Public Document Pack

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RHYBUDD O GYFARFOD	NOTICE OF MEETING
PWYLLGOR ARCHWILIO A LLYWODRAETHU	**AUDIT AND GOVERNANCE COMMITTEE**
DYDD MAWRTH, 12 CHWEFROR, 2019 am 2:00 y.p.	**TUESDAY, 12 FEBRUARY 2019 at 2.00 pm**
YSTAFELL BWYLLGOR 1, SWYDDFEYDD Y CYNGOR, LLANGEFNI	**COMMITTEE ROOM 1, COUNCIL OFFICES, LLANGEFNI**
Swyddog Pwyllgor **Ann Holmes 01248 752518**	**Committee Officer**

AELODAU / MEMBERS
Cynghorwyr / Councillors:-

PLAID CYMRU / THE PARTY OF WALES

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 - 14)

To the minutes of the previous meeting of the Audit and Governance Committee held on 4 December, 2018.

3 **CORPORATE HEALTH AND SAFETY ANNUAL REPORT 2017/18** (Pages 15 - 30)

To present the Annual Report for 2017/18.

4 **ANNUAL AUDIT LETTER 2017/18** (Pages 31 - 34)

To present the Annual Audit Letter for 2017/18.

5 **INTERNAL AUDIT UPDATE** (Pages 35 - 52)

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

6 **OUTSTANDING INTERNAL AUDIT ISSUES AND RISKS** (Pages 53 - 62)

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

7 **TREASURY MANAGEMENT STRATEGY STATEMENT 2019/20** (Pages 63 - 102)

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

8 **INTERNAL AUDIT STRATEGY AND ANNUAL PLAN 2019/20** (Pages 103 - 122)

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

9 **2018/19 CLOSURE OF ACCOUNTS TIMETABLE** (Pages 123 - 126)

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

10 **FORWARD WORK PROGRAMME** (Pages 127 - 132)

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

11 **EXCLUSION OF THE PRESS AND PUBLIC** (Pages 133 - 134)

To consider adopting the following:-

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

12 **<u>CORPORATE RISK REGISTER</u>** (Pages 135 - 152)

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

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AUDIT AND GOVERNANCE COMMITTEE

Minutes of the meeting held on 4 December, 2018

PRESENT:	Councillor Peter Rogers (Chair) Councillor Robert Llewelyn Jones (Vice-Chair) Councillors John Griffith, Dylan Rees, Alun Roberts, Margaret Roberts. Lay Members: Dilwyn Evans, Jonathan Mendoza
IN ATTENDANCE:	Chief Executive Head of Function (Resources) and Section 151 Officer Head of Internal Audit & Risk (MP) Head of Democratic Services (for item 3) Committee Officer (ATH)
APOLOGIES:	Councillors G.O.Jones, Robin Williams (Portfolio Member for Finance)
ALSO PRESENT:	Mr Alan Hughes and Charlotte Owen (Wales Audit Office), Principal Auditor (EW), Senior Auditor (NW), Senior Auditor (JR)

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1. DECLARATION OF INTEREST

No declaration of interest was received.

2. MINUTES OF THE 19TH SEPTEMBER, 2018 MEETING

The minutes of the previous meeting of the Audit and Governance Committee held on 19th September, 2018, were presented and were confirmed as correct subject to amending the reference to 31 March, 2017 in the first bullet point under item 8.2 to read 31 March, 2018.

Arising thereon –

- The Head of Audit and Risk reported that the Audit and Governance Committee's revised Terms of Reference were endorsed by the Executive on 29 October and will now be presented to the Full Council for approval on 11 December, 2018.

  The Committee noted that the new terms of reference extend its responsibilities appreciably; the Committee was concerned that it is not meeting those expectations currently and it sought assurance therefore that it will be able to do all that is expected of it within the schedule of meetings assigned to the Committee over the course of the year.

  The Head of Audit and Risk said that the new guidelines issued by CIPFA on the function and operation of Audit Committees in local authority and police bodies have increased their responsibilities meaning that the Committee will have to be provided with the information that will enable it to meet all its oversight responsibilities. It is unlikely that all audit committees are fully compliant with the CIPFA terms of reference at this point in time; the CIPFA guidance also includes a self-assessment of good practice which the

Audit Committee will undertake to establish where it is at; whether further training might be necessary or desirable and to assess the reports and papers it is likely to need in future to fulfil its enhanced oversight role and to perform effectively. The Officer said that the new expectations on audit committees in relation to this Committee specifically did not overly concern her as taking on the new responsibilities will be a step by step process with the plan being to introduce the new duties incrementally. In addition, a sub-group of the North and Mid-Wales Auditor Partnerhsip (the Heads of Audit) is looking at the issue in terms of moving audit committees forward to ensure they are doing what is expected of them. A meeting of the sub-group scheduled for January, 2019 will consider a plan of action to enable audit committees to reach a position of full compliance. They are working on a plan from the perspective of the region with one of the suggestions being that Audit Committee members may benefit from sitting in on a meeting of an audit committee in another local authority area to observe practice in other audit committees.

- The Committee noted that previously there was a provision whereby the Chair and Vice-Chair could meet privately with Internal/External Audit which was useful in terms of being able to raise issues which could then be reported back to the Committee as necessary.

  The Head of Audit and Risk said that arrangements for the Chair and Vice-Chair to meet privately with Internal and External Audit without the presence of Management are formalised within the new Terms of Reference.

  The information was noted and there were no proposals for additional action.

3. EXTERNAL AUDIT: ISLE OF ANGLESEY COUNTY COUNCIL: OVERVIEW AND SCRUTINY – FIT FOR THE FUTURE?

The report of External Audit on the outcome of a review of the scrutiny arrangements at the Isle of Anglesey County Council was presented for the Committee's consideration. The review explored with each of the 22 councils in Wales how "fit for the future" their scrutiny functions are and how well councils are responding to current challenges in relation to their scrutiny activity as well as how councils are beginning to carry out their scrutiny of Public Service Boards. The review also examined how well placed councils are to respond to future challenges in particular the continued pressure on public finances and the possible move towards more regional working between local authorities.

Mr Alan Hughes, WAO reported that the review of the scrutiny function at the Isle of Anglesey County Council found that the Council has strengthened its overview and scrutiny function and is making arrangements to meet future challenges. The review came to this conclusion because –

- The Council is supportive of overview and scrutiny, and arrangements necessary to help overview and scrutiny members meet future challenges are being put in place.
- Overview and scrutiny committee practice is improving, the range of evidence sources they draw on has increased, and scrutiny committees' forward work programmes align with the work of the Executive, and
- The overview and scrutiny function is contributing to improvements in performance and decision-making, and the Council regularly evaluates its effectiveness.

  The review made the two following proposals for ways in which the Council could further improve the effectiveness of its overview and scrutiny function to make it better placed to meet current and future challenges –

- The Council's Overview and Scrutiny function should further improve arrangements for promoting the engagement of the public and other stakeholders in scrutiny activity.

- The Council should build on its experience through further self-assessment, to consider more innovative methods of undertaking scrutiny activity.

  Some of the improvements made to Overview and Scrutiny at the Council which has strengthened the function include the following –

  - Councillor roles and responsibilities for scrutiny are clearly set out in the Constitution with member and chair role descriptions, and the member training and development programme has enabled those involved in the scrutiny function to develop a clear understanding of their roles.
  - The Council provides training on effective scrutiny and chairing skills as part of its councillor induction and scrutiny members' development.
  - The Council has recognised the need to strengthen scrutiny of the Public Services Board and has begun to scrutinise elements of PSB activity including its draft well-being plan in March, 2018. The Scrutiny Improvement Programme action plan also identifies the further work that needs to be done in relation to scrutinising the PSB. This is set out in the report.
  - The quality of papers that were observed being presented to scrutiny committees is generally good and the Scrutiny Template provides guiding principles for scrutiny members including references to the Well-being of Future Generations Act's five ways of working.
  - Overview and scrutiny committees regularly challenge and hold lead members and officers to account.
  - The scrutiny meetings observed as part of the review were well run.
  - The Council regularly evaluates the effectiveness of the scrutiny function and has identified good progress in a number of areas. These are noted in the report.

The Head of Democratic Services said that improving the Scrutiny function at the Council has been a collective endeavour between Officers and Councillors and has been effected through the three scrutiny panels as well as the scrutiny committees. Work to further improve and enhance the Scrutiny function will continue building upon the foundation which has been put in place and which is recognised in the report. The Scrutiny Improvement Action Plan will also be updated to reflect the recommendations of the External Audit report.

The Committee welcomed the report as a positive endorsement of the way the Scrutiny function is being developed at the Council, and in considering the information it made the following points –

- The Committee sought clarification of whether there are examples of good practice with regard to communicating and engaging with the public in terms of better enabling their views and concerns to be heard in scrutiny and policy development.

  The Committee did note that the Democratic Services Sub-Committee has given consideration to webcasting the Council's scrutiny committees as a means of reaching the public but due to the costs involved and the current financial constraints on the Council, doing so was not recommended by the Democratic Services Committee at this time. Also an analysis of the data shows that the numbers viewing the committee meetings that are already webcasted by the Council are generally low unless the business covered includes issues that are or have proven contentious.

  Mr Alan Hughes, WAO said that although Scrutiny at the Council is not lagging behind as regards its arrangements for promoting public engagement it needs to assess whether it is doing so consistently enough and whether there have been missed opportunities in terms of areas/topics that might have benefited from greater public involvement. It should form part of the ongoing dialogue about further improving and developing the Scrutiny function at the Council.

- The Committee noted that the WAO recommends that the Council should consider more innovative methods of undertaking scrutiny activity. The Committee sought clarification of what forms of innovation might be introduced and whether there is evidence from other councils that innovation is required.

  Mr Alan Hughes, WAO said that councils are operating under pressure in an ever-changing environment which as well as posing challenges, offers opportunities to find new and different solutions to the problems that they face. Councils also need to be in a position to respond to those changes. Public services are always evolving for example through technological change and increased communication and public awareness through social media. It is therefore a matter of scanning the horizon to see what methods are available to maximise public engagement with the scrutiny process.

  It was resolved to accept the external audit report and its proposals for further improving the Scrutiny function at the Council.

  NO ADDITIONAL ACTION WAS PROPOSED

4. INTERNAL AUDIT PROGRESS UPDATE

The report of the Head of Audit and Risk which provided an update on Internal Audit's latest progress with regard to service delivery, assurance provision and reviews completed was presented for the Committee's consideration.

The Head of Audit and Risk highlighted the main points as follows –

- That two audit review reports were finalised during the period the one relating to School Income Collection Arrangements which resulted in a Limited Assurance opinion and the other relating to Concessionary Travel Fraud which produced a Reasonable Assurance opinion.
- The **Concessionary Travel Fraud** review was undertaken following the press reports of fraud against Gwynedd Council which led to the conviction of the owners of two bus companies for offences including conspiracy to commit fraud by false representations. Enquiries were made with Gwynedd Council and the Council's Transport Service to ensure that the Council is not exposed to this fraud. One of the companies had operated two contracts for which the Council reimbursed concessionary fares but was not successful when the Council re-tendered the contracts in 2015. The other had not received payments since June, 2014. In addition the following controls are in place which should ensure that the Council's exposure to risk in the reimbursement of concessionary fares is minimised -

  - Flintshire County Council on behalf of all the North Wales Councils provides summary reports directly from the Wayfarer system to support reimbursement claims of concessionary fares so contractors cannot tamper with them. The Council's Transport Service checks all claims for concessionary fares submitted by the bus operator against the reports.
  - From July, 2016 the Welsh Government introduced monthly detailed system reports to allow Councils to monitor smart card activity. The new reporting system means that the Council can identify and investigate anomalies and so there is a reduced risk of losses due to inflated or fraudulent claims for reimbursement of concessionary fares.

