 when the scheme became a Career Average scheme rather than a Final Salary Scheme. The reforms should mean that the deficit does not grow. Also, based on the evaluation made by the Pension Fund's Actuary, the Council as employer has been making higher contributions to the Fund, and it pays an annual lump sum as a deficit contribution. The Officer confirmed that he did not consider the Pension Fund deficit to be a matter of concern because the Council is making higher contributions to the Fund to bring down the deficit, because the Pension Fund has been reformed and because the Scheme is ongoing meaning that its liabilities are not going to all crystallise at the same time.

- The Committee noted that the Council as at 31 March 2018 had a short-term net debtor balance of £24.594m and that a review of arrears balance suggested that impairment of

doubtful debts of £5.377m is appropriate leaving the Council therefore with a short-term debt balance of approximately £19m. The Committee sought clarification of whether this approach means the Council is confident of being able to recover the monies owing and also whether this approach is appropriate given that the accounts also state that any differences between the impairment level applied and the actual arrears position will reflect in future spending patterns.

The Head of Function (Resources)/Section 151 Officer said that the Council's approach is in accordance with the Code. In considering debt the Council will have regard to the debt type, the debt value, the age of the debt following which it assesses the amount of debt it is likely to be able to recover. Whereas the Council is very proficient in collecting Council Tax and Non-Domestic Rates with an approximately 98% collection rate in-year and an approximately 99% collection rate over a period of 3 years - writing off less than 1% of the council tax debt each year – it is less proficient in collecting other sundry debts. This is because Council Tax collection is easier because of the procedures including legal procedures, underpinning the recovery process. The impairment provision represents the worst case scenario and it is very possible that the Council will collect more than the sum shown as impairment.

- The Committee noted that the External Audit fee for 2016/17 was £88k and that for 2017/18 it is £182k; the Committee sought clarification of the higher than expected increase.

The Head of Function (Resources)/Section 151 Officer said that the increase in the audit fee is due to the work undertaken by External Audit on the Housing Benefit Subsidy Grant claim and is subject to the number of errors identified. The Authority was also overcharged in the changeover of external auditors from PwC to Deloitte. The refund will be shown in next year's accounts.

Mr Gwilym Bury, WAO confirmed that the only variable in the External Audit fee is the grant related work and in particular the Housing Benefit Subsidy Grant claim which is a complex item and which can lead to additional work thereby incurring additional charges.

It was resolved that the Audit and Governance Committee -

- **Accepts and notes the draft Statement of Accounts for 2017/18 prior to its review by External Audit.**
- **Accepts the Annual Governance Statement for 2017/18 as a fair reflection of the Council's operations over the year.**

ADDITIONAL ACTION: The Committee to be provided with information on how the Budget outturn figures in paragraph 3.4.1 of the narrative report are reconciled to the financial statements.

4. INTERNAL AUDIT PROGRESS UPDATE

The report of the Head of Audit and Risk setting out the progress as at the 8 June, 2018 with regard to the Internal Audit (IA) reports issued since the Committee's previous meeting in April, 2018 was presented for the Committee's consideration. The report provided an update on the IA reports issued since 26 April, 2018; the outcome of follow up of previous IA reports; implementation of Management actions; progress in delivering the IA Annual Plans for 2017/18 and 2018/19 as well as the timeline for the review of the Committee's terms of reference.

The Head of Audit and Risk reported on main matters as follows –

- That the Internal Audit Service finalised three reports during the period referred to; these were in relation to the Recruitment and Retention of Foster Carers which resulted in a Reasonable Assurance opinion as did the review report on Corporate Health and Safety. The third report which was in relation to the Council's Preparation for the General Data Protection Regulations resulted in a Limited Assurance opinion with 6 major, 1 moderate and 1 minor risks/issues being raised.
- That no follow-up reviews were undertaken during the reporting period, although six are scheduled over the next six months.
- That the Council has steadily improved its performance in implementing IA recommendations and/or addressing risks raised by IA over the last 17 months as shown by the table in paragraph 22 of the report. As at 8 June, 2018, 90% of High/Red/Amber issues had been addressed, 92% of Medium/Yellow issues and 91% of Low/Green issues.
- That due to the significant slippage of work from 2016/17 and loss of staff because of a retirement, sickness absence and a resignation, the resource available to complete the Operational Plan for 2017/18 was significantly reduced and the Plan was revised accordingly. The revised Plan has been delivered and some audits rolled forward dependent on their priority. Although progress in delivering the 2018/19 Operational Plan (attached at Appendix A to the report) has been slow as a result of two vacancies and a long-term sickness absence, the Service has completed one Final Account Verification and commenced work in four areas as well as being involved in three ongoing investigations. The Operational Plan has been revised in accordance with the revision to the Corporate Risk Register approved by the Senior Leadership Team on 12 February, 2018.
- That the resource available to deliver the current plan has significantly reduced due to the vacancies and the absence. This has been managed by reducing coverage where possible and by the use of contingency. However, there remains a shortfall of 50 days and it is unlikely that the Service will achieve 100% coverage of the Red and Amber Residual Risks in the Corporate Risk Register. The Plan will therefore be further prioritised to ensure that the areas of greatest risk to the organisation are covered first.
- That the Committee's terms of reference were originally due to be reviewed at its September, 2017 meeting. However, at this and subsequent meetings, the Committee approved the postponement of the review until the publication of the new CIPFA guidance. This was published in May 2018 and was circulated to the Committee's members on 25 May. A workshop with members of the Committee on the new guidance was subsequently held in June; the Committee's two Lay Members have agreed to look at a draft of the new terms of reference. These will now be formally reviewed by the Committee at its September, 2018 meeting.

The Officer expanded on the IA review report on the **Council's Preparation for GDPR** which as a Limited Assurance Report, was provided to the Committee's members in full under separate cover. She said that the audit followed an interim audit of GDPR preparedness undertaken earlier in the year. The audit report back in November, 2017 provided reasonable Assurance that the Council was on track to achieve compliance with GDPR by May, 2018. The purpose of the latest audit review was to provide assurance of whether the Council had continued work implementing its plans and undertaken enough work to be in a position of compliance with GDPR by 25 May, 2018. As at the beginning of May, 2018 IA's review of the Corporate Implementation Plan and implementation of the five step Action Plan distributed to Heads of Service confirmed that services had not demonstrated enough progress in completing all the actions and the Council would be unlikely to be able to report a position of full compliance by 25 May, 2018. It was found that services had not evidenced that they had implemented the

actions required in the Action Plan in accordance with the target dates; the Council should have mapped its data and reviewed its privacy notices and policies by April, 2018. In addition, the Council should have provided training to its high-risk services. From information provided by the Corporate Information Governance Manager, it is likely that few public sector organisations will be 100 percent compliant by 25 May, 2018. However, it is vital that the Council is able to demonstrate to the Information Commissioner's Office that reasonable steps have been taken towards GDPR compliance, which will be seen as positive and less likely to incur fines. A follow-up review of this area will be undertaken in August, 2018.

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

- The Committee noted that the Internal Audit review of the Council's Preparation for GDPR provided Limited Assurance only; this despite a previous interim review having provided Reasonable Assurance as to the Council's likely compliance by 25 May, 2018. The Committee noted that the Council will have been aware of the impending Regulation for a length of time and yet from the audit report, it appears to be some way off full compliance. In view of the penalties for non-compliance which can be severe both in a financial and a reputational sense and the high risk which GDPR therefore represents, the Committee sought assurance that addressing this matter is being expedited at a corporate level and that there is a plan and timescale for ensuring that the Council becomes fully compliant.

The Head of Function (Council Business)/Monitoring Officer and Senior Information Risk Owner (SIRO) (*whose report on the implementation of GDPR and the Data Protection Act 2018 (DPA 2018) across all services in the Council as at 25 May, 2018 was appended to the IA Update report*) said that although the Council along with other organisations knew that GDPR was coming into force in May, 2018 it was not published until 14 September, 2017 meaning that the contents were not known until that date. A Corporate Plan was then created to implement GDPR within the resources available. The Plan was summarised into a five stage plan intended to assist the Council's services to work towards compliance with the new legislation and to do so incrementally so as to better manage the process. The first stage of the Plan was rolled out in November 2017. The matrix at Table 1 of the SIRO's report summarises the position on 25 May, 2018 in respect of the plan by service. All the services marked Green and Amber on the list did comply with the three steps in the project in advance of the deadline (i.e. work on fair processing notices, data mapping and retention schedules) and provided the corporate centre with the opportunity to undertake a quality assurance assessment of the work undertaken. The three services showing as Amber (Resources, Economic Development and Transformation) are likely to remain as Amber because of the nature and extent of the sensitive data they hold. With regard to the four services showing as Red, the Education Service did comply within the deadline but did so on the line on the day meaning that a quality assurance assessment of the work to verify that it meets the expectations of the ICO was not possible. Social Services (comprising Adults' Services and Children's Services) were undertaking work to secure their compliance through a dedicated officer in liaison with the Corporate Information Governance Manager; however due to the sickness absence of the Officer within the service, Social Services were not able to comply by the deadline. Since 25 May, Social Services have completed the Fair Processing Notices which have been quality assessed and confirmed as meeting the standards. They have also completed data mapping and the retention schedules but it is not yet known whether these are to corporate standards meaning there is further work to be done in these areas. The Housing Service is in a similar situation in not having met the deadline but having completed the three steps which work is now subject to a quality assurance assessment. For the services showing as Red

therefore all the material is in place, but needs to be corporately assessed to confirm it meets the requirements.