    - The Council participates in the “Tell Us Once” scheme and cancels cards when informed of deaths. The Council retains damaged cards and any card reported lost is de-activated.

- The Internal Audit review of **School Income Collection Arrangements** was undertaken at the request of the previous Head of Learning due to various concerns about income collections processes within schools. Three primary schools were visited as part of the audit. The review identified policies and procedures in relation to income that were outdated; inconsistencies in accounting for income; lack of corporate monitoring, variations between schools in the monitoring of debt; weak governance of school funds and inappropriate system access controls. Most of the weaknesses found within the income collection processes adopted by schools were due to lack of knowledge and training with the Learning Service not having issued schools with up to date policies supported by procedures and training. There is also a lack of corporate compliance monitoring by the Learning Service which leaves the Council exposed to risks.
- That four follow-up reviews of Limited Assurance reports were finalised in the period relating to Sundry Debtors (remains a Limited Assurance rating); Corporate Procurement Framework (upgraded to Reasonable Assurance); Council’s Preparation for GDPR (upgraded to Reasonable Assurance) and Corporate Safeguarding (upgraded to Reasonable Assurance).
- The **Sundry Debtors first Follow-Up review** found that although the Debtors Team has undertaken significant work to address the issues and risks raised during the original review including implementing major changes to systems while maintaining the daily workload, in many case it has been insufficient to fully address the risk and so the Limited Assurance rating still stands. Of the 19 issues/risks raised during the initial audit review, the Revenue and Benefits Manager has tolerated one Minor risk around refunds and the risk of fraud; 5 have been addressed, 11 are in the process of being addressed and work is yet to start on 2.Where work has commenced and this has reduced the likelihood of the risk occurring, is has been reflected in the risk rating. Internal Audit will revisit the service in July, 2019 to monitor the progress of addressing the risks.
- That three reports with a Limited Assurance rating are scheduled for a follow-up review before the end of the current financial year. These are Child Care Court Orders under the Public Law Outline (PLO); (Follow-Up scheduled for July, 2018) Payment Card Industry Data Security Standards (Follow-Up scheduled for October, 2018), and System Controls – Logical Access and Segregation of Duties (Follow-Up scheduled for December, 2018). All three follow-up reviews are currently in progress.
- The Council has steadily improved its performance in addressing issues/risks raised during audits during 2017/18 and has continued to maintain good performance over the first two quarters of 2018/19. A new and upgraded version of the action tracking system will shortly be available, which provides extra functionality and reduces the administrative burden.
- That since the appointment of the two new Senior Auditors, work on the 2018/19 Internal Audit Operational Plan (Appendix A to the report) has progressed well. However, due to the length of these vacancies, protracted investigations, significant follow-up work and the maternity leave of the third Senior Auditor, the target for undertaking 80% of the red and amber risk in the corporate risk register will be difficult to achieve. To date 29% of the red and amber residual risk in the corporate risk register have been covered and work is ongoing in the 7 areas listed in paragraph 42 of the report. Where the Operational Plan shows no target date for reporting to the Committee, it is because it is anticipated no work will be carried out in those areas – there may be other work being undertaken in these areas e.g. ongoing systems implementation with regard to Payroll which will need to bed in before Internal Audit can review the area or an area may not be a priority at this time or an area may be subject to other regulatory/oversight work e.g.

Energy Island Programme/Wylfa Newydd which because of its significance has, and is receiving a great deal of scrutiny from other sources.

- The Council's Insurers, Zurich Municipal have undertaken an independent Risk Management Health Check. The outcome is largely as expected with a few opportunities for improvement. The Strategic Risk Consultants' report along with the improvement action plan, will be shared with the Committee once the the report is finalised.
- During the last quarter, Internal Audit has been requesting, collating, reviewing and uploading all the required data for the 2018/19 National Fraud Initiative exercise – a biennial exercise which matches data across organisations and systems to help public bodies identify potentially fraudulent or erroneous claims and transactions. The previous NFI exercise in 2016/17 has been one of the most successful to date already resulting in the identification of £5.4m of fraud and overpayment in Wales and £301m across the UK.

The Committee considered the report and made points as follows –

- The Committee noted that the travel fraud against Gwynedd Council in relation to concessionary fares has highlighted an issue that posed a significant risk. The Committee sought clarification of whether there is data available with regard to past and present usage across authorities

  Mr Alan Hughes, WAO said that he understood but could not confirm, that Welsh Government has undertaken a review to establish whether the problem that surfaced in Gwynedd was more extensive. The Head of Audit and Risk said that she would contact Welsh Government to see if the information is available bearing in mind that Welsh Government funds the all Wales Concessionary Travel Scheme.

- The Committee noted with regard to the audit of School Income Collection arrangements that the issues/risks raised are primarily financial in nature. The Committee sought clarification therefore of whether the Finance rather than the Learning Service should be taking the lead on addressing those issues given that it would be expected that Finance has the greater expertise in relation to income collection processes and is therefore best placed to rectify the situation.

  The Head of Function (Resources)/Section 151 Officer said that although the responsibility for income collection lies ultimately with the Section 151 Officer the involvement of schools in this case complicates the matter. As schools are legal entities in their own right and have different levels of administrative support, establishing a process that works for all in the same way is difficult. Previously income was collected manually which although laborious was a tried and tested process; however the introduction of the School Comms system and cashless payment in some schools is an added complexity in terms of making it more difficult to reconcile income that is actually collected by a school with payments made digitally via Schools Comms where the school has not handled any cash. The system was introduced with grant funding but was not subject to any subsequent review and although the audit has not uncovered any issue as regards monies missing the inconsistencies and variations along with the lack of oversight and corporate compliance monitoring means that no assurance can be provided that the Council is not at risk of losing money because of the issues with the reconciliation process. It is a matter for the Finance Service to ensure that the appropriate controls are put in place, and with the input of the Learning Service and schools, to devise a process that works for all, that everyone understands and that provides the required level of assurance.

- The Committee noted that only three schools were visited as part of the audit; the Committee sought clarification of how this sample was arrived at and whether it could be taken as representative.

  The Head of Audit and Risk said that the audit visit was targeted at a new school that had had the system installed for a short time only; a school which had been operating the system for a long time where the process was expected to have embedded and a school known to have issues. The different results from each school which the audit produced confirmed the lack of consistency which it could be assumed was replicated in the remaining schools. The core issues is that the software has been installed without the parallel training and guidance and additionally it has been installed to do different things in different schools. The Officer said that she was however assured by the newly appointed Schools Business Support Officer and her action plan for progressing the matter and addressing the identified risks/issues.

  The Chief Executive in acknowledging that the situation highlighted by the audit review was unacceptable said that he too was encouraged by the comprehensiveness of the Action Plan which he assured members would be implemented.

- The Committee noted that a lesson to be taken from the audit review of school income collection arrangements is that projects, whether to introduce a new system or otherwise need to have a post-implementation review which in this case could have helped identify the pitfalls sooner and allowed them to be addressed in a more timely way. The Committee also sought clarification as to the availability of benchmarking data for school meals income collection which would help the Committee gain some perspective on the issue.

  The Head of Audit and Risk said that she would endeavour to provide the information.

- The Committee noted with regard to the Sundry Debtors First Follow-up Review that nearly two years will have elapsed since the original Internal Audit review in November 2017 and the planned Second Follow-Up review in July, 2019 which it viewed as an excessively long timescale to address the issues and risks raised. The Committee also noted that lack of capacity seems to have hampered the Debtors Team from making greater progress and it sought clarification of whether there was a case to be made for additional resources. The Committee further queried whether in the light of the financial pressures on the Council and the ongoing need to identify savings, the maximisation of income, income collection and debt recovery should be priorities.

  The Head of Function (Resources)/Section 151 Officer explained what the large-scale investment in systems encompassing Debtors, Cash Collection and Accounting, Council Tax and Housing Benefits which the Finance Service has made over the last two years has entailed specifically for the Debtors and Income Collection teams. In that time also a complete staff restructure has been implemented which itself became a lengthy process. Having improved the Debtors System to a point where it is working reasonably well with invoices being raised promptly and the team working to a 3 day target for the authorisation of new debtors, the Finance Service is now looking to roll out those tasks for services themselves to undertake. Whilst there remains a backlog which the team is working through there are now processes in place to ensure that backlogs are not allowed to accumulate. The other element of the process is the cash system with new software with greater functionality now being introduced. This is as a result of a successful bid for resources under the Invest to Save initiative whereby funding is released for projects that improve the Council's business processes the aim with the new cash system being to better facilitate in advance online payment for services. There has been some delay in implementation because of complications arising from dual software systems. However, once the planned alternative methods of payment are established i.e. online, by touchtone - it will release resources for other tasks within the Income and Debtor Teams. A great deal of progress has been made over the past two years and the improvements and systems upgrade when they are all completed should allow the Service to direct resources to where they are needed and to deal with matters before they become problems.

In respect of outstanding debt and debt recovery, the Officers said that the Council raised a total of £15.7m through the Debtor system in in 2017/18 or 11,500 invoices. At the end of Quarter 2 of the current financial year the outstanding balance was around £4m of which £2.3m was debt over 120 days old. This figure could contain one or two large debts by public bodies which when cleared would reduce the sum significantly. The Recovery Team has also been restructured and an officer has been recruited on a performance basis who has been tasked with dealing with old debts initially to the value of £1.5m. To date the officer has dealt with over £500k of which £250k has been collected. Extra resources are therefore being allocated to debt recovery in the knowledge that the return will be greater than the cost of employing the officer to do the work.

- The Committee noted with regard to the Corporate Procurement Framework Second Follow-Up that of the 20 issues/risk raised in the original review in September, 2017, six remain unaddressed and noted also that the Corporate Procurement Manager had extended the deadline dates for addressing these remaining risks. The Committee sought assurance that the outstanding issues do not impact on the efficiency of the process.

  The Head of Audit and Risk confirmed that the facility which enables managers to extend implementation dates has now been withdrawn. The Officer proceeded to outline the areas to which the outstanding issues relate which include uploading the Central Contracts Register to the external website which because of reconfiguration work on the website has been delayed; revising Contract Procedure Rules and establishing a suite of PIs to measure the effectiveness of procurement activity.

- The Committee noted with regard to GDPR that although the Council's arrangements are now assessed as providing Reasonable assurance, the Annual Report of the Senior Information Risk Owner presented to the Committee's previous meeting highlighted that in the region of 50% of the Council's staff had not completed the e-learning training on data protection. The Committee sought assurance that work is ongoing to ensure that all staff fulfil this requirement. The Committee also noted that GDPR has been an issue for schools and that there has been some difficulty in recruiting to the post of Schools' Data Protection Officer.