- The Committee sought clarification of the progress in addressing the specific risks raised by Internal Audit which it deemed amounted to more than a checklist that can be ticked off. The Committee further noted that after 25 May, the expectation is that GDPR is implemented as part of the Council's day to day operations meaning that it has to be part of everyday life for its employees; it sought assurance therefore that the Council is confident that it is on the way to making GDPR a normal part of its business and that Managers understand what is required of them.

The Head of Function (Council Business)/Monitoring Officer and SIRO said that the way the corporate plan was designed to answer GDPR involves five stages the completion of which will lead to compliance. The first three stages reported on above are ones for which the services are themselves responsible. The fourth stage is in relation to the policies and processes which need to be developed in order to comply with the legislation – a list of those developed to date is contained within the report; the fifth stage relates to training. The training material on GDPR is available on the Council's E-Learning Platform and will close on 30 June after which date the Senior Leadership Team and Heads of Service group (Y Penaethiaid) will be updated on the level of compliance with the training programme. The aim is to achieve full compliance with GDPR by the end of August by which time stages one to four will have been completed. The extent of compliance with training (Stage 5) will become apparent shortly, and some additional training may be required to be targeted at high risk services. Full compliance will be achieved when the five stages have been completed with the substantive work now having been done.

The Corporate Information Governance Manager said that GDPR is very complex legislation which was added to two days prior to 25 May when the Westminster Government published the final version of its Data Protection Bill implementing the Data Protection Act 2018. Therefore, as well as working on the five stages towards GDPR compliance the Authority has also had to respond at short notice to the requirements of the Data Protection Act. The Officer assured the Committee that the Council is living within the environment of GDPR and the Data Protection Act 2018 and is compliant with the legislation in as far as the Council is responding to any individual seeking to exercise his/her statutory rights. The Officer stressed that it is important to understand that compliance is not about hitting a target date and then forgetting about it as that in itself could create a risk by way of complacency; compliance is ongoing and the risk is one of not realising that an organisation is only as good as its last data breach. As regards Managers' understanding of the subject, it was sufficient for service managers to understand what was required of them under the first three stages of the Plan without having to understand the legislative details. The Council realises that it is now working in a new environment and is using the opportunity to meet with Heads of Service to check on ongoing progress and to identify any gaps and/or risks, to ensure that the first three stages complement each other and that the policies and procedures under the fourth stage are being implemented and applied.

The Head of Function (Council Business)/Monitoring Officer and SIRO said that Heads of Service are also the Information Asset Owners of the information held by their service. As the bulk of the work under the first three stages was primarily administrative it might have been a case of some services not having allocated resources soon enough to achieve the required objectives. The report has been helpful in concentrating minds and in creating sense of urgency in the run-up to the

25th May; when services' attention was focused on the work that needed to be done, they achieved the objectives with most doing so at a high and capable level.

- The Committee noted that the IA audit review report on GDPR is a cross-service report involving a number of personnel. The Committee also noted that the lines of accountability were not clear to it as regards where the responsibility for implementing the Action Plan lies. The Committee noted further that in a report of this kind affecting services across the Council a mechanism is needed to co-ordinate the action planning otherwise there is a risk of drift and of actions remaining unimplemented.

The Head of Audit and Risk said that the Action Plan highlights the responsible officer for each issue raised who are expected to report back to Internal Audit on the actions taken via the recommendations tracking software. It is Management's responsibility to ensure that the action plan is implemented; Internal Audit will chase up on Management for updates and to ensure that the recommendations are being implemented and that there is sufficient evidence thereof. If that is not the case, then the matter will be reported back to the Committee.

The Head of Function (Council Business)/Monitoring Officer and SIRO confirmed that the Corporate Information Governance Manager is responsible corporately for implementing the Action Plan.

- With regard to delivering the Internal Audit Operational Plan for 2018/19, the Committee noted that there remains a shortfall of 50 days in the available time for audit work meaning that the Red and Amber Residual Risks in the Corporate Risk Register are not likely to receive 100% coverage. The Committee noted that this was due to reduced resources with the Service carrying two vacancies and a long-term sickness absence. This being the case, the Committee was concerned that capacity constraints are preventing the Internal Audit Service from discharging its responsibilities fully; and although the Committee acknowledged that the Service is making best efforts to manage the situation by prioritising and by use of the contingency, it remained concerned that the Service is not able to cover Red and Amber Residual risk areas with the breadth and depth that it otherwise would were it fully resourced, and was concerned also by implications of the reduced coverage for managing these risk areas and the potential for risks escalating.

The Head of Audit and Risk said that the Council's Corporate Risk Register is monitored quarterly by the Senior Leadership Team and the risks contained within it are continuously evaluated and re-evaluated as circumstances change. Senior Managers also monitor risks on an ongoing basis. As can be seen from the Operational Plan in Appendix A the corporate risk rating for some Red/Amber areas has been de-escalated and/or the risk been deleted due to the residual risk reducing. The Internal Audit Service will still maintain strategic oversight of the areas that it does not plan to cover in depth and if any issues are identified then it will make arrangements to examine those areas more closely. The Officer said that she was now able to report that the Service has recruited two new members of staff, one of whom will commence in post in August and the other in October; they are bringing to the posts experience and a diverse skills set.

It was resolved that having considered the information and the assurance provided both verbally and via the written reports, the Audit and Governance Committee -

- **Notes Internal Audit's latest progress in terms of its service delivery, assurance provision, reviews completed, performance and effectiveness and in driving improvement.**
- **Approves the arrangements for the review of its terms and conditions.**

ADDITIONAL ACTION: None but the Committee notes that a planned update report on GDPR is scheduled to be presented to its September meeting.

5. INTERNAL AUDIT ANNUAL REPORT 2017/18

The Annual Report of the Internal Audit Service for 2017/18 was presented for the Committee's consideration. The report provided an analysis of the performance of the IA Service for the period from 1 April, 2017 to 31 March, 2018 and contained the annual opinion of the Chief Audit Executive (i.e. the Head of Audit and Risk) on the adequacy of the Council's risk management, control and governance processes for the reporting period.

The Head of Audit and Risk reported that based on the work and activities carried out by the Internal Audit Service during 2017/18 as documented in Appendix A she was able to confirm that for the 12 months ended 31 March, 2018 the Isle of Anglesey County Council had an adequate and effective framework for risk management, governance and internal control. While she did not consider there to be any areas of significant corporate concern, some areas require the introduction or improvement of internal controls to ensure the achievement of objectives and these are the subject of monitoring. There were no qualifications to this opinion.

With regard to performance, the Officer said that a comparison of the Service's performance against target and benchmarked with the Welsh Chief Auditors Group (Appendix D) shows that it is in the top quartile in five areas and in those areas that it performs less well by comparison e.g. cost, it is because Anglesey is a smaller sized authority. The Officer also highlighted that the Internal Audit Service places value on training and development and has invested significantly to ensure that members of the team continue their professional development and stay abreast of emerging risks and developments in the sector.

The Committee considered the information provided. The Committee noted in relation to performance that against a target of 44 (compared with a WCAG average of 69), the Service's actual performance is 29. The Committee also noted that the opinion concludes that there are no areas of significant corporate concern, despite several areas where the assurance level was limited and where progress was slow or off target having been brought to its attention over the course of the year.

In relation to the Service's performance the Head of Audit and Risk said that having checked the basis for the WCAG average, she had found that some councils define an audit differently and include the verification of information as an audit hence the higher WCAG average of 61. Benchmarked with the six North Wales authorities the performance of Anglesey's Internal Audit compares well. With regard to there being no areas of corporate concern, the Head of Audit and Risk said that there are only 4 red risks now outstanding so on the balance of all the work done she could confirm that it was her view that there were no areas of significant corporate concern. There were however areas which require improving which is also noted in the opinion.

It was resolved to accept the Annual Report of the Internal Audit Service for 2017/18 and to accept also the Head of Audit and Risk's overall audit opinion in

relation to the adequacy and effectiveness of the Council's framework of governance, risk management and control for the year ending 31 March, 2018.

ADDITIONAL ACTION: None

6. EXTERNAL AUDIT: WYLFA NEWYDD READINESS AND ITS IMPACT ON CORPORATE CAPACITY

The report of External Audit was presented for the Committee's consideration.

Mr Huw Lloyd Jones, Wales Audit Office (WAO) reported that Welsh Government Officials have discussed with the Council the potential for the Welsh Government to provide additional support given the scale and complexity of the Wylfa Newydd project. Following discussion with both the Council and Welsh Government, it was decided that the WAO would conduct a review focusing on the Council's capacity to achieve its strategic objectives, whilst managing and mitigating the risks associated with the Wylfa Newydd project. The review looked at 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. Consideration was given to whether the Council has the plans and capacity to maximise the opportunities and mitigate the risks associated with Wylfa Newydd without compromising its ability to deliver all its priorities and services.

The Officer said that the review found that the Council has made good progress as host authority for the Wylfa Newydd project without compromising the delivery of other priorities but that a challenging period lies ahead during which close collaboration among public sector partners will be vital. The report makes three proposals for improvement. These are in relation to the need for the Council to monitor capacity on an ongoing basis as the Wylfa Newydd project progresses; the need for the Council to work with other public sector consultees to co-ordinate the assessment of risks associated with the project and to share information to enable a common understanding of the risks and how they can be mitigated ; and the need for the Council to work with public sector partners to identify lead responsibilities for developing the supply chain and increasing training opportunities across the North Wales region.

The Committee noted that there are a number of milestones to be reached before the project comes to fruition and that this element of uncertainty represents a risk particularly in terms of the financial investment that is required in making preparations for it.

The Assistant Chief Executive (Partnerships, Community and Service Improvement) said that she welcomed the report and in particular the finding that preparing for the Wylfa Newydd project has not impacted on the Council's fulfilment of its core responsibilities. The Council fully realises the extent of the work involved in preparing for Wylfa Newydd and a dedicated team has been established and appropriate structures put in place to deal with this and with the National Grid project. Tîm Cymru comprising of representatives of all the key partners has also been set up and had its initial meeting recently. However, the Council has been liaising and working collaboratively with partner organisations on the Wylfa Newydd project for a long time and has been providing support in responding to Horizon documentation including by sharing information and key documentation templates. The Officer said that the Council recognises that sharing expertise is essential and that partnership working is a two way relationship that benefits all the partners. The Isle of Anglesey County Council has been clear from the outset that there are some responsibilities which it is appropriate for the Council to lead on in accordance with the "proximity principle" whilst there are others including the development of the supply chain that will have to be addressed on a regional basis. These discussions have commenced via the North Wales

Economic Ambitions Board. Although the final investment decision is yet to be made preparations for the Wylfa Newydd project have to continue. A key element of those preparations is investment in the North Wales labour market by way of developing skills so that both the existing workforce and the unemployed population can take advantage of the employment opportunities that will become available through the Wylfa Newydd project and other economic initiatives in development in the region.

The Chief Executive welcomed the positive tenor of the report as testimony to the work of all those within the Council be they Members, Officers or staff. The report acknowledges that although the workload on Elected Members, Senior Managers and Heads of Service is heavy, they are generally coping well. The Council recognises that there is still major work to be done as the Wylfa Newydd project progresses and that this work will be undertaken in collaboration with partners. However, the Council is keen to ensure that the project results in maximum long-term legacy benefits to the residents of the Island and beyond, and the Council will work with its partners to ensure this is achieved. The Chief Executive thanked the WAO's Officers for the discussions during the fieldwork which had been valuable and productive.

The Leader of the Council said that the report was both constructive and helpful in crystallising the position. The Council as host authority has been investing in and leading on the preparations for Wylfa Newydd over the course of many years and has made a commitment to the Energy Island Programme and to obtaining and collating the information that has brought the Authority to this point. The Authority recognises that the ongoing preparations for Wylfa Newydd involves other public sector partners; it is important therefore that each partner organisation understands its responsibilities going forwards. The Leader said that she was also grateful to her fellow Members for their commitment to the process and for leaving no stone unturned in seeking clarity along the way.

It was resolved to accept and to note the External Audit report.

ADDITIONAL ACTION: None

7. FORWARD WORK PROGRAMME

The report of the Head of Audit and Risk incorporating the Committee's Forward Work Programme to April, 20120 was presented for the Committee's consideration and review.

The Head of Audit and Risk said that the Committee's Work Programme is likely to change and expand following the review of its terms of reference.

It was resolved to accept and to note the Forward Work Programme without amendment

ADDITIONAL ACTION: None

**Councillor Peter Rogers
Chair**

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ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Audit and Governance Committee
Date:	24 July 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
<p>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.</p>	

1. Introduction

1.1. The report provides an update as at 16 July 2018 on:

- Internal Audit reports [issued](#) since 8 June 2018
- [Follow up](#) of previous internal audit reports
- Implementation of [management actions](#)
- Progress in delivering the [Internal Audit Operational Plan 2018/19](#)
- Reviewing 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.



CYNGOR SIR
YNYS MÔN
ISLE OF ANGLESEY
COUNTY COUNCIL

Internal Audit Update

July 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. We have finalised two reports in the period, summarised below:

Title	Assurance Level	Catastrophic	Major	Moderate	Minor	Total
Deprivation of Liberty Safeguards (DoLS)	Reasonable	0	0	0	3	3
Rent Smart Wales Grant – Audit Certification	Substantial	0	0	0	0	0

Deprivation of Liberty Safeguards (DoLS)

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

3. Following a significant increase in the number of authorisation requests, the service struggled to keep up with demand. Extra resources were not provided to undertake the assessments resulting in an ever-growing waiting list for assessments.
4. However, the service has addressed the issue by securing further funding to appoint officers to complete the assessments for those currently on the waiting list, which is in place for 2018/19. Two agency staff have been in post since mid-April 2018 for a period of ten weeks to help reduce the waiting list backlog in the short term, whilst an advertisement has been published for two full time, permanent Best Interest Assessors.
5. Assessors used are in accordance with the Code of Practice and during the last four months, the number of registered doctors willing to undertake assessments on the Council's behalf has increased from one to seven, with the number of Welsh-speaking doctors increasing to one.
6. The internal governance arrangements are effective with a process in place to formally authorise and discuss assessments and performance information is provided to CIW (Care Inspectorate Wales).
7. Information has been shared with care homes in relation to DoLS and training sessions arranged for relevant members of staff with further training planned in the near future.
8. Much progress has been made in the last few months to address the resources issue and it is hoped that this effort will come to fruition in the next few months. However, this is dependent on external factors such as the ability to appoint assessors and availability of doctors to complete assessments.
9. We are therefore able to provide '**Reasonable Assurance**' for the management of Deprivation of Liberty Safeguards as the Service has secured additional funding to address its main risk, i.e. the require to complete DoLS assessments in accordance with legislation.

Rent Smart Wales Grant – Audit Certification

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

10. From our review of the grant controls and records, we were able to provide assurance that the Public Protection team had maintained adequate and proper controls and records in respect of the grant for the period 1 April 2017 – 31 March 2018.
11. We were also able to confirm that the expenditure claimed was eligible in line with the terms and conditions of the grant and was fairly stated in the accounts of the Council and the claim submitted to the Welsh Government.

Follow up of previous Internal Audit reports

12. Currently, we follow up all reports with an assurance rating of 'Limited' or below.

13. Six follow up reviews are due over the next six months. Three scheduled for July 2018 are currently underway:

Title of Audit	Reason for Review	Date of Follow Up	Assurance Level	Catastrophic	Major	Moderate	Minor	Total
Sundry Debtors	First Follow Up	Jul-18	Limited	0	7	9	3	19
Child Care Court Orders Under the Public Law Outline	Second Follow Up	Jul-18	Limited	1	3	3	1	8
Corporate Procurement Framework	Second Follow Up	Jul-18	Limited	1	1	9	1	12
Council's Preparation for GDPR	First Follow Up	Aug-18	Limited	0	6	1	1	8
Payment Card Industry Data Security Standard Compliance	Second Follow Up	Oct-18	Limited	0	6	4	1	11
System Controls - Logical Access and Segregation of Duties	Third Follow Up	Dec-18	Limited	0	3	2	0	5

Implementation of Management Actions

14. Due to the proximity to the previous Audit and Governance Committee meeting, an update report has not been produced for this meeting. However, a detailed report of all outstanding recommendations and Issues/Risks will be made in September 2018.

Progress in delivering the Internal Audit Operational Plan 2018/19

15. The current Plan is attached at [Appendix A](#). Although progress has been slow due to completing the 2017/18 Plan, carrying two vacancies and a long-term sickness absence, to date we have completed one audit, a Final Account Verification and a grant certification. As well as undertaking follow up work, work is currently ongoing in two areas:
 - Primary Schools Thematic Review – Income Collection
 - Highways Contract Monitoring Arrangements
16. We are also involved in three ongoing investigations and the migration of the risk registers into the new Risk Management software as well as working with services to quality assure their risks.
17. We have successfully recruited two new Senior Internal Auditors, who will commence in late August and October respectively.

Audit and Governance Committee Terms of Reference

18. The terms of reference will be submitted for approval to the September 2018 meeting before being formally approved through the democratic process.

Appendix A – Internal Audit Operational Plan 2018/19

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Residual)	Revised Plan 2018/19	Actual Days as at 13/07/18	Notes / Assurance Rating	Target / Actual Date of Reporting to Committee
CORPORATE-WIDE							
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	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			Feb-19
Corporate	Risk Management	Limited assurance (August 2015) New process implemented October 2017.	n/a	5			
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	5			
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	5			
Corporate	Managing the Risk of Fraud	PSIAS requirement	n/a	10			

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Residual)	Revised Plan 2018/19	Actual Days as at 13/07/18	Notes / Assurance Rating	Target / Actual Date of Reporting to Committee
RESOURCES							
Resources	Recovery and Write-offs	Key Financial System - S151 concerns	n/a	15			
Resources	Income	Key Financial System - external audit assurance	n/a	15			
Resources	Payroll	Key Financial System - external audit assurance	n/a	15			
TRANSFORMATION							
ICT	IT Audit - Cyber Security	Corporate Risk Register	C1 YM35	15			
ICT	IT Audit - IT Infrastructure	Service Risk Register	D2 T2	10			
HR	Recruitment & Retention	Corporate Risk Register	C2 YM5	15			
REGULATION & ECONOMIC DEVELOPMENT							
Regulation & Economic Development	Energy Island Programme (including major schemes such as Wylfa Newydd)	Corporate Risk Register	C2/D2 YM15 YM19/20	10			
Regulation & Economic Development	Leisure Services	Corporate Risk Register	B3 YM39	10			
Regulation & Economic Development	Leisure Services - Governance and Control	Head of Service Request - major structural changes	n/a	15		Carried forward from 2017/18	Sep-18
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	15			
Highways	Highways Contract Monitoring Arrangements	Head of Service request	n/a	15	5	Carried forward from 2017/18	Sep-18