  The Head of Audit and Risk said that Heads of Service are responsible for ensuring their staff complete data protection training and they are provided with reports on the number of staff who have done so. The Click to Accept policy acceptance facility within the Policy Portal provides assurance that policies are being read and accepted by individual staff. With regard to schools, the Internal Audit Service will be undertaking an Information Governance Health check of schools in Quarter 4 2018/19 which will cover data protection.

It was resolved that having considered the information presented and the clarifications provided by Officers , the Audit and Governance Committee accepts and notes Internal Audit's latest progress in terms of its service delivery, assurance provision, reviews completed, performance and effectiveness in driving improvement.

ADDITINAL ACTION PROPOSED: Head of Audit and Risk to provide the Committee with the following –

- **Data on past and present usage in relation to concessionary travel**
- **Benchmarking data in relation to school meals income collection**

5. EXTERNAL AUDIT: FOLLOW-UP REVEW OF PROPOSALS FOR IMPROVEMENT-ISLE OF ANGLESEY COUNTY COUNCIL

The report of External Audit on the outcome of a review of the effectiveness of the Council's arrangements for addressing proposals for improvement and recommendations made by the Wales Audit Office was presented for the Committee's consideration. The report also considered whether the Council is evaluating the extent to which its actions are contributing to delivering improved service performance and outcomes for citizens.

Charlotte Owen, WAO reported that in December 2015, the Auditor General published his Annual Improvement Report for the Council. The report which included findings from the 2015 Corporate Assessment concluded that the Council's self-awareness and its track record of improving governance and management were likely to support it in making arrangements to secure continuous improvement in 2015/16. The report made 6 proposals for improvements which are detailed in the report above. To gain assurance that the Council has effective arrangements for addressing the proposals for improvement, in June 2018 the WAO reviewed the progress the Council had made in implementing those proposals for improvement and the effectiveness of its arrangements for doing so. The review found that the Council has satisfactory processes for addressing proposals for improvement and recommendations from the Wales Audit Office but arrangements could be strengthened to provide greater assurance on progress to elected members. The review came to this conclusion because –

- The Council has satisfactory arrangements for responding to proposals for improvement and recommendations from the Wales Audit Office, but elected members are not consistently informed of progress; and
- The Council has addressed the proposals for improvement issued in the selected reports.

The report makes the following proposals for ways in which the Council could improve its arrangements for responding to proposals for improvement and recommendations –

- Keep elected members informed of Wales Audit Office proposals for improvement and recommendations, and the Council's progress against them by:
    - Circulating all Wales Audit Office reports to Audit and Governance Committee members for information, and
    - Reporting annually to the Audit and Governance Committee on progress made against outstanding Wales Audit Office proposals for improvement and recommendations.

The Committee in accepting the report and its proposals noted with reference to comments about the ICT Service that there remains an outstanding recommendation from the external review of the ICT Service which relates to the application of corporate project management arrangements to technology based projects. The recommendation has not been implemented because the Council is deciding on its approach to project management. The

Committee further noted that it has previously emphasised the usefulness of project management input in implementing Internal Audit recommendations as a way of co-ordinating the response to actioning Internal Audit proposals for improvement thereby reducing the delay that can occur particularly in complex or cross service reviews or where a number of officers are involved.

It was resolved to accept the external audit report and its proposals for further improving the Council's arrangements for responding to proposals for improvement and recommendations by the WAO.

NO ADDITIONAL ACTION WAS PROPOSED

6. TREASURY MANAGEMENT: MID-YEAR REVIEW 2018/19

The report of the Head of Function (Resources)/Section 151 Officer incorporating a review of the Treasury Management position and activity mid-way through the 2018/19 financial year in accordance with the requirements of CIPFA's Code of Practice on Treasury Management was presented for the Committee's consideration.

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

- The Council held £6.089m of investments as at 30 September, 2018 and the investment portfolio yield for the first 6 months of the year was 0.65%. A full list of investments as at 30 September, 2018 is provided in Appendix 3 to the report.
- The approved limits within the Annual Investment Strategy was not breached during the first 6 months of 2018/19.
- The Council's budgeted investment return for the whole of 2018/19 is £0.017m; performance for the year to date exceeds the budget with £0.023m received to the end of Quarter 2. This is due to the increase in bank rate from 0.5% to 0.75% in August, 2018.
- No borrowing was undertaken during the first half of this financial year. However, it is anticipated that borrowing will need to be undertaken during the second half of the financial year.
- During the first half of the financial year, a short term borrowing of £5m from the Tyne and Wear Pension Fund taken out in January 2018 at an interest rate of 0.5% matured and was repaid in April, 2018.
- Debt rescheduling opportunities have been very limited in the current economic climate as detailed in paragraph 6.4 of the report. No debt rescheduling has taken place to date in the current financial year.
- Since Quarter 2 ended, the Authority has arranged to borrow £5m from North Yorkshire County Council. The borrowing will take place from 16 October, 2018 to 16 January, 2019 at a rate of 0.85%.This decision is in keeping with the current borrowing strategy of only borrowing longer term when the funding is required and not to borrow simply to take advantage of low borrowing rates as the cost of carry is too high.
- Section 7 of the report describes the Council's capital position and performance in relation to the key Prudential Indicators including that for capital expenditure (Table 7.2 of the report).
- Table 7.4.3 of the report shows the Capital Financing Requirement which is the underlying external need to borrow to pay for capital expenditure. The Authority is currently slightly below the original forecast CFR because of the forecast underspend in borrowing mainly down to the 21st Century Schools' Programme and the revised funding method for the Seiriol Extra Care facility.
- The Authority is also keeping within the Operational Boundary which shows the expected debt position over the period. The 2018/19 opening borrowing position was £117.778m

with the end of year position estimated at £125.623m which is well within the £172m operational boundary set out in the Treasury Management Strategy.

- Section 7.5 of the report sets out the Authority's position in relation to gross borrowing and the Capital Financing Requirement. In order to ensure that over the medium term, net borrowing will only be for a capital purpose, the Authority should ensure that gross external borrowing should not except in the short term, exceed the total CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and the next two financial years. It is not envisaged that there will be any difficulties in complying with this prudential indicator in the current year as Table 7.5.1 demonstrates.
- A further prudential indicator controls the overall level of borrowing which is the authorised limit beyond which borrowing is prohibited. This is currently set at £177m and reflects the level of borrowing which while not desirable could be afforded in the short-term but is not sustainable in the long-term. The Council's current borrowing position as at 30 September, 2018 is £112,588m.

In considering the report the Committee made the following points –

- The Committee noted that the capital programme is again expected to be underspent at year end; it sought clarification of whether a more sceptical approach to the capital budget needs to be adopted.

  The Head of Function (Resources)/Section 151 Officer said that there a number of projects in the Capital programme some of which are large scale and are outside the Authority's control e.g. improvements to the A5025 to Wylfa, Gypsy and Travellers' Sites, Holyhead Strategic Infrastructure which have be delayed due to various reasons including having to wait for approval from funding providers and delayed planning consent. However, there is nothing arising from the capital underspend that will lead to the loss of external funding and it is not a cause for undue concern. Where a level of expenditure has to be incurred in order to be able to draw down a grant, then the Authority ensures that the required expenditure occurs.

- The Committee noted that the Authority has been using cash reserves to fund part of its capital expenditure in order to reduce its borrowing the rationale being that the cost of borrowing is higher than the returns were the cash to be put on deposit. The Committee sought clarification of how much longer can the Council sustain this policy.

  The Head of Function(Resources)/Section 151 Officers said that the cash the Council has matches its cash backed reserves i.e. the General Fund, Earmarked Reserves, School balances and the HRA balance. As the Council's financial position worsens it has been drawing on its reserves with the result that the level of reserves which the Council holds has reduced meaning there is less cash in the business. The point is approaching therefore when the Council will have to look to external borrowing instead of using its cash balances otherwise those will be depleted. This does not mean that the Council is in any financial difficulty but rather that it has to replenish its cash balances with external borrowing. This has already been done with smaller scale borrowing over a short-term; however the time has come to bolster the Council's cash balances by external borrowing which will likely take on the form of a £10m or £15m loan over a 5 to 10 year repayment period.

- The Committee noted that an element of the Council's part of the funding of the 21st Century Schools' Programme are the capital receipts from the sale of redundant school buildings. The Committee also noted that the marketing and sale of those assets are not always timely when realising their value could help the Council reduce its borrowing requirements and the costs of borrowing that then fall to the Revenue budget.

The Head of Function (Resources)/Section 151 Officer said that the disposal of assets is a matter of timing in order to maximise the price obtained but that this sometimes involves holding on to an asset for a period of time until the market improves especially if the sale involves more than one of the same type of asset in a particular area e.g. schools where a staggered sale might bring in more income.

It was resolved to accept and to note the mid-year review report on Treasury Management without any additional comments.

NO ADDITONAL ACTION WAS PROPOSED

7. EXTERNAL AUDIT: ANNUAL AUDIT LETTER 2017/18

Mr Alan Hughes, WAO apologised to the Committee for the non-presentation of the 2017/18 Isle of Anglesey County Council Audit Letter to this meeting; the Anglesey Letter along with the Audit Letters pertaining to a few other councils have been delayed as a result of a moderation exercise of the Wales Audit Office's own internal processes for verifying contents relative to each council. The Audit Letter is expected to be completed shortly but unfortunately not in time for this meeting and will be forwarded to the Council towards the end of the week or at the beginning of next week. The Audit Letter for the 2017/18 financial year is expected to make reference to the financial challenge that is facing councils across Wales and the delay is in part due to the need to agree how this message is to be articulated.

In accepting the explanation for the absence of the 2017/18 Audit Letter and in noting that the delay is not because of any issue relating to this Council, the Committee expressed its disappointment that it will not now have sight of the Letter until its next scheduled meeting in February, 2019 which is nearing the end of the current financial year and which it felt was an excessive delay.

Mr Alan Hughes in confirming that he would convey the Committee's concerns to the Wales Audit Office said that whilst it is the procedure in Anglesey to present the Audit Letter to the Audit and Governance Committee, this is not the practice in all councils.

It was resolved to accept the explanation for the delay in presenting the 2017/18 Audit Letter for Anglesey.

NO ADDITIONAL ACTION WAS PROPOSED

8. FORWARD WORK PROGRAMME 2018/19

The Committee's Forward Work programme was presented or review and comment.

It was resolved to note and accept the Forward Work programme subject to the including the 2017/18 Audit Letter as an item for the Committee's February, 2019 meeting.

ADDITIONAL ACTION: Head of Audit and Risk to update the Forward Work Programme accordingly.

Councillor Peter Rogers
Chair

ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Audit and Governance Committee
Date:	12.02.2019
Subject:	Corporate Health and Safety Annual Report
Head of Service:	Dylan J Williams Head of Service Regulation and Economic Development
Report Author:	Stephen Nicol Corporate Health and Safety Advisor
Nature and Reason for Reporting: Legal requirement to report on health and safety performance. Annual report requirement identified in Corporate Health and Safety Policy	

1. Introduction

This report provides information on Health and Safety performance for 2017/18. The report is presented in the format recommended by the WLGA.

2. Background

Significant work has been carried out involving Senior Officers, Human Resources and Corporate Health and Safety to establish a method of revitalising Health and Safety within the council. The development of a new Corporate Health and Safety Policy clarifying roles and responsibilities for all shakeholders with the council has been the key work stream at a senior level. Revised role of Health and Safety Coordinators to be more active in improvement of health and safety is a significant change in the arrangements.