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Residual)	Revised Plan 2018/19	Actual Days as at 13/07/18	Notes / Assurance Rating	Target / Actual Date of Reporting to Committee
HOUSING							
Housing / Regulation & Economic Development	Council House Development	Corporate Risk Register	C1 YM 42	15			
Housing	Gypsies and Travellers (Requirements of the Housing Act 2014)	Corporate Risk Register	C2/A4 YM36/37	10			
ADULT SERVICES							
Adults	Deprivation of Liberty Safeguards	Corporate Risk Register	C2 YM32	15	8.75	Reasonable	July 2018
Adults	Direct Payments	Head of Service request		10	0.5	Carried forward from 2017/18	Sep-18
CHILDREN'S SERVICES							
Children's	Integrated Service Delivery Board	Corporate Risk Register	C2 YM43	10			
LEARNING							
Learning	General Data Protection Regulations (GDPR) - Implementation within Schools	Corporate Risk Register	C2 YM38	10			
Learning	Primary Schools Thematic Reviews - Schools Income Collection	Head of Service request		20	12.25	Carried forward from 2017/18	Sep-18
	TOTAL AUDIT DAYS			315			
CHARGEABLE NON PROGRAMMED DAYS (PRODUCTIVE)							
	Follow Up Work	Several limited assurance reports requiring follow up, includes reporting and administering 4Action		50	11.5		

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Residual)	Revised Plan 2018/19	Actual Days as at 13/07/18	Notes / Assurance Rating	Target / Actual Date of Reporting to Committee
	General Counter Fraud Work, National Fraud Initiative, enquiries and referrals			60	18.75		
	Closure of Previous Year's Work			17.5	17.5		
	Grant Certification: <ul style="list-style-type: none"> • Rent Smart Wales Grant • School Uniform Grant • Education Improvement Grant • Pupil Development Grant • Sixth Form & Adult Continuing Learning 	Grant Requirement		10	3.5	Substantial	July 2018
	Corporate consultancy			60	11.25		September 2018
	Audit & Governance Committee, including training for members			40	12.75		September 2018
	Management Review			40	3		September 2018
	Contingency			5			September 2018
	TOTAL			282.5			
NON CHARGEABLE DAYS (NON-PRODUCTIVE)							
	Risk & Insurance			20	5		
	General Administration			40	7		
	Personal Development & Review, 121 & Team Meetings			30	0.75		
	Management, including liaison with External Audit			40	14.25		

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Residual)	Revised Plan 2018/19	Actual Days as at 13/07/18	Notes / Assurance Rating	Target / Actual Date of Reporting to Committee
	and audit plan preparation						
	Leave, including annual, statutory, special and sick leave			365	96		
	Training and Development for staff, including induction and Welsh lessons			79	16.25		
	TOTAL			574			
	TOTAL RESOURCE REQUIREMENT			1172			
	RESOURCE AVAILABLE			1129			
	RESOURCE SHORTFALL			-43			
	PRODUCTIVITY			52%			

ISLE OF ANGLESEY COUNTY COUNCIL	
REPORT TO:	AUDIT AND GOVERNANCE COMMITTEE
DATE:	24 JULY 2018
SUBJECT:	ANNUAL TREASURY MANAGEMENT REVIEW FOR 2017/18
PORTFOLIO HOLDER(S):	COUNCILLOR R WILLIAMS
LEAD OFFICER(S):	R MARC JONES
CONTACT OFFICER(S):	GARETH ROBERTS/CLAIRE KLIMASZEWSKI (EXT. 2675/1865)
Nature and reason for reporting	
<p>To comply with regulations issued under the Local Government Act 2003 and with the Council's Treasury Management Scheme of Delegation for 2017/18 (Appendix 8 of the Treasury Management Strategy Statement 2017/18). In accordance with the Scheme of Delegation, this report is due to be presented to the Executive and then the full Council once it has been scrutinised by this Committee.</p>	

Summary

The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2017/18. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2017/18, the minimum reporting requirements were that the full Council should receive the following reports:-

- an annual treasury strategy in advance of the year (received on 28 February 2017);
- a mid-year treasury update report (received on 28 February 2018);
- an annual review following the year describing the activity compared to the strategy (this report).

The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Council.

In order to support the scrutiny role of the members of the Audit Committee, Member training on treasury management issues was undertaken during June 2018.

During 2017/18, the Council complied with its legislative and regulatory requirements. The key data for actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:-

Data for Actual Prudential and Treasury Indicators	2016/17 Actual £000	2017/18 Original £000	2017/18 Actual £000
Capital expenditure			
• Non-HRA	28,033	39,799	20,064
• HRA	8,607	12,873	9,291
• Total	36,640	52,672	29,355
Total Capital Financing Requirement			
• Non-HRA	91,515	101,286	95,218
• HRA	42,499	41,648	41,648
• Total	134,014	142,934	136,866
Gross borrowing	117,110	125,018	117,029
External debt	117,110	125,018	117,029
Investments			
• Longer than 1 year			-
• Under 1 year	13,319	15,000	5,993
• Total	13,319	15,000	5,993

Other prudential and treasury indicators are to be found in the main body of this report. The Section 151 Officer also confirms that borrowing was only taken out for capital purposes and the statutory borrowing limit (the authorised limit) was not breached.

The financial year 2017/18 continued the challenging investment environment of previous years, namely low investment returns.

RECOMMENDATIONS

The Committee is recommended to:-

- (i) Note that the outturn figures in this report will remain provisional until the audit of the 2017/18 Statement of Accounts is completed and signed off; any resulting significant adjustments to the figures included in this report will be reported as appropriate;
- (ii) Note the provisional 2017/18 prudential and treasury indicators in this report;
- (iii) Consider the annual treasury management report for 2017/18 and pass on to the next meeting of the Executive with any comments.

Appendices:

- Appendix 1 - Summary Portfolio Valuation as at 31 March 2018
- Appendix 2 - Credit ratings of investment counterparties and deposits held with each as at 31 March 2018
- Appendix 3 - Credit ratings of investment counterparties and deposits held with each as at 3 July 2018
- Appendix 4 - A Commentary by Capita Asset Services on the Economy, Investment and Borrowing Rates

Background Papers :

- Treasury Management Strategy Statement 2017/18
- Prudential and Treasury Indicators 2017/18
- Treasury Management Mid-Year Review Report 2017/18
- Capital Outturn Report 2017/18

1. INTRODUCTION

This report summarises the following functions / activities / outcomes in financial year 2017/18:-

- Capital activity;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness and the impact on investment balances;
- Interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

2. THE COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2017/18

2.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:-

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- Financed from borrowing: this may be through planned borrowing or otherwise. If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

2.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2016/17 Actual (£m)	2017/18 Estimate (£m)	2017/18 Actual (£m)
Non-HRA capital expenditure	28	40	20
HRA capital expenditure	9	13	9
Total capital expenditure	37	53	29
Non-HRA financed in year	28	40	20
HRA financed in year	9	13	9
Non-HRA capital expenditure financed by borrowing	11	13	7
HRA capital expenditure financed by borrowing	0	0	0

3. THE COUNCIL'S OVERALL BORROWING NEED

3.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2017/18 capital expenditure financed by borrowing (see above table), and prior years' capital expenditure funded by borrowing which has not yet been paid for by revenue or other resources. The above table shows that £7m of Council fund capital expenditure is financed from borrowing. No actual Long Term external borrowing was taken out during the year, but was internally borrowed, with Council balances funding this in the short-term to reduce interest payments. However, the expectation is that in the longer term borrowing will need to be taken out to replenish Council balances.

3.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board (PWLB) or the money markets), or utilising temporary cash resources within the Council.

3.3 Reducing the CFR

3.3.1 The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge called the Minimum Revenue Provision, MRP, to reduce the CFR. This is, effectively, a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

3.3.2 The total CFR can also be reduced by:-

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

3.3.3 The Council's 2017/18 MRP Policy (as required by WG guidance) was approved as part of the Treasury Management Strategy Report for 2017/18 on 28 February 2017.

3.3.4 The Council's CFR for the year is shown below and represents a key prudential indicator. This would include any PFI and leasing schemes on the balance sheet which would increase the Council's borrowing need, the CFR. There were no such schemes during the year.

CFR: Council Fund	2016/17 Actual (£m)	2017/18 Budget (£m)	2017/18 Actual (£m)
Opening balance	84	92	92
Add capital expenditure financed by borrowing (as above)	11	13	7
Less MRP/VRP*	(3)	(4)	(4)
Closing balance	92	101	95

CFR: HRA	2016/17 Actual (£m)	2017/18 Budget (£m)	2017/18 Actual (£m)
Opening balance	43	42	42
Add unfinanced capital expenditure (as above)	0	0	0
Less MRP/VRP*	(1)	(1)	(1)
Closing balance	42	41	41

* Includes voluntary application of capital receipts

3.3.5 The borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

3.4 Gross borrowing and the CFR

In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This, essentially, means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2017/18. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2017 Actual (£m)	31 March 2018 Budget (£m)	31 March 2018 Actual (£m)
Gross borrowing position	117.1	125.0	117.0
CFR	134.0	142.9	136.9

3.4.1 As part of the financing of capital expenditure for 2017/18, internal borrowing was used to finance the gap between available resources (capital receipts, capital grants, capital contributions and revenue contributions) and the capital expenditure. It was decided, in light of current and projected market interest rates and counterparty credit risks, to continue internalising borrowing, in the short-term at least. This means that instead of borrowing externally for all of the Council's borrowing requirement, the Council has instead used its own Council reserves to fund part of its capital programme.

3.4.2 The internal borrowing strategy has now been implemented over the last few years. The gross borrowing of £117.0m at 31 March 2018 is less than the forecast CFR for the following two years.