A total of 1322 incidents were recorded which was a reduction of 111 from the previous year. This figure included pupils, client and members of the public. A total of 249 incidents were recorded for employees only. There was a reduction of 46 from previous year. A breakdown of the type of incidents is presented in the report. Where trends or patterns of incidents occurred work was done to reduce the risk. This should have assisted with the reduction in incidents. This is a continuous process.

There was a total of 20 incidents reported to the HSE as required by RIDDOR. Reports on each incident were provided to the HSE. No follow up action was taken by the HSE which indicated they were satisfied with the work done to prevent recurrence.

A total of 92 short training courses were provided with regard to health and safety with 892 staff members attending.

Partnership work was carried out with the six North Wales Corporate Health and Safety Teams and information from WLGA provided to assist Health and Safety work streams. Gwynedd CC has provided Occupational Health and Training support.

Information to assit the HSE has been provided. There were no interventions from the HSE during 2017/18. The Corporate Health and Safety to carried out 336 proactive interventions to assist with Health and Safety issues. A monthly Health and Safety bulletin was introduced to assist with raising awareness.

A Corporate Health and Safety Action Plan has been developed to aid improvement in Health and Safety standards within the Authority.

3. Recommendation

There is a requirement for the Executive to consider Health and Safety arrangements and performance.

CYNGOR SIR
YNYS MÔN
ISLE OF ANGLESEY
COUNTY COUNCIL

Health and Safety Report 2017/18

Corporate Health and Safety Annual Report

CONTENTS

1 Introduction

The Isle of Anglesey County Council's Corporate Health and Safety Policy includes a commitment to the preparation and publication of an Annual Health and Safety Report.

Welsh Local Government Association (WLGA) had developed a framework and guidance for the production of an Annual Health and Safety Performance Report. The framework and guidance provides a series of headings to assist with the reporting of health and safety performance. This framework was not intended to be a comprehensive analysis of health and safety but should assist in identifying the commitment, ability and direction of the management of occupational health and safety. This report follows the format provided by WLGA.

For a number of years there has been significant change in the management structure with the authority. There has been significant reduction to the budget available to the council. Maintaining steady performance and attempting to improve performance under these pressures have taken significant effort.

2 Corporate Management

The Senior Leadership Team (SLT) have been in post for a number of years and have been instrumental in instigating new methods of governance. Regular meetings of SLT considered reports on current issues and possible implementation of new working methods. This allows a senior overview of the management of the council.

Regular meetings of the Penaethiaid Group should enable escalation of any issues to SLT to ensure appropriate action can be taken to resolve matters, health and safety related or other.

The constitution of the council identifies responsibilities within the management structure. During 2017/18 a revised Corporate Health and Safety Policy was developed. The revised policy further identifies Health and Safety responsibilities. Previously this was identified within a Corporate Responsibilities Document.

The Corporate Health and Safety Policy states the intention of the council to provide a safe working environment and the methods to achieve this. Identifying the roles and responsibilities within the Health and Safety Policy simplifies the presentation of the information.

The Corporate Health and Safety Policy is on the Corporate Policy Portal and is mandatory for all staff to read and accept the content. This should ensure full awareness of the content and further enforce the roles and responsibilities of all staff.

The Performance Review work includes the production of annual business plans, assessment and approval of the plans by SLT. This allows accountability across the council with targets and goals identified in business plans.

During 2017/18 a Corporate Health and Safety Plan was developed to be implemented by Services. A significant number of meetings have been held involving the Chief Executive Officer, HR Team members and Corporate Health and Safety Team members to develop the revised Health and Safety Policy, Corporate Health and Safety Action Plan and supporting documents.

Whilst the above documents were being developed, there has been an expectation on Service to develop individual Service Health and Safety Plans which should mitigate most risks to the individual Services.

3 Statistical Information

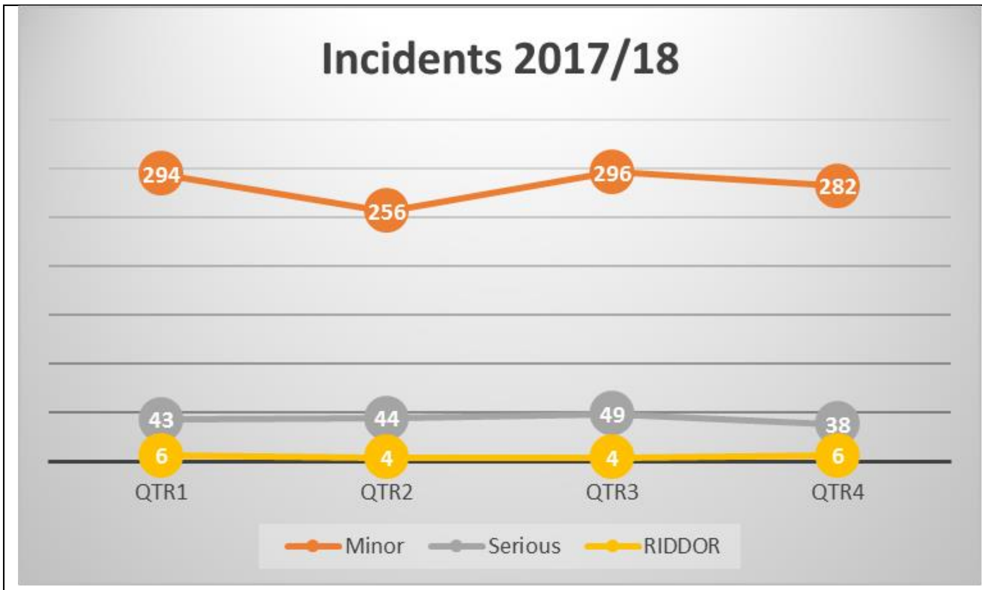
The data presented below was with regard to all accidents and incident reported during 2017/18. The internal classification of accident and incidents has been in three categories, these were Minor, Serious and RIDDOR.

Minor accidents and incidents would have been accidents / incidents where the resulting injury or loss was insignificant. This includes accident and incidents which resulted in no injury or loss and the potential outcome may be insignificant if injury or loss had occurred.

Serious accidents / incidents were where the outcome resulted in significant injury or loss or where there was potential for significant injury or loss. This includes accident and incidents which resulted in no injury or loss but the potential outcome may be significant if injury or loss had occurred.

RIDDOR accidents and incidents were accidents or incidents which met specific criteria that required reporting to the HSE. The criteria for reporting types of accidents and incidents are provided within the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations.

The table below presents the number of accident and incidents for the whole authority. This includes incidents involving members of the public, service users, school pupils, contractors, facilities as well as employees.



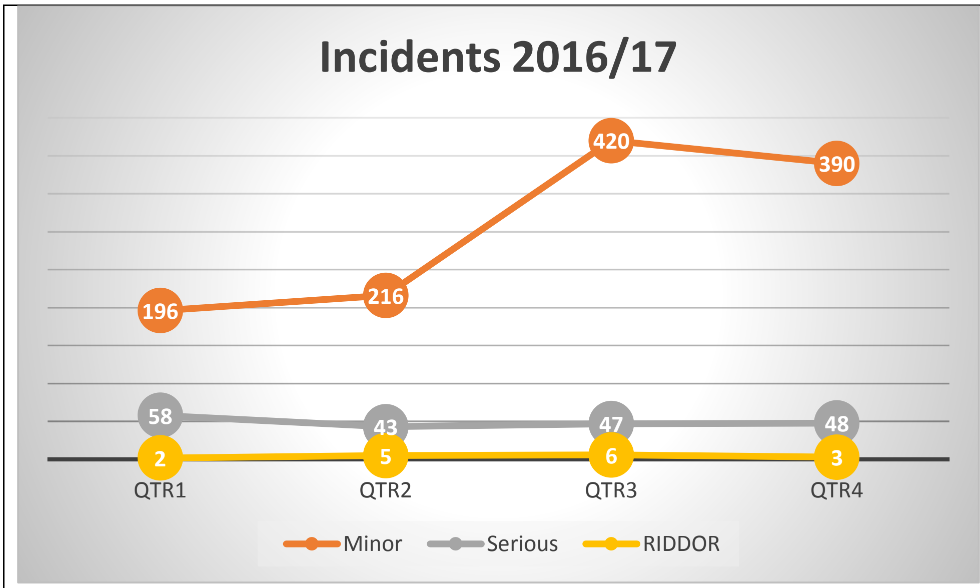
Incidents Recorded in 2017/18

Total 1322

Minor 1128

Serious 174

RIDDOR 20



Incidents Recorded in 2016/17

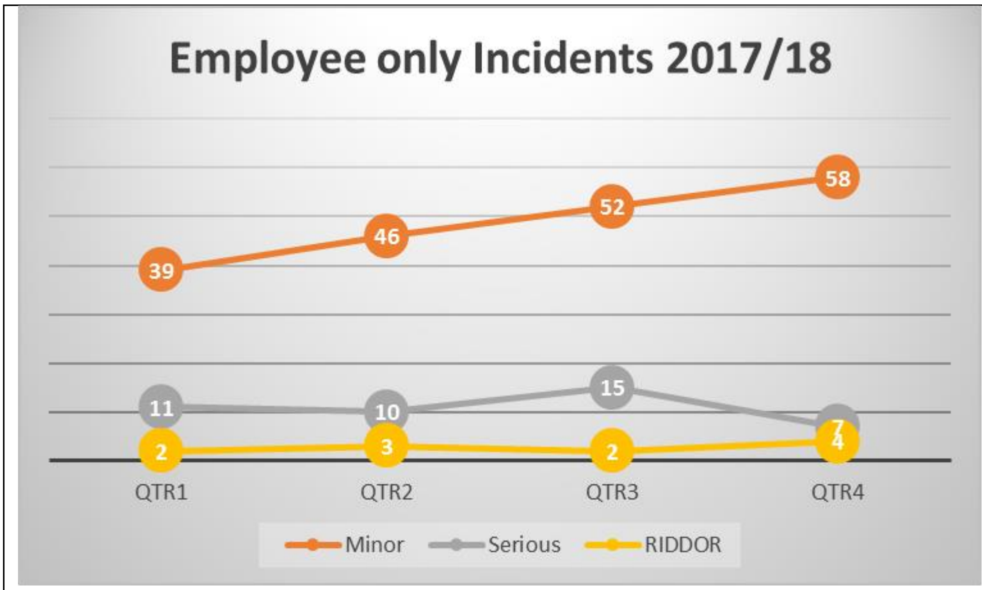
Total 1433

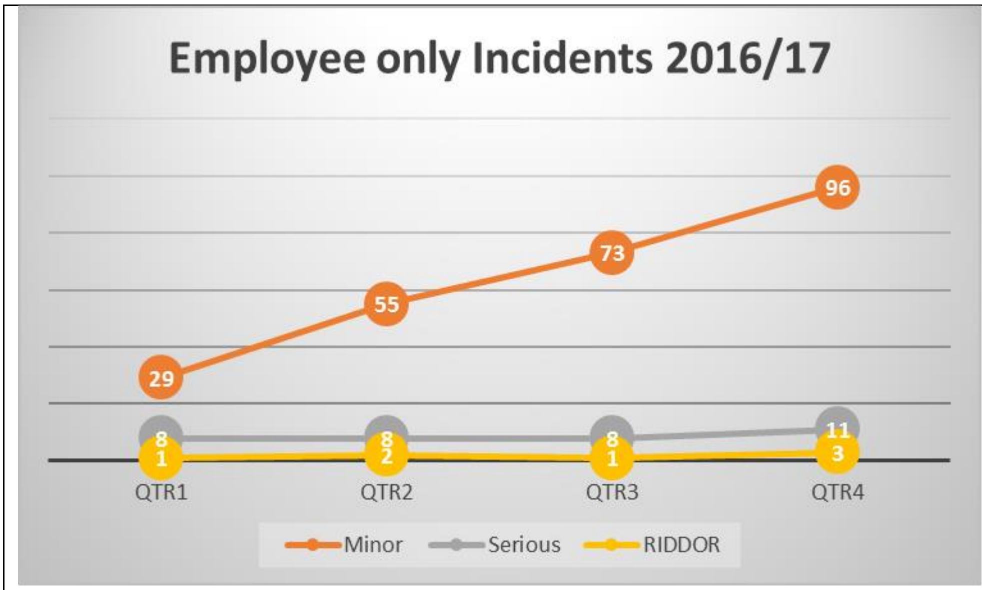
Minor 1221

Serious 196

RIDDOR 16

The tables below presents the number of accidents and incidents involving employees only.

	**Total Number of Incidents (Employees only)**
	Total 249
	Minor 195
	Serious 43
	RIDDOR 11

	**Total Number of Incidents (Employee only)**
	Total 295
	Minor 253
	Serious 35
	RIDDOR 7

The table below list the types of incidents which occurred. The list is in descending order from the highest number of incidents in 2017/18. The number of similar incidents in 2016/17 are presented in column three of the table.

Types of Incidents	2017/18	2016/17
Loss of Balance	184	148
Playground accident/incident (schools)	155	193
Slip Trip Fall, Same level	136	248
Another kind of accident	124	90
Physically Assault by person (challenging behaviour) (client and pupil related incidents)	103	56
Hit something fixed or static	88	113
Property Loss/Damage	72	57
Violent Incident (abuse, harassment)	53	73
Fall out of bed (client related incidents)	50	22
Hit by moving/flying object	47	58
Physically assaulted by person	45	37
Medical Condition	42	34
Sporting Injury (Leisure incidents sporting activities)	22	47
Challenging Behaviour (client and pupil related incidents)	21	17
Fall out of Chair/Desk (client and pupil related incidents)	21	33
Injured Handling/Lifting etc.	20	26
Pool Side Injury (Leisure incidents sporting activities)	16	18
Fall from a height under 2m	16	30
Physical Education Injury (schools)	15	15
Violent Incident (abuse, harassment learning difficulty) (client and pupil related incidents)	15	5
Near Miss Accident	13	13
Management Failure	13	27
Exposure to harmful substance	10	8
Fall from play equipment (schools)	7	6
Burn	7	9
Contact with moving machinery	6	7
Glass/sharps	6	14
Self Harm	4	6
Undesired Circumstance	3	2
Hit by moving vehicle	3	7
Fall from a height over 2m	2	1
Contact with electricity	1	2

A Exposed to fire	1	1
Injured by an animal	1	7

Note there were an additional two types of incidents in 2016/17 and one incident for each type:
Fall from vehicle
Physically Assault (sexaulised behaviour)

Analysis of Incident Data

The incident data provided above had been analysed to identify possible issues which may require attention. Previous work with Community identified falls within the care section as an issue, Loss of Balance incidents was the highest recorded type of incident. This may have resulted in an increase in reporting / recording of these incidents. Where these incidents occur specific client risk assessment are carried out.

Playground incidents and Slip trip and falls were identified as the next highest number of incidents. These mainly related to incidents in school where pupils had minor incidents but were required to be recorded.

There were four categories for type of violence and aggression incidents which may be considered the highest number of incidents which affect employees. Work is ongoing for systems to assist with reducing these figures.

Where similar incidents occur within a short period of time work is done to prevent or reduce the risk at a local level.

There were 20 incidents which were reported to the HSE as a requirement of RIDDOR. Reports were provided on each incident. No follow up action was taken by the HSE which would indicate no issues were found with the working arrangements.

Training

A summary follows of the skills based training sessions during the period of the report for staff of the County Council. The training is scheduled following identified needs received from Services. All training providers are accredited and qualified to deliver their specific courses and some instances of tailoring to meet the organisation’s needs. Feedback from staff is consistent and indicates the standard of delivery across the range of services.

Course Type	Number of Sessions	Number of Candidates
Asbestos Awareness	2	28
Basic Food Hygiene	9	84
COSHH Awareness	1	24
DSE Assessors	2	25
Emergency First Aid (Full Day)	10	58
Fire Marshal	8	56
Fire Safety	2	17

First Aid at Work (3 day)	2	13
First Aid Refresher (2 day)	5	38
Infection Control Awareness	2	46
ISOH Refresher	1	9
Mental Health Awareness for Staff	5	41
Mental Wellbeing at Work for Managers	3	23
One day Medication	5	62
Paediatric First Aid	1	7
Manual Handling Passport A-B Module A - Introduction Module B - Inanimate load handling and practical application of ergonomics	7	89
Manual Handling Passport A-F See above A&B Module C - Sitting, standing and walking Module D - Bed Mobility Module E - Lateral Transfers Module F - Hoisting	5	43
Passport Refresher	4	29
Violence Level 1 & 2	5	70
Violence Level 3	12	114
Working at Height	1	16

Joint working with Gwynedd's Health and Safety team took place in relation to delivering IOSH Managing Safely and IOSH Leading Safely, who were supported by Anglesey's schools in providing venues.

4 Partnerships

The North Wales Health and Safety Teams

The Health and Safety North Wales Managers met once during the reporting period. Two officers from the County attended reporting on IOACC's RIDDOR reportable incidences. Other agenda items included Hand Arm Vibration, Corporate Health and Safety Policy and a discussion regarding the school's inspectorate in relation to health and safety issues. No further meetings were convened during the year. Although regular meetings do not take place there is communication between the teams on various issues. The communication usually consists of raising awareness of possible issue and requests for advice on best practise.

Joint working with Conwy and Gwynedd County Council Health and Safety Teams, education and leisure services also took place with regards as to developing Safe Practice in School Swimming Policy, Guidance and Procedures.

WLGA

Information is provided from the WLGA on Health and Safety matters to all Welsh Authorities.

Contractors

There are a number of long-term contracts for services provided to the Council. Regular management meetings are held with the contractors which review contract performance including Health and Safety.

HSE

Health issues had been a priority for HSE work. As such a proactive approach from the HSE was to requested information on methods of controlling HAVS from all Local Authorities. The information regarding methods of control for direct employees and contractors was provided to the HSE at the time of request.

5 Joint Consultation

Health and Safety Group

Historically a Health and Safety Liaison Group held meetings, jointly chaired by the Corporate Health and Safety Team and the Corporate Director for Sustainable Development for the majority of meetings. The group comprises of Health and Safety Co-ordinators from services across the whole of the council. Union representation has been present at most meetings.

The revision of the Health and Safety Policy places more responsibility on the role of the Health and Safety Coordinators, this should allow for purposeful meetings of the group.

The Policy expects Union representation at the meeting, which should allow Health and Safety consultation with the Unions.

Human Resources hold regular consultation meetings with the Unions to allow discuss of Policies and Procedures.

6 Occupational Health Provision

Occupational Health Provision is currently provided under contract with Gwynedd Council with attendance by trained Occupational Health personnel at the Council offices in Llangefni who undertake surgeries, health checks, etc. The contract is managed by the HR section and follows standard procurement practice. The provision expects instant referral of cases concerning Musculoskeletal issues or Stress related sickness absence.

Regular contract performance and issues are discussed in meetings between the Provider and HR.

7 Key Achievements

Health and Safety Policy

The development of a revised Health and Safety Policy, which includes the revised role of the Health and Safety Co-ordinator should assist with the development of Health and Safety management and monitoring. This is a significant change in the management of Health and

Safety within the council. The development of the Policy, Corporate Health and Safety Action Plan and Supporting guidance documents has been a key achievement over the past twelve months.

Procurement

Health and Safety being considered at procurement stage was identified in previous Health and Safety Action Plans. The procurement team's function has developed over time and have an active involvement with the standards of health and safety. The Procurement Team currently hold the budget for purchasing office furniture to assist with ensuring suitable equipment is obtained to address health and safety issues.

HSE

The HSE have currently identified Health and Occupational Diseases as a focused work topic for Inspectors. One RIDDOR during 2017/18 was due to Hand Arm Vibration Syndrome (HAVS). An internal investigation was carried out and a report prepared. The HSE requested the report as a follow up action to the RIDDOR incident report. To date no further requests has been made by the HSE for information relating to that case.

As there has been no follow up request, there were no HSE interventions with the work of the council during 2017/18. To have conducted the council work with no HSE intervention should be considered as a significant achievement.

Monthly Bulletins

Health and Safety bulletins were introduced during 2017/18. The purpose of the bulletins was to raise awareness of topics within health and safety, possible risks and actions to take to reduce the risk.

8 Safety Performance

The Corporate Health and Safety Team carried out inspections and interventions to assist with monitoring and improvement of Health and Safety standards within the Council. There is an expectation for organisations to report certain incidents to the HSE. There are time scales for reporting and reacting to these type of incidents. A performance indicator for the Corporate Health and Safety Team is to react to RIDDOR incidents within five days.

Inspections and interventions by the Corporate Health and Safety Team and performance with regard to reacting to RIDDORs is presented below.

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
Number of planned health & safety interventions at Council premises	90	72	89	85	336
Percentage response to Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) accidents within Local Authority Premises within 5 days	6/6	4/4	4/4	6/6	20/20

9 Strategic Action Plan

A Corporate Health and Safety Action Plan has been developed for implementation. The plan involves six topic headings.

Health and Safety Policies, Organisation and Arrangements

Desired Outcomes: to clarify H&S Responsibilities at all levels of the organisation. This is to ensure the activities of everyone involved in managing health and safety are clear and coordinated well. To enable Staff knowledge of IOACC commitment to and effectively communicate H&S and improve H&S culture.

The revised Corporate Health and Safety Policy identifies Health and Safety responsibilities within the structure of the Council.

Health and Safety Competence

Desired Outcomes: to ensure the Council has competent staff to identify and manage risks and that competence is evidenced at all levels throughout the Council from SLT downwards through the provision of supported training and development.

The Corporate Training Matrix has been reviewed, revised and updated to ensure clear guidance on expected standards of competence in relation to health and safety training across the council.

Risk Profiling

Desired Outcomes: to ensure the right risks are identified and prioritised for action and that minor risks not given too much priority and risk control measures are 'informed'.

Guidance has been written to inform Services of the need to carry out a risk profiling assessment of the Services. A similar method was used to identify business risks for the Service in the past. The Guidance provides examples of possible risks and how they may be presented to the individual Services.

Accident, Incident and Near Miss Reporting

Desired Outcomes: to improved accident, incident and near miss and occupational disease reporting and the investigation and monitoring process. This should improved focus on employee's health and welfare.