	Actual 2017/18 (£m)	Estimated 2018/19 (£m)	Estimated 2019/20 (£m)
Capital Financing Requirement	136.9	148.9	165.3

Source: Treasury Management Strategy 2017/18

3.5 The other debt related indicators are:-

3.5.1 The authorised limit - the authorised limit is the “affordable borrowing limit” required by Section 3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2017/18, the Council maintained gross borrowing within its authorised limit.

3.5.2 The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

3.5.3 Actual financing costs as a proportion of 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.

	2017/18
Authorised limit	£169.0m
Maximum gross borrowing position	£117.0m
Operational boundary	£164.0m
Financing costs as a proportion of net revenue stream – CF	6.25%
Financing costs as a proportion of net revenue stream – HRA	23.02%

4. TREASURY POSITION AS AT 31 MARCH 2018

4.1 The Council’s debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting, detailed in the summary, and through officer activity in accordance with the Treasury Management Strategy 2017/18. The borrowing and investment figures for the Council as at the end of the 2016/17 and 2017/18 financial years are as follows:-

	31 MARCH 2017			31 MARCH 2018		
	£'000	Average Rate (%)	Average Maturity (yrs)	£'000	Average Rate (%)	Average Maturity (yrs)
Debt	117.110	5.25	22.7	117.029	5.15	23.36
CFR	134,014			136.866		
Over / (under) borrowed	(16,904)			(19,837)		
Fixed term investments (all < 1 year, managed in house and fixed rate)	5,000	0.35				
No notice investments (all managed in house)	8,319	0.15		5,993	0.39	
Total Investments	13,319	0.22		5,993	0.39	

See a more detailed analysis in Appendix 1. The upper limits for fixed rate and variable rate exposures were not breached during the year.

4.2 Borrowing is further broken down by maturity as:-

	31 MARCH 2017		31 MARCH 2018	
	£m	% of total	£m	% of total
Total borrowing	117.1	100	117.0	100
Under 12 months	5.5	4.7	10.1	8.63
12 months and within 24 months	5.1	4.3	5.1	4.36
24 months and within 5 years	9.6	8.2	7.0	5.98
5 years and within 10 years	5.6	4.8	5.8	4.96
10 years and above	91.3	78.0	89.0	76.07

4.3 There was no debt rescheduling during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

4.4 All of the Council's deposits were held in no notice deposit accounts which pay interest at rates near the prevailing base rate, £5.993m at 0.39% on 31 March 2018 (31 March 2017 8.3m at 0.15%). All investments were for under 1 year.

5. TREASURY STRATEGY FOR 2017/18

5.1 The expectation for interest rates within the treasury management strategy for 2017/18 anticipated that Bank Rate would not start rising from 0.25% until quarter 2 2019 and then only increase once more before 31 March 2020. There would also be gradual rises in medium and longer term fixed borrowing rates during 2017/18 and the two subsequent financial years. Variable or short-term rates were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

5.2 In this scenario, the treasury strategy was to postpone borrowing, where possible, to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

5.3 During 2017/18, longer term PWLB rates were volatile but with little overall direction, whereas shorter term PWLB rates were on a rising trend during the second half of the year.

6. INVESTMENT OUTTURN FOR 2017/18

6.1 Investment Policy – the Council's investment policy is governed by Welsh Government investment guidance, which has been implemented in the annual Treasury Management Strategy Statement approved by the Council on February 28 2017. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.). The investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties.

6.2 The Bank Rate at the start of the financial year was 0.25%, however, this was increased to 0.5% on the 2nd November 2017. This meant that the counterparty organisations' interest rate on the typical call account ranged from 0.10% to 0.40%.

6.3 The expected investment strategy was to keep to shorter term deposits (up to 364 days), although the ability to invest out to longer periods was retained. Cash balances were expected to be up to £26m, ranging between £5m and £26m. The budget was set at 0.058% or £15k after adjusting for the higher rates on existing investments. As it turned out, average balances of £14.4m returned £31.2k (0.12%).

7. INVESTMENT SECURITY AND CREDIT QUALITY

7.1 No institutions in which we had made investments had any difficulty in repaying investments and interest on time and in full during the year.

7.2 During the year, we continued to use no notice accounts with major high street institutions (Santander, HSBC, RBS and Bank of Scotland) for day to day cash flow.

8. BORROWING OUTTURN 2017/18

8.1 Borrowing – the only borrowing that was made during the year was a £5m borrowing from the Tyne & Wear Pension Fund. This was made on the 20th October 2017 at an interest rate of 0.33% for a period of 3 months. Upon maturity on the 19th January 2018, the borrowing was rolled over for a further 3 months at an interest rate of 0.50%.

8.2 Rescheduling - no rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

8.3 Repayments – two PWLB Loans matured during the year. The first loan matured on the 6th June 2017 and was for £2.5m. The loan was originally taken in 2009 at an interest rate of 3.25%. The second loan matured on 17th July 2017 for £3.5m, and was taken out in 1992 at an interest rate of 10.375%. These loans were repaid using the Councils cash balances, no new loans were taken to re-finance the loans.

9. ACTIVITY SINCE 2017/18

9.1 On April 19th 2018, a £5m borrowing from the Tyne & Wear Pension Fund was repaid by the Isle of Anglesey County Council.

9.2 During the early months of 2018/19, the Isle of Anglesey County Council has continued to invest in instant access call accounts where funds are readily available when called upon.

9.3 No new borrowing has been undertaken to date in 2018/19.

9.4 There haven't been any PWLB loan repayments to date in 2018/19.

10. CHANGES DURING 2017/18

- 10.1** Revised CIPFA Codes - in December 2017, the Chartered Institute of Public Finance and Accountancy (CIPFA) issued a revised Treasury Management Code and Cross Sectoral Guidance Notes and a revised Prudential Code. A particular focus of these revised codes was how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the Authority at a much higher level than can be attained by treasury investments. One recommendation was that local authorities should produce a new report to members to give a high level summary of the overall capital strategy and to enable members to see how the cash resources of the Authority have been apportioned between treasury and non-treasury investments. Officers will report to Members when the implications of these new codes have been assessed as to the likely impact on this Authority.
- 10.2** Markets in Financial Instruments Directive II (MiFID II) - the EU set the date of 3 January 2018 for the introduction of regulations under MiFID II. These regulations govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date. This has had little effect on this Authority apart from having to fill in forms sent by each institution dealing with this Authority and for each type of investment instrument we use, apart from for cash deposits with banks and building societies.

11. CONCLUSION

- 11.1** A review of the Treasury Management performance for 2017/18 is provided above. The year was fairly stable, with the most significant activity being a loan from Tyne & Wear Pension Fund amounting to £5.0m for 3 months, that was rolled over for a further 3 months upon maturity. Two PWLB Loans for £5.5m were repaid during the year. Investment returns reduced to an all time low due to the low bank base rate and the Council held appropriate cash balances at all times, though the low interest rate meant that the returns were low. However, this is consistent with the Treasury Management Strategy 2017/18, where the key objectives were low risk and ensuring there is sufficient cash to pay the Council's creditors, etc. The financial position of the Council's financial instruments as at 31 March 2018 is shown in Appendix 1.

**Summary Portfolio Valuation
As at 31 March 2018**

FINANCIAL ASSETS	Nominal / Principal (£)	Fair Value (£)
Cash (interest bearing accounts) (1)	5,993,375	6,007,584
 FINANCIAL LIABILITIES		
PWLB loan – Fixed	111,184,478	166,042,050
PWLB loan – Annuity	241,122	372,142
WG Loan	131,400	131,400
Salix	471,881	471,881
Tyne & Wear Pension Fund	5,000,000	5,000,000
 Counterparties		
(1) Cash (interest bearing accounts)		
Santander	2,074,120	
Bank of Scotland	3,684,119	
Nat West Cash Manager A/c	233,447	
RBS	1,690	
	<u>5,993,376</u>	

APPENDIX 2

Cyfraddau Credyd Gwrthbartïon buddsoddi a'r adneuron a ddelir gyda phob un ar 31 Marwth 2018 *
Credit ratings of investment counterparties and deposits held with each as at 31 March 2018*

Grŵp Bancio/ Banking Group	Sefydliad/ Institution	Adneuron / Deposit £'000	Hyd (Galw tymor sefydlog **) / Duration (Call / Fixed Term**)	Cyfnod (O-I)/ Period (From - To)	Cyfradd Dychweliad/ Rate of Return %	Cyfradd Tymor Hir Fitch Long Term Rating ***	Cyfradd Tymor Byr Fitch Short Term Rating ***	Cyfradd Tymor Hir Moody's Long Term Rating ***	Cyfradd Tymor Byr Moody's Short Term Rating ***	Cyfradd Tymor Hir Standard & Poor's (S&P) Long Term Rating ***	Cyfradd Tymor Byr Standard & Poor's (S&P) Short Term Rating ***	Lliw Sector/Hyd Awgrymiedig/ Sector Colour / Suggested Duration
Lloyds Banking Group plc	Royal Bank of Scotland plc	3,684	Galw/ Call	n/a	0.40	A+	F1	Aa3	P-1	A	A-1	Coch – 6 mis/ Red - 6 months
Santander Group plc	Santander UK plc	2,074	Galw/ Call	n/a	0.25	A	F1	Aa3	P-1	A	A-1	Coch - 6 mis / Red – 6 months
Royal Bank of Scotland group plc	The Royal Bank of Scotland plc	2	Galw/ Call	n/a	0.10	BBB+	F2	A2	P-1	BBB+	A-2	Glas – 12 mis/ Blue – 12 months
Royal Bank of Scotland group plc	National Westminster Bank plc	233	Galw/ Call	n/a	0.05	BBB+	F2	A2	P-1	BBB+	A-2	Glas – 12 mis/ Blue – 12 months

* Ceir y Rhestr Meini Prawf Gwrthbartïon yn Atodiad 6 o'r Datganiad Strategaeth Rheoli Trysorlys 2017/18 / The Counterpart Criteria can be found at Appendix 6 of the 2017/18 Treasury Management Strategy Statement.