This would involve reviewing the current system of accident incident reporting with a view to identify methods of improving the system. This would require review of the Council's Accident, Incident, Occupational Disease and Near Miss Occurrences Policy to reflect any revisions to the system.

Work Related Violence and Aggression (WRV) and Lone Working

Desired Outcomes: to implement effective arrangements to manage risks from violence and aggression and lone working to provide a safe and secure working environment. In order for employees do not accept incidents of aggression or violent behaviour as a normal part of the job.

This would be to review the current arrangements with a view to implementing possible improvements. Work has been done to trail Lone Working Systems from external providers and methods of recording potential risks from the public or public locations. Specific training is provided with regard to violence and aggression.

Work Related Stress

Desired Outcomes: to effectively manage the risks related to work-related stress. This would be to quantify and review the arrangements for managing stress within the Council. Work has been carried out by the Human Resources Team with the Occupational Health Services. This includes instant referral for any stress related sickness absence, a counselling service and a specific risk assessment format for stress. The Authority has committed to funding the provision of free counselling services through a recognised bilingual specialist provider.

10 Conclusion

Significant work has been carried out involving Senior Officers, Human Resources and Corporate Health and Safety to establish a method of revitalising Health and Safety within the council

The Chief Executive Officer carrying out the role to drive forward the work has given the topic of Health and Safety higher profile and gain more focused attention from the Services.

The revised Health and Safety Policy which clearly identifies Health and Safety being the responsibility of all Council Members and Staff should lead to an improved Health and Safety Culture in the Council.

The policy, the role of the Health and Safety Coordinators and the revised Health and Safety Group meetings should set the foundations for maintenance and improvement with regard to health and safety within the council.

11 Development Plan

	Action
1	**Continue with the revised Health and Safety Group with the purpose of driving improvement of health and safety standards** **Allow the Group to be self-generating with regard to topic agenda for improvement**
2	**Services progress with actions from the Plan should be communicated to Corporate Health and Safety in the Health and Safety Group meeting.**
3	**Continue work to develop Lone Working Systems and Violence and Aggression Systems.**
4	**Monitor training attendance for courses arranged within the revised Corporate Health and Safety Training framework.**

Archwilydd Cyffredinol Cymru
Auditor General for Wales

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Reference	IH 201718
Date	05/02/2019
Pages	**1** of **4**

Llinos Medi / Marc Jones
Council Offices
Llangefni
Anglesey
LL77 7TW

Dear Llinos / Marc

Annual Audit Letter – Isle of Anglesey County Council 2017-18

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

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

It is Isle of Anglesey County Council's (the Council's) responsibility to:

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

The Public Audit (Wales) Act 2004 requires the Auditor General to:

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

Local authorities in Wales prepare their accounting statements in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. This Code is based on International Financial Reporting Standards.

The draft financial statements were prepared to a good standard and were supported by comprehensive and timely working papers. The key matters arising from the audit of the financial statements were reported to members of the Audit and Governance Committee in my Audit of Financial Statements report on the 19 September 2018.

On 28 September 2018, the Auditor General issued an unqualified audit opinion on the financial statements confirming that they present a true and fair view of the Council's financial position and transactions.

The key matters arising from these audits were reported to the relevant committees where appropriate.

The Auditor General is satisfied that the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

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

To date my work on behalf of the Auditor General on the certification of grant claims and returns has not identified significant issues that would impact on the 2018-19 accounts or key financial systems.

My ongoing work on the certification of grants claims and returns has not identified any significant issues to date in relation to the accounts or the Council's key financial systems. I will report any key issues to the Council once this year's programme of certification work is complete.

The Council faces significant challenges in seeking to set a balanced budget accompanied by diminishing general fund balance.

Austerity funding remains the most significant challenge facing all local government bodies in Wales and these financial pressures are likely to continue for the medium term. The 2018/19 local government funding settlement saw the Council's settlement increase by only 0.7% when inflation is more than 2%.

For 2018-19, the authority projects that it will report a deficit on the provision of services of £3.3m and has identified demand pressures in the number of children looked after and associated out of county placement costs and increased demand for adult social care as key drivers of the projected deficit.

To respond to these pressures, the Council has had to make tough decisions about where to devote scarce resource and consider new ways to deliver services to people. In its medium term financial plan it has identified the following targets and savings to achieve those targets.

Short Term: In the 2018/19 budget the Council has identified the need for savings of £2.5m and a 4.8% increase in Council Tax. Budget savings of £2.522m were removed from service budgets for 2018/19. It is anticipated that £2.255m have or will be fulfilled by the year-end. However, £267k may potentially not be achieved.

Medium Term: The Council has identified the need in 2019/20 for savings of £3.7m and between a 6.5 – 9.5% increase in Council Tax to stay to budget. This includes proposals to close or sell a building, reduce the numbers of low level care packages, charge for services the Council has previously delivered for free, and provide a cash settlement to schools which is lower than the full cost of their forecasted budget pressures.

The Council determined in February 2018 that general fund balances should be maintained at £6.5m or above. The Council intends to re-consider this target level at its meeting in February 2019.

At 31 March 2016 the general fund balance was £8.9m it highest level for several years. However, since then the balance has been utilised resulting in a balance at 31 March 2018 of £6.9m. . Whilst this is currently above the Council’s target level, projections by the Council to 31 March 2019 suggest the balance could be as low as £3.6m. This recent trend of reduction in the general fund balance is unsustainable and increases the need for the Council to deliver recurring savings. This is recognised as a risk by the S151 Officer and the Council and there is an acceptance that over the longer term the budgets need to provide for the replenishing of the reserves.

Similarly the Council’s other reserves have been decreasing through planned usage and changes in accounting treatment of one reserve. Earmarked reserves have reduced from £16m at 31 March 2016 to a forecasted £6.5m at 31 March 2019. Over the same period schools balances have reduced from £2.5m to a forecast of £1m as expected by the reduction in the delegated schools budget.

Continued careful consideration of reserves balances and how they might be used to support financial plans is particularly important as it is not sustainable to rely on reserves to support ongoing costs of demand led Care / Children’s services. Once reserves have been depleted, other sources of funds or efficiencies must be identified.

The Executive’s resolution to “make sufficient savings in 2019/20 to balance the revenue budget without resorting to the use of general reserves and to ensure that the required savings in 2019/20 are achievable.” is therefore a welcomed statement.

Early estimates for 2019/20 after allowing for a 5% increase in Council Tax indicate a funding gap of £5m. Services have been asked to identify budget savings which would generate the £5m of savings, and budget workshops held over the summer with Heads of Service have identified potential savings of £3.747m. Identified savings will need to be realised with minimal slippage, as any delay in implementation will ultimately have an adverse effect on diminishing General Fund balances.

The financial audit fee for 2017-18 is expected to be in accordance with the agreed fee set out in the Annual Audit Plan.

Yours sincerely

I C Howse.

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

ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Audit and Governance Committee
Date:	12 February 2019
Subject:	Internal Audit Update
Head of Service:	Marc Jones, Head of Function (Resources) / S151 Officer 01248 752601 MarcJones@ynysmon.gov.uk
Report Author:	Marion Pryor, Head of Audit and Risk 01248 752611 MarionPryor@ynysmon.gov.uk
Nature and Reason for Reporting: This report provides information on work carried out by Internal Audit since the last Committee meeting. It allows the Committee to monitor Internal Audit's performance and progress as well as providing summaries of Internal Audit reports so that the Committee can receive assurance on Council services and corporate areas.	

1. Introduction

1.1. The report provides an update as at 27 January 2019 on:

- Internal Audit reports issued since 10 November 2018
- Follow up of internal audit reports
- Implementation of management actions
- Progress in delivering the Internal Audit Operational Plan 2018/19
- Risk Management Health Check

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

February 2019

Marion Pryor BA MA CMIIA CPFA
Head of Audit & Risk

Contents

Internal Audit reports recently issued

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

2. We have finalised **one** report in the period, summarised below:

Title	Assurance Level	Catastrophic	Major	Moderate	Total
IT Cyber Security	**Reasonable**	0	2	3	5

IT Cyber Security[1]

Reasonable Assurance	Issues/Risks	
	0	Catastrophic
	2	Major
	3	Moderate

3. Our review sought to answer the following key question:

   Does the Council have adequate protection, detection and response arrangements in place to mitigate the risk to the Council's network, systems, information and services from a cybersecurity breach?

4. Overall, our review concluded that the Council has a number of effective, operational controls in place to manage the risk to cybersecurity and to prevent and reduce the impact to Council services, systems and information of malicious, external attacks.

5. However, a lack of proactive monitoring of the extent and nature of current and emerging cyber threats faced by the Council could compromise success in this area. In addition, scrutiny and reporting arrangements, particularly at Head of Service level, need to be strengthened. As senior management are best placed to provide resources and influence staff behaviour with regards computer use and cyber safety, effective engagement at this level is imperative.

6. The Council has comprehensive IT policies in place that cover cybersecurity risks, and at the time of our review 92% of staff with computer access had read and accepted the Information Security Policy. We did however identify a small number of

[1] As part of a new report style pilot, members of the Audit and Governance Committee and the relevant Portfolio Holder have received a copy of the full report ahead of this meeting.

inconsistencies between this and the Council's Digital Strategy regarding 'Bring Your Own Device (BYOD) which need to be resolved.

7. The Council has recently reviewed and strengthened its corporate password requirements in line with nationally recommended criteria. However, the password complexity settings for two of the Council's externally facing systems do not adhere to this, and are insufficient to adequately protect against a data breach.

8. Protection of the Council's network is clearly a priority for IT and a variety of technical safeguards are in place in order to achieve this. Despite this discernible success, our review found that controls around removable media devices do not reflect the requirements in this area as outlined in the IT Security Policy. A review to ensure only those authorised to use removable media devices are able to do so would reduce the risk of security or data breaches.

9. While we raised five issues/risks, which require management attention, the outcome of our review is mainly positive. We have agreed an action plan with management, which is detailed in a separate document. Therefore, within the scope of our review, we are able to provide a **reasonable level of assurance** in this area.

Follow up of Internal Audit reports

10. Currently, we follow up all reports with an assurance rating of 'Limited' or below. We have finalised **one** follow up review in this period, with the following outcome:

Title of Audit	Review	Assurance Level	Catastrophic	Major	Moderate	Minor	Total
Logical Access and Segregation of Duties	Third Follow Up	**Limited**	0	2	1	0	3

Logical Access and Segregation of Duties – Third Follow Up

11. *In accordance with the Audit and Governance Committee's resolution with regards 'Limited Assurance' reports, I have provided a copy of the full report to the members separately.*

12. We undertook a review of logical access and segregation of duties controls as part of the annual Internal Audit Plan in 2014/15. This resulted in a 'Red' rating, defined at the time as *'Taking account of the issues identified, the Council cannot take assurance that the controls upon which the organisation relies to manage these risks are suitably designed, consistently applied or effective. Action needs to be taken to ensure these risks are managed.'*

13. The review resulted in 15 recommendations and one suggestion being made.

14. We undertook a follow up review in January 2015, which again resulted in a 'Red' rating. Twelve recommendations remained outstanding and the 'Red' rating remained.

15. A second follow up review took place in December 2017, which confirmed that five remained unaddressed. Consequently, this review resulted in a 'Limited Assurance' rating (in accordance with the new audit approach).

16. In December 2018, we undertook a third follow up review. This confirmed that from the five issues / risks outstanding, two have been addressed and three are in the process of being addressed.

17. The payroll section is currently in the process of undergoing a restructure. Once the Northgate project is finished, the new structure will be implemented. The first round of consultations on the new structure has just taken place and this will progress during January 2019. Once implemented, the Accountancy Service Manager is confident that this will address the remaining issues/risks originally raised.

18. Taking consideration of the results of our follow up review, although progress has been made, the assurance level of the report remains as a **'Limited Assurance'** at this time and we will undertake a further follow up during July 2019.

Follow Ups Scheduled and In Progress

19. We have **two** reports with a ‘Limited Assurance’ rating scheduled for a follow up review before the end of this financial year. Both follow-up reviews are currently in progress:

Title of Audit	Reason for Review	Date of Follow Up	Assurance Level	Catastrophic	Major	Moderate	Minor	Total
Child Care Court Orders Under the Public Law Outline	Second Follow Up	Jul-18 (Draft Report issued)	**Limited**	1	3	3	1	8
Payment Card Industry Data Security Standard Compliance	Second Follow Up	Oct-18 (postponed until Feb-19 at the request of the Head of Resources due to change in project milestones)	**Limited**	0	6	4	1	11

Implementation of Management Actions

20. A detailed report of all outstanding Red and Amber Issues/Risks is made separately.

21. A recent exercise to examine the historical data included in the action tracking system has highlighted an overly administrative configuration and items inconsistent with our risk-based approach to auditing. A new and upgraded version of the action tracking system will shortly be available, which provides extra functionality and reduces the administrative burden. Therefore, we will undertake an exercise next year to cleanse the historical data and review the system configuration.

Progress in delivering the Internal Audit Operational Plan 2018/19

22. The current Plan is attached at Appendix A. Since the appointment of the two new Senior Auditors, work has progressed well. However, going forward, along with the length of these vacancies, protracted investigations, significant follow up work and the maternity leave of the third Senior Auditor, which started unexpectedly in October 2018, our target for undertaking 80% of the red and amber residual risks in the corporate risk register will be difficult to achieve.

23. Although we have only covered **35%** of the red and amber residual risks in the corporate risk register, work is currently ongoing in **five** areas which are included as red and amber residual risks in the corporate risk register:

- Gypsies and Travellers (Requirements of the Housing (Wales) Act 2014)
- Counter Terrorism and the ‘Prevent’ Duty
- Recruitment and Retention
- Business Continuity (two red risks)
- Welfare Reform

24. Work is also ongoing in **three** areas at the request of Heads of Service, which are not included in the corporate risk register:

- Direct Payments
- Leisure Services – Governance Arrangements
- Car Loans – Recovery Arrangements

25. We are also involved in two ongoing investigations, which are both nearing their conclusion.

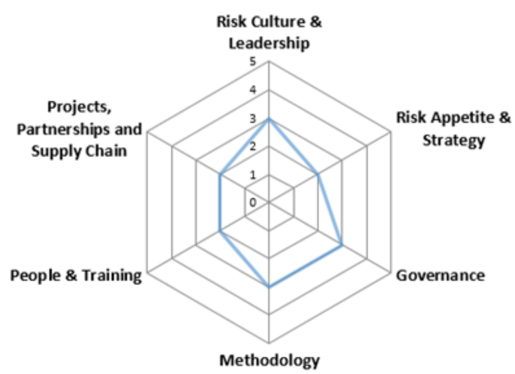
Risk Management Health Check

26. We underwent an independent Risk Management Health Check by our insurers, Zurich Municipal (ZM). In order to measure the maturity of risk management, ZM used a Performance Model which breaks down risk management activity into six categories that contribute towards effective risk management arrangements within an organisation:

- Risk culture and leadership
- Risk appetite and strategy
- Governance
- Methodology
- People and training
- Projects, partnerships and supply chain

27. The model enabled ZM to make an assessment about the extent to which risk management is having a positive effect on the organisation. ZM concluded that risk management was at a **'Managed'** level within the five levels of maturity as follows:

Level 1 Fragmented	Level 2 In Development	Level 3 Managed	Level 4 Integrated	Level 5 Transformational



28. ZM commented that:

29. "Since 2015, a new senior team has been established at IoACC, previously in special measures the council are now moving forward in embedding risk management. There is clear evidence that the organisation recognises the need to encourage and engage in wider cross-service risk management.

30. The current number of strategic risks on the risk register seems disproportionate to other similarly sized Local Authorities (circa 37 risks). Usually between 10 to 15 risks are managed at a Corporate / Strategic Level. The recent move to a new 4risk system, *whilst a positive step, will not facilitate a change in the current risk culture and risk maturity at IoACC. There are isolated pockets of services fully engaging with the Risk and Insurance Manager and routinely updating 4risk as per requirements. The interviews revealed that the risk management process, for a variety of reasons, has not fully embedded across the Council.*

31. *There appears to be a fragmented approach to formal project risk recording; a form of PRINCE 2 is currently in use across IoACC however, a standard RAID[2] template is not being adopted or completed across the council's current project portfolio. When requested during the interview process it was stated that project risks are considered in theory at project outset. No formal evidence or documentation was supplied to validate that claim. The findings of the recent IoACC Internal Audit in which the approach to project management was deemed "Reasonable Assurance" raised issues / risks which further supports the view. It is recommended that Risk Management consider the role they can play in supporting successful project delivery across IoACC and throughout the project life-cycle.*

32. *Although some of the baseline assessment areas may appear low, there is evidence that improvements are relatively easy to implement. Higher maturity levels could easily be attained if the strategic risks are reviewed and agreed to more manageable levels. The lack of updating of risks, controls and mitigating actions using the 4risk and 4action modules is also a major concern in providing assurance that risks are being managed and co-ordinated effectively across all services.*

33. *There are a number of priority areas for improvement:*

    - *Refresh the Strategic and Service / Directorate risk registers in light of introduction of 4risk with an emphasis on identifying only the key risks affecting IoACC.*
    - *Consider a Strategic level BREXIT Risk – given the prominence of the Port at Holyhead and Wylfa Power Station proposals / potential long-term fiscal impacts.*
    - *Review how risks within projects (and partnerships) are included within the Corporate Risk Management arrangements. Visibility, prominence and risk management team representation.*
    - *Ensure Project Risk and Prince 2 documentation and risk identification are aligned to ensure successful project delivery.*
    - *Identify nominated Risk Champions within each service to support and embed consistent application and usage of 4risk."*

34. The outcome was largely as expected and we are currently developing an Action Plan to address all the observations / recommendations raised by ZM.

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[2] [The acronym RAID stands for Risks, Assumptions, Issues and Dependencies.]

Appendix A – Internal Audit Operational Plan 2018/19[3]

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Residual)	Revised Plan 2018/19	Actual Days as at 27/01/19	Notes / Assurance Rating	Target / Actual Date of Reporting to Committee
CORPORATE-WIDE							
Corporate	Business Continuity	Corporate Risk Register	C2 - YM9 C1 - YM38	10	2		April 2019
Corporate	Welfare Reform	Corporate Risk Register	C2 YM10	10	1.5		April 2019
Corporate	Corporate Safeguarding	Corporate Risk Register	D2[4] YM11	7	7	**Reasonable Assurance**	**December 2018**
Corporate	CONTEST (Countering Terrorism and Preventing Radicalisation)	Corporate Risk Register	E1 YM27	10	3.5		April 2019
Corporate	Payment Card Industry Data Security Standards (PCIDSS)	Corporate Risk Register	D1 YM34	15	7.75		April 2019
Corporate	General Data Protection Regulations (GDPR)	Corporate Risk Register	C2 YM31	8	8	**Reasonable Assurance**	**December 2018**
Corporate	Corporate Procurement	Corporate Risk Register	D2 - YM20 D2 - YM22	18	18	**Reasonable Assurance**	**December 2018**

[3] Corporate Risk Register approved by SLT 10/09/18
[4] Residual Risk reduced from C1 (Red) to D2 (Amber)

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Residual)	Revised Plan 2018/19	Actual Days as at 27/01/19	Notes / Assurance Rating	Target / Actual Date of Reporting to Committee
Corporate	Risk Management	New process implemented October 2017. New 4Risk software rolled out September 2018.	n/a	n/a	n/a	**Level 3 'Managed'[5]**	**February 2019**
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	0	0	Rolled forward to 2019/20	
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	0	0	Subject to consultation – rolled forward to 2019/20	
Corporate	Managing the Risk of Fraud	PSIAS requirement	n/a	0	0	Rolled forward to 2019/20	
RESOURCES							
Resources	Recovery and Write-offs (Car Loans)	Key Financial System - S151 concerns	n/a	10	3.5		April 2019
Resources	Income – Sundry Debtors Follow Up	Key Financial System - external audit assurance	n/a	18	18	**Limited Assurance**	**December 2018**

[5] Conclusion of an independent Health Check, conducted by Zurich Municipal based on their maturity model, which incorporates five levels of maturity

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Residual)	Revised Plan 2018/19	Actual Days as at 27/01/19	Notes / Assurance Rating	Target / Actual Date of Reporting to Committee
Resources	Payroll	Key Financial System - external audit assurance	n/a	0	0	Subject to ongoing changes – rolled forward to 2019/20	
TRANSFORMATION							
ICT	IT Audit - Cyber Security	Corporate Risk Register	C1 YM28	20	20	**Reasonable Assurance**	**February 2019**
HR	Recruitment & Retention	Corporate Risk Register	C2 YM5	15	8		April 2019
REGULATION & ECONOMIC DEVELOPMENT							
Regulation & Economic Development	Energy Island Programme	Corporate Risk Register	C2 - YM13 C2 - YM16 D2 - YM17	0	0	Rolled forward to 2019/20	
Regulation & Economic Development	Leisure Services – financial investment	Corporate Risk Register	B3 YM32	0	0	Rolled forward to 2019/20	
Regulation & Economic Development	Leisure Services - Governance and Control	Head of Service Request - major structural changes. Carried forward from 2017/18	n/a	15	4.75		April 2019
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	0	0	Deleted – low priority	
Highways	Highways Contract Monitoring Arrangements	Head of Service request	n/a	10	10	**Substantial Assurance**	**September 2018**

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Residual)	Revised Plan 2018/19	Actual Days as at 27/01/19	Notes / Assurance Rating	Target / Actual Date of Reporting to Committee
HOUSING							
Housing	Gypsies and Travellers (Requirements of the Housing Act 2014)	Corporate Risk Register	C2 YM29	10	6.75		April 2019
ADULT SERVICES							
Adults	Deprivation of Liberty Safeguards	Corporate Risk Register	C2 YM25	9	9	**Reasonable Assurance**	**July 2018**
Adults	Direct Payments	Head of Service request (carried forward from 2017/18)	n/a	20	18.75		~~September 2018~~ April 2019
CHILDREN'S SERVICES							
Children's	Integrated Service Delivery Board	Corporate Risk Register	C2 YM36	0	0	Rolled Forward to 2019/20	
LEARNING							
Learning	General Data Protection Regulations (GDPR) - Implementation within Schools	Corporate Risk Register. Will be the subject of an independent Health Check by our insurers.	C2 YM38	n/a	n/a		April 2019
Learning	Primary Schools Thematic Reviews - Schools Income Collection	Head of Service request	n/a	20	20	**Limited Assurance**	**~~September 2018~~ December 2018**
GRANT CERTIFICATION							
	Rent Smart Wales Grant	Grant requirement	n/a	10	10	**Substantial Assurance**	**July 2018**
	School Uniform Grant					**Reasonable Assurance**	**September 2018**