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

ATODIAD / APPENDIX 3

Cyfraddau Credyd Gwrthbartïon buddsoddi a'r adneuron a ddelir gyda phob un ar 29 Mehefin 2018 *
Credit ratings of investment counterparties and deposits held with each as at 29 June 2018*

Grŵp Bancio/ Banking Group	Sefydliad/ Institution	Adneuron / Deposit £'000	Hyd (Galw / tymor sefydlog) / Duration (Call / Fixed Term**)	Cyfnod (O-I)/ Period (From - To)	Cyfradd Dychweliad/ Rate of Return %	Cyfradd Tymor Hir Fitch Long Term Rating ***	Cyfradd Tymor Byr Fitch Short Term Rating ***	Cyfradd Tymor Hir Moody's Long Term Rating ***	Cyfradd Tymor Byr Moody's Short Term Rating ***	Cyfradd Tymor Hir Standard & Poor's (S&P) Long Term Rating ***	Cyfradd Tymor Byr Standard & Poor's (S&P) Short Term Rating ***	Lliw Sector/Hyd Awgrymiedig/ Sector Colour / Suggested Duration
Lloyds Banking Group plc	Bank of Scotland plc	7,487	Galw/ Call	n/a	0.40	A+	F1	Aa3	P-1	A+	A-1	Oren –12 mis/ Orange - 12 months
Santander Group plc	Santander UK plc	1,207	Galw/ Call	n/a	0.25	A	F1	Aa3	P-1	A	A-1	Coch - 6 mis / Red – 6 months
Royal Bank of Scotland group plc	The Royal Bank of Scotland plc	2	Galw/ Call	n/a	0.10	A-	F2	A1	P-1	A-	A-2	Glas – 12 mis / Blue – 12 months
Royal Bank of Scotland group plc	National Westminster Bank plc	Dim/Nil	Galw/ Call	n/a	0.05	A-	F2	A1	P-1	A-	A-2	Glas – 12 mis / Blue – 12 months

* Ceir y Rhestr Meini Prawf Gwrthbartïon yn Atodiad 6 o'r Datganiad Strategaeth Rheoli Trysorlys 2018/19 / The Counterpart Criteria can be found at Appendix 6 of the 2018/19 Treasury Management Strategy Statement.

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

1. The Economy and Interest Rates

UK. The outcome of the EU referendum in June 2016 resulted in a gloomy outlook and economic forecasts from the Bank of England based around an expectation of a major slowdown in UK GDP growth, particularly during the second half of 2016, which was expected to push back the first increase in Bank Rate for at least three years. Consequently, the Bank responded in August 2016 by cutting Bank Rate by 0.25% to 0.25% and making available over £100bn of cheap financing to the banking sector up to February 2018. Both measures were intended to stimulate growth in the economy. This gloom was overdone as the UK economy turned in a G7 leading growth rate of **1.8% in 2016**, (actually joint equal with Germany), and followed it up with another **1.8% in 2017**, (although this was a comparatively weak result compared to the US and EZ).

During the calendar year of 2017, there was a major shift in expectations in financial markets in terms of how soon Bank Rate would start on a rising trend. After the UK economy surprised on the upside with strong growth in the second half of 2016, growth in 2017 was disappointingly weak in the first half of the year; quarter 1 came in at +0.3% (+1.7% y/y) and quarter 2 was +0.3% (+1.5% y/y), which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. The main reason for this was the sharp increase in inflation caused by the devaluation of sterling after the EU referendum, feeding increases into the cost of imports into the economy. This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases. Consequently, the services sector of the economy, accounting for around 75% of GDP, saw weak growth as consumers responded by cutting back on their expenditure. However, growth did pick up in quarter 3 to 0.5% before dipping slightly to 0.4% in quarter 4.

Consequently, market expectations during the autumn rose significantly that the MPC would be heading in the direction of imminently raising Bank Rate. The **MPC meeting of 14 September** provided a shock to the markets with a sharp increase in tone in the minutes where the MPC considerably hardened their wording in terms of needing to raise Bank Rate very soon. The **2 November MPC quarterly Inflation Report meeting** duly delivered on this warning by withdrawing the 0.25% emergency rate cut which had been implemented in August 2016. Market debate then moved on as to whether this would be a one and done move for maybe a year or more by the MPC, or the first of a series of increases in Bank Rate over the next 2-3 years. The MPC minutes from that meeting were viewed as being dovish, i.e. there was now little pressure to raise rates by much over that time period. In particular, the GDP growth forecasts were pessimistically weak while there was little evidence of building pressure on wage increases despite remarkably low unemployment. The MPC forecast that CPI would peak at about 3.1% and chose to look through that breaching of its 2% target as this was a one off result of the devaluation of sterling caused by the result of the EU referendum. The inflation forecast showed that the MPC expected inflation to come down to near the 2% target over the two to three year time horizon. So this all seemed to add up to cooling expectations of much further action to raise Bank Rate over the next two years.

However, GDP growth in the second half of 2017 came in stronger than expected, while in the new year there was evidence that wage increases had started to rise. The **8 February**

MPC meeting minutes therefore revealed another sharp hardening in MPC warnings focusing on a reduction in spare capacity in the economy, weak increases in productivity, higher GDP growth forecasts and a shift of their time horizon to focus on the 18 – 24 month period for seeing inflation come down to 2%. (CPI inflation ended the year at 2.7% but was forecast to still be just over 2% within two years.) This resulted in a marked increase in expectations that there would be another Bank Rate increase in May 2018 and a bringing forward of the timing of subsequent increases in Bank Rate. This shift in market expectations resulted in **investment rates** from 3 – 12 months increasing sharply during the spring quarter.

PWLB borrowing rates increased correspondingly to the above developments with the shorter term rates increasing more sharply than longer term rates. In addition, UK gilts have moved in a relatively narrow band this year, (within 25 bps for much of the year), compared to **US treasuries**. During the second half of the year, there was a noticeable trend in treasury yields being on a rising trend with the Fed raising rates by 0.25% in June, December and March, making six increases in all from the floor. The effect of these three increases was greater in shorter terms around 5 year, rather than longer term yields.

As for **equity markets**, the FTSE 100 hit a new peak near to 7,800 in early January before there was a sharp selloff in a number of stages during the spring, replicating similar developments in US equity markets.

The major UK landmark event of the year was the inconclusive result of the **general election** on 8 June. However, this had relatively little impact on financial markets. However, **sterling** did suffer a sharp devaluation against most other currencies, although it has recovered about half of that fall since then. Brexit negotiations have been a focus of much attention and concern during the year but so far, there has been little significant hold up to making progress.

The **manufacturing sector** has been the bright spot in the economy, seeing stronger 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. However, the manufacturing sector only accounts for around 11% of GDP so expansion in this sector has a much more muted effect on the average total GDP growth figure for the UK economy as a whole.

EU. Economic growth in the EU, (the UK's biggest trading partner), was 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 quantitative easing to stimulate growth. However, growth eventually picked up in 2016 and subsequently gathered further momentum to produce an overall GDP figure for 2017 of 2.3%. Nevertheless, despite providing this massive monetary stimulus, the ECB is still struggling to get inflation up to its 2% target and in March, inflation was still only 1.4%. It is, therefore, unlikely to start an upswing in rates until possibly towards the end of 2019.

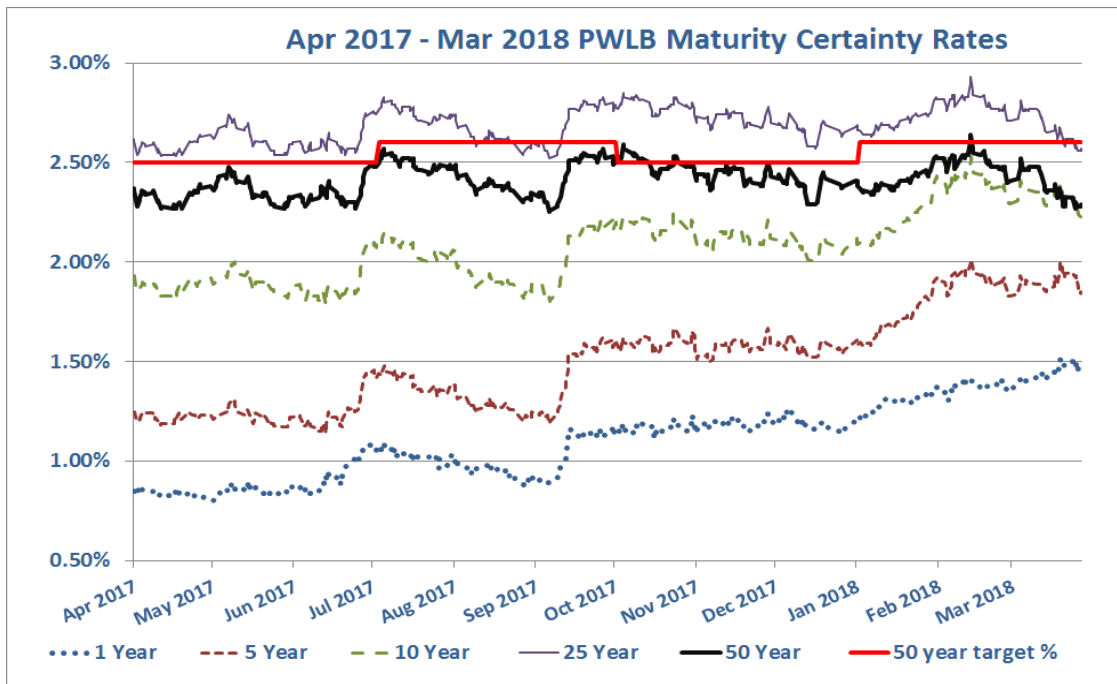
USA. Growth in the American economy was volatile in 2015 and 2016. 2017 followed that path again with quarter 1 at 1.2%, quarter 2 3.1%, quarter 3 3.2% and quarter 4 2.9%. The annual rate of GDP growth for 2017 was 2.3%, up from 1.6% in 2016. Unemployment in the US also fell to the lowest level for 17 years, reaching 4.1% in October to February, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has been the first major western central bank to start on an upswing in rates with six increases since the first one in December 2015 to lift the central rate to 1.50 – 1.75% in March 2018. There could be a further two or three increases in 2018 as the Fed faces a challenging situation with GDP growth trending upwards at a time when the recent Trump fiscal stimulus is likely to increase growth further, consequently increasing inflationary pressures in an economy which is already operating at near full capacity. In October 2017, the Fed also became the first major western central bank to make a start on unwinding quantitative easing by phasing in a gradual reduction in reinvesting maturing debt.

Chinese economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus and 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. GDP growth has been improving to reach an annual figure of 2.1% in quarter 4 of 2017. However, it is still struggling to get inflation up to its target rate of 2% despite huge monetary and fiscal stimulus, although inflation has risen in 2018 to reach 1.5% in February. It is also making little progress on fundamental reform of the economy.

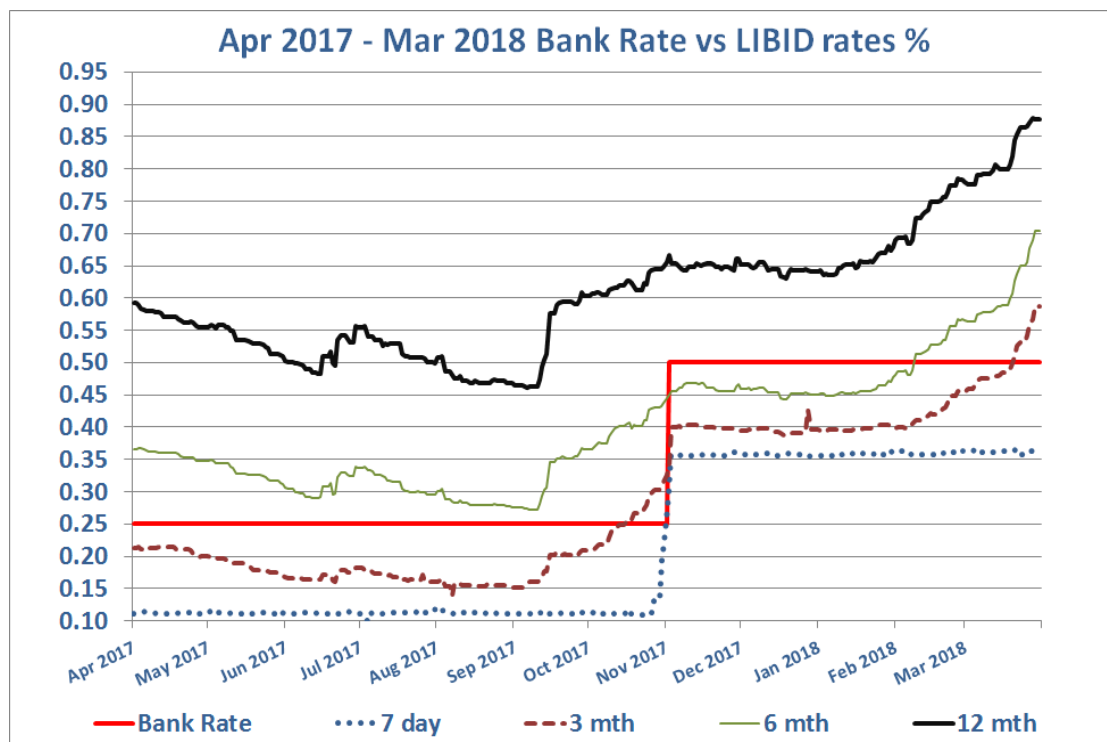
2. Borrowing Rates in 2017/18

PWLB certainty maturity borrowing ratesAs depicted in the graph and tables below and in appendix 3, PWLB 25 and 50 year rates have been volatile during the year with little consistent trend. However, shorter rates were on a rising trend during the second half of the year and reached peaks in February / March. During the year, the 50 year PWLB target (certainty) rate for new long term borrowing was 2.50% in quarters 1 and 3 and 2.60% in quarters 2 and 4. The graphs and tables for PWLB rates show, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.



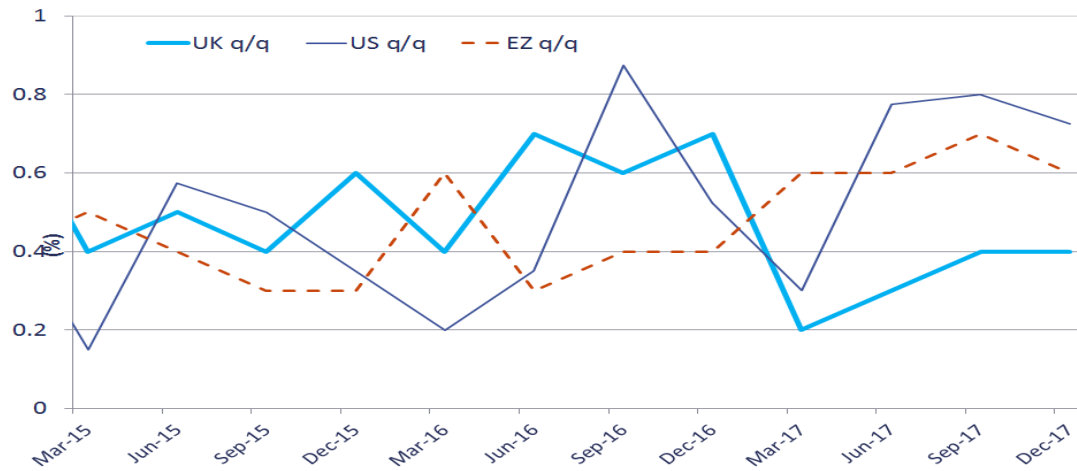
3. Investment Rates in 2017/18

Investment rates for 3 months and longer have been on a rising trend during the second half of the year in the expectation of Bank Rate increasing from its floor of 0.25%, and reached a peak at the end of March. Bank Rate was duly raised from 0.25% to 0.50% on 2.11.17 and remained at that level for the rest of the year. However, further increases are expected over the next few years. Deposit rates continued into the start of 2017/18 at previous depressed levels due, in part, to a large tranche of cheap financing being made available under the Term Funding Scheme to the banking sector by the Bank of England; this facility ended on 28.2.18.

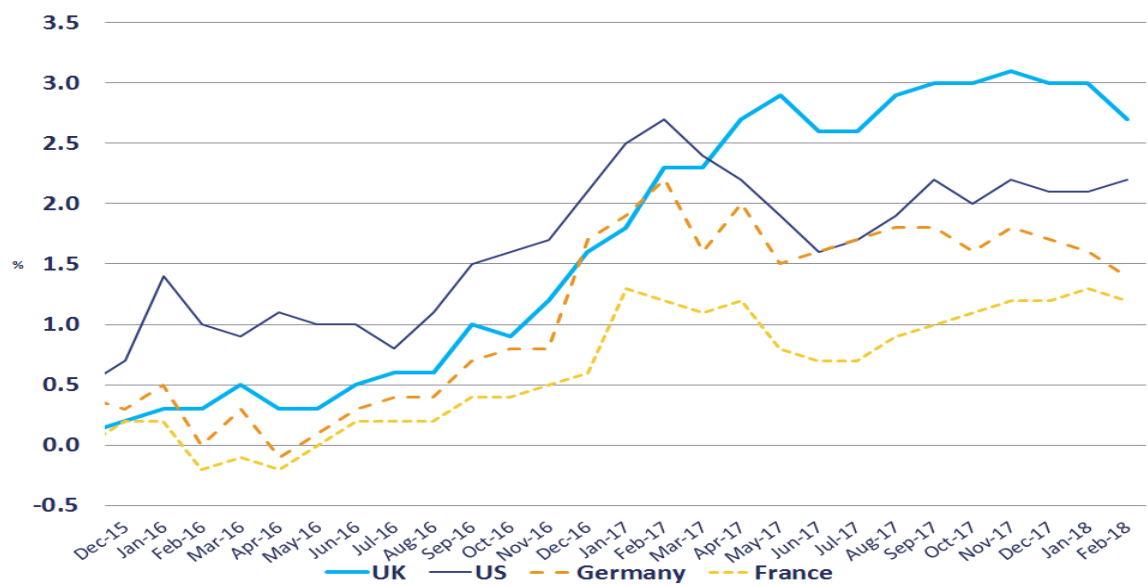


4. Other Graphs

UK, US and EZ GDP growth

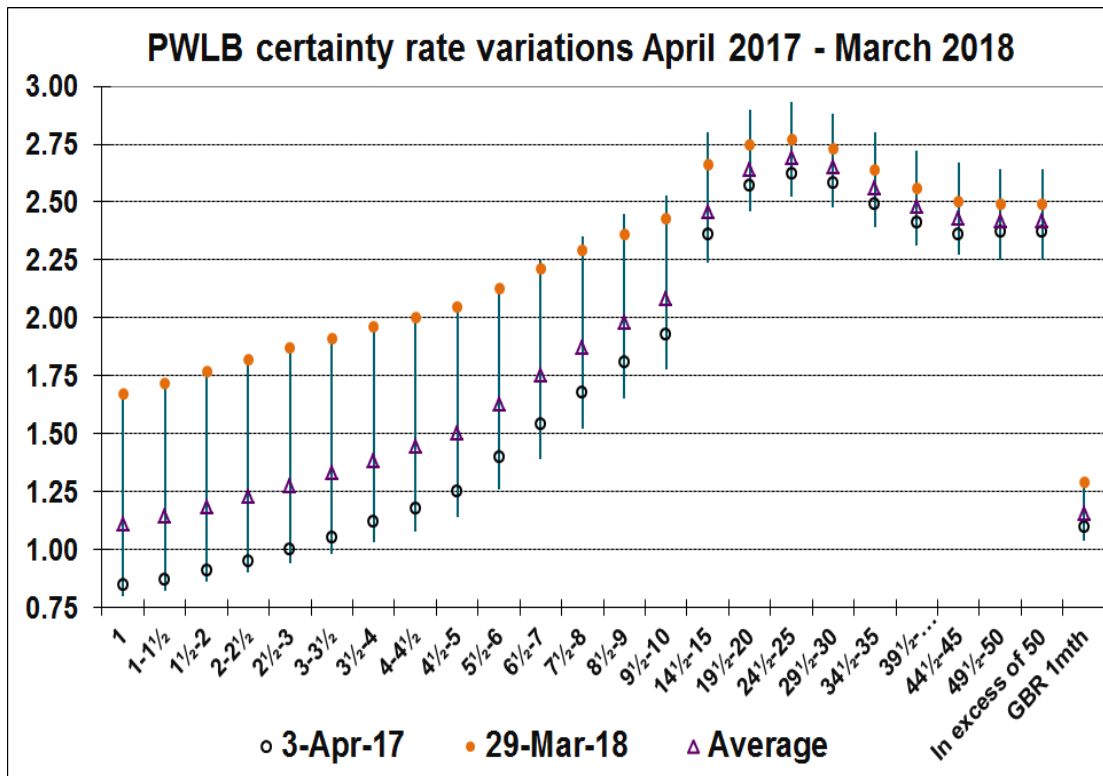


Inflation UK, US, Germany and France



5. Borrowing and investment rates

Below are supplementary graphs and tables, and the PWLB rates are based on the maturity debt certainty rate.



	1	1-1.5	2.5-3	3.5-4	4.5-5	9.5-10	24.5-25	49.5-50	1 month variable
3/4/17	0.850%	0.870%	1.000%	1.120%	1.250%	1.930%	2.620%	2.370%	1.100%
29/3/18	1.670%	1.720%	1.870%	1.960%	2.050%	2.430%	2.770%	2.490%	1.290%
High	1.510%	1.600%	1.790%	1.900%	2.010%	2.530%	2.930%	2.640%	1.310%
Low	0.800%	0.820%	0.940%	1.030%	1.140%	1.780%	2.520%	2.250%	1.040%
Average	1.107%	1.143%	1.276%	1.384%	1.503%	2.083%	2.688%	2.415%	1.157%
Spread	0.710%	0.780%	0.850%	0.870%	0.870%	0.750%	0.410%	0.390%	0.270%
High date	21/03/2018	21/03/2018	21/03/2018	21/03/2018	15/02/2018	15/02/2018	15/02/2018	15/02/2018	21/03/2018
Low date	03/05/2017	03/05/2017	30/05/2017	15/06/2017	15/06/2017	15/06/2017	08/09/2017	08/09/2017	04/04/2017

	1 Year	5 Year	10 Year	25 Year	50 Year
1/4/17	0.85%	1.25%	1.93%	2.62%	2.37%
31/3/18	1.67%	2.05%	2.43%	2.77%	2.49%
Low	0.80%	1.14%	1.78%	2.52%	2.25%
Date	03/05/2017	15/06/2017	15/06/2017	08/09/2017	08/09/2017
High	1.51%	2.01%	2.53%	2.93%	2.64%
Date	21/03/2018	15/02/2018	15/02/2018	15/02/2018	15/02/2018
Average	1.11%	1.50%	2.08%	2.69%	2.41%

6. Money market investment rates 2017/18

	7 day	1 month	3 month	6 month	1 year
1/4/17	0.111	0.132	0.212	0.366	0.593
31/3/18	0.364	0.386	0.587	0.704	0.878
High	0.366	0.390	0.587	0.704	0.879
Low	0.099	0.122	0.140	0.273	0.461
Average	0.215	0.233	0.286	0.401	0.606
Spread	0.267	0.268	0.447	0.432	0.418
High date	27/2/18	22/3/18	29/3/18	29/3/18	28/3/18
Low date	4/7/17	10/8/17	7/8/17	7/9/17	6/9/17

SOURCE LINK GROUP 2018



CYNGOR SIR
YNYS MÔN
ISLE OF ANGLESEY
COUNTY COUNCIL

AUDIT & GOVERNANCE COMMITTEE

FORWARD WORK PROGRAMME

24 July 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)
27 June 2018 24 July 2018 19 September 2018 4 December 2018 12 February 2019	Internal Audit Update <ul style="list-style-type: none"> • 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
27 June 2018 24 July 2018 19 September 2018 4 December 2018 12 February 2019	External Audit Progress Report <ul style="list-style-type: none"> • An update on External Audit's work: <ul style="list-style-type: none"> ○ Performance Audit ○ Financial Audit 	Performance Audit Lead – Wales Audit Office Gwilym.bury@audit.wales Financial Audit Manager – Deloitte cedge@deloitte.co.uk
24 July 2018	Annual Treasury Management Report 2017/18 <ul style="list-style-type: none"> • 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
19 September 2018 12 February 2019	Outstanding Internal Audit Recommendations <ul style="list-style-type: none"> • A report of all outstanding internal audit recommendations 	Head of Internal Audit & Risk MarionPryor@ynysmon.gov.uk
19 September 2018	Internal Audit Charter <ul style="list-style-type: none"> • Annual review of the Internal Audit Charter will be submitted to the Committee for approval 	Head of Internal Audit & Risk MarionPryor@ynysmon.gov.uk
19 September 2018 12 February 2019	Corporate Risk Register <ul style="list-style-type: none"> • 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)
19 September 2018 12 February 2019	Progress made on External Regulatory Reports <ul style="list-style-type: none"> 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
19 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: <ul style="list-style-type: none"> 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
19 September 2018	Review of the Audit and Governance Committee's Terms of Reference <ul style="list-style-type: none"> 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
4 December 2018	Review of the Risk Management Strategy and Framework <ul style="list-style-type: none"> 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

Date	Subject	Responsible Officer (including e-mail address)
4 December 2018	Mid-year Report on Treasury Management for 2018/19 <ul style="list-style-type: none"> 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
12 February 2019	Internal Audit Strategy and Annual Plan 2019/20 <ul style="list-style-type: none"> 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
12 February 2019	Treasury Management Strategy 2019/20 and Actual Prudential Indicators for 2019/20 <ul style="list-style-type: none"> 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 2019/20 in accordance with the requirements of the Prudential Code. 	Head of Function (Resources) / S151 Officer MarcJones@ynysmon.gov.uk
12 February 2019	Corporate Risk Register <ul style="list-style-type: none"> 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)
12 February 2019	Progress made on External Regulatory Reports <ul style="list-style-type: none"> • 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

FUTURE REPORTS

Date	Subject	Responsible Officer (including e-mail address)
April 2019 June 2019 July 2019 September 2019 December 2019 February 2020	Internal Audit Update <ul style="list-style-type: none"> • 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
April 2019 June 2019 July 2019 September 2019 December 2019 February 2020	External Audit Progress Report <ul style="list-style-type: none"> • An update on External Audit's work: <ul style="list-style-type: none"> ○ Performance Audit ○ Financial Audit 	Performance Audit Lead – Wales Audit Office Gwilym.bury@audit.wales Financial Audit Manager – Deloitte cedge@deloitte.co.uk
April 2019	Annual Report of the Audit & Governance Committee – Chair's Report <ul style="list-style-type: none"> • 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

Date	Subject	Responsible Officer (including e-mail address)
June 2019	<p>Draft Report of the Head of Function (Resources) / S151 Officer regarding the Annual Finance and Governance Statement 2018/19</p> <ul style="list-style-type: none"> The Audit and Governance Committee is requested to comment on the content of the draft Annual Finance and Governance Report 2018/19 and contribute to the evaluations, conclusions and recommendations proposed to further develop or strengthen elements of the Council's governance arrangements during 2019/20. 	<p>Head of Function (Resources) / S151 Officer MarcJones@ynysmon.gov.uk</p> <p>Programme, Business Planning & Performance Manager GethinMorgan@ynysmon.gov.uk</p>
June 2019	<p>Internal Audit Annual Report 2018/19</p> <ul style="list-style-type: none"> 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 2018/19. 	<p>Head of Internal Audit & Risk MarionPryor@ynysmon.gov.uk</p>
September 2019	<p>Review of the Audit and Governance Committee's Terms of Reference</p> <ul style="list-style-type: none"> 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. 	<p>Head of Function (Resources) / S151 Officer MarcJones@ynysmon.gov.uk</p>