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Residual)	Revised Plan 2018/19	Actual Days as at 27/01/19	Notes / Assurance Rating	Target / Actual Date of Reporting to Committee
	Education Improvement Grant					**Substantial Assurance**	**September 2018**
	Pupil Development Grant					**Substantial Assurance**	**September 2018**
	TOTAL AUDIT DAYS			**235**	**175.75**		
CHARGEABLE NON PROGRAMMED DAYS (PRODUCTIVE)							
	Follow Up Work	Several limited assurance reports requiring follow up, includes reporting and administering 4Action		70	65.75		
	National Fraud Initiative			10	8.5		
	General Counter Fraud Work, enquiries and referrals			50	42.25		
	Closure of Previous Year's Work			19	19		
	Corporate consultancy			55	50.5		
	Audit & Governance Committee, including training for members			40	35.25		
	Management Review			25	18.5		
	TOTAL			**269**	**239.25**		
NON CHARGEABLE DAYS (NON-PRODUCTIVE							
	Risk & Insurance			20	16.75		
	General Administration			40	32		

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Residual)	Revised Plan 2018/19	Actual Days as at 27/01/19	Notes / Assurance Rating	Target / Actual Date of Reporting to Committee
	Personal Development & Review, 121 & Team Meetings			20	9.25		
	Management, including liaison with External Audit and audit plan preparation			40	31		
	Leave, including annual, statutory, special and sick leave			362	285.75		
	Training and Development for staff, including induction and Welsh lessons			111	84.25		
	TOTAL			**593**	**459**		
	TOTAL RESOURCE REQUIREMENT			**1096**			
	RESOURCE AVAILABLE			**1096**			
	RESOURCE SHORTFALL			**0**			

ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Audit and Governance Committee
Date:	12 February 2019
Subject:	Outstanding Internal Audit Recommendations / Issues & Risks
Head of Service:	Marc Jones, Head of Function (Resources) / S151 Officer 01248 752601 MarcJones@ynysmon.gov.uk
Report Author:	Nanette Williams, Senior Auditor 01248 751809 NanetteWilliams@ynysmon.gov.uk
Nature and Reason for Reporting: This report provides an update on the status and detail of the outstanding risks that Internal Audit has raised.	

1. Introduction

1.1. The Audit and Governance Committee requested details of all the outstanding recommendations twice a year. The last report was presented to the Committee at their meeting on the 19 September 2018.

2. Recommendation

2.1. That the Audit and Governance Committee notes the Council's progress in addressing the outstanding Internal Audit recommendations and Issues/Risks raised since 1 April 2014.

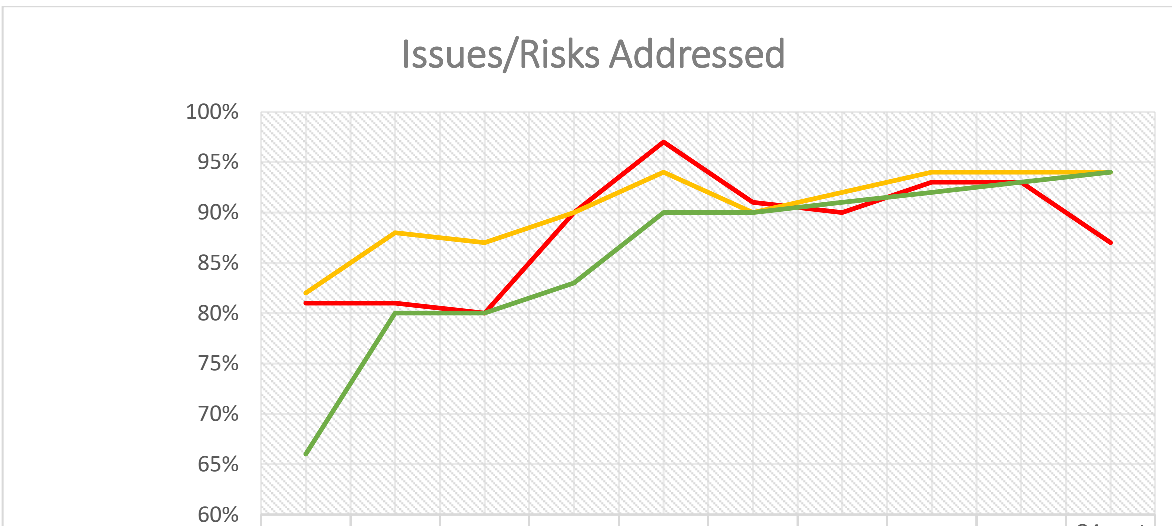
3. Performance of Implementing Outstanding Recommendations and Issues / Risks Raised by Internal Audit

3.1. As previously reported, Internal Audit has now moved away from making recommendations to raising ‘Issues’ and ‘Risks’.

3.2. To encourage management to have ownership for the risks, it is their responsibility to develop an action plan to address the issues / risks identified.

3.3. Issues / risks are followed up by monitoring how the risks have been addressed. Reports which have received ‘Limited’ or ‘No’ Assurance will follow a formal follow up process by Internal Audit where risks will not be cleared until it is evidenced that sufficient action has been taken to mitigate the risks. All other issues / risks are monitored through the self-administered corporate action tracking system (4action).

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



	Q3 2016/17	Q4 2016/17	Q1 2017/18	Q2 2017/18	Q3 2017/18	Q4 2017/18	Q1 2018/19	Q2 2018/19	Q3 2018/19	Q4 as at 27/01/19 2018/19
High Red Amber	81%	81%	80%	90%	97%	91%	90%	93%	93%	87%
Medium Yellow	82%	88%	87%	90%	94%	90%	92%	94%	94%	94%
Low Green	66%	80%	80%	83%	90%	90%	91%	92%	93%	94%

3.5. As can be seen, the Council has steadily improved its performance with the overall implementation percentage currently at **93%.** There has however been a slight dip in performance in addressing High/Red/Amber issues/risks, as evident from the graph, from **93%** in quarter 3 to **87%** in quarter 4 to date. This is due to several issues/risks becoming due in December for the Learning Service, which coincided with a change in staff responsible for updating 4action.

4. Current Outstanding Recommendations and Issues / Risks

4.1. As at 27 January 2018, the Council has the following outstanding recommendations and Issues/Risks (detailed in Appendix A):

Up to 27/01/2019	High	Red	Amber	Medium	Yellow	Low	Green	Totals
Total Implemented	76	9	47	322	102	206	39	**801**
Total Not implemented	0	1	18	7	18	12	3	**59**
Total	76	10	65	329	120	218	42	**860**
% Implemented	**100%**	**90%**	**72%**	**98%**	**85%**	**94%**	**93%**	**93%**
% High Red Amber Implemented		**87%**						
% Medium Yellow Implemented					**94%**			
% Low Green Implemented							**94%**	

3

Appendix A – Outstanding Recommendations and Issues / Risks

All High, Red and Amber Rated Internal Audit Issues / Risks Outstanding with target date up to 27/01/2018

Ref	Report	Issue / Risk	Date Raised	Agreed Target Date	Responsible Officer	Comments
Children's Services						
1	Child Care Court Orders under the PLO 044 2016/17	4 Support worker visits were not found to have been conducted in accordance with the care plan during court proceedings. This results in children not being seen and supported for a longer period of time than what was assessed to be necessary according to the risk identified. There is a risk of emotional and / or physical harm to the child.	27/01/17	31/01/18 changed from 31/03/17	Support Service Manager	First Follow Up 161744f1 – All Support Worker visits do comply with all care plans. Failure to comply could lead to disciplinary proceedings being followed against the member of staff. Second Follow Up 161744f2 – draft report issued 23/01/19.
2	Child Care Court Orders under the PLO 044 2016/17	1 Testing highlighted that The Care Proceedings, Public Law Outline and Legal Matters 2016 Protocol was not always followed in circumstances requiring swift action. An Emergency Legal Gatekeeping meeting was not held within 24 hours of the decision being made to hold an Emergency Legal Gatekeeping Meeting. This can lead to appropriate actions and decisions not being made in a timely manner with a risk of a child being emotionally and / or physically harmed.	27/01/17	31/01/18 changed from 31/09/16	Service Manager Corporate and Partnership.	First Follow Up 161744f1 – All Support Worker visits do comply with all care plans. Failure to comply could lead to disciplinary proceedings being followed against the member of staff. Second Follow Up 161744f2 – draft report issued 23/01/19.
3	Child Care Court Orders under the PLO 044 2016/17	2 Team Managers' approval of decisions to proceed cases to Legal Gatekeeping meetings are not being documented. It was also found that documents such as pre-proceedings meetings, PLO review meeting records, pre-proceedings letters,	27/01/17	31/01/18 changed from 31/01/17	Service Manager Corporate and Partnership.	First Follow Up 161744f1 – All Support Worker visits do comply with all care plans. Failure to comply could lead to disciplinary proceedings being followed against the member of staff.

Ref	Report	Issue / Risk	Date Raised	Agreed Target Date	Responsible Officer	Comments
		intention to issue letters and minutes were not always loaded onto the electronic system or were not loaded promptly and cloned to relevant siblings' file. This leads to the information held being incomplete and an uncertainty on where the information is held which may result in a risk of insufficient evidence available when proceeding to court and an uncertainty whether the appropriate decisions were made.				Second Follow Up 161744f2 – draft report issued 23/01/19.
4	Child Care Court Orders under the PLO 044 2016/17	3 Testing highlighted that the Letters Before Proceedings and Letters of Intent / Notice of Intention to Issue and pre-proceedings meetings did not always comply with the Care, Proceedings, Public Law Outline and Legal Matter 2016 Protocol. Further, the letters were not always sent to all persons with parental responsibility. Parents are therefore not properly informed of the process followed or decision made and what is expected of them in order to improve matters which may result in continuing emotional and / or physical harm to the child and distress to those involved.	27/01/17	31/01/18 changed from 31/03/17	Service Manager Corporate and Partnership.	First Follow Up 161744f1 – All Support Worker visits do comply with all care plans. Failure to comply could lead to disciplinary proceedings being followed against the member of staff. Second Follow Up 161744f2 – draft report issued 23/01/19.
5	Fostering Service – Recruitment and Retention 171820	5 The Child Placement Team is struggling to meet the 'Invest to Save' targets established in 2013/14 and foster carer recruitment figures are generally declining. As a result, appropriate placement options are falling. In addition, fostering and recruitment figures reported by the NFF on the performance of north Wales authorities also suggest that the Isle of Anglesey Council had the lowest	25/05/18	30/09/18	Service Manager Intensive Intervention, Children's Services	

Ref	Report	Issue / Risk	Date Raised	Agreed Target Date	Responsible Officer	Comments
		conversion rate from initial enquiry to approvals in comparison to other authorities in 2016/17. The Service has identified some causes that may have contributed to the service failing to recruit the target number of foster carers within the expected timeframe. Contributing factors have been highlighted to the Corporate Parenting Panel. Overall, there is a risk that demand will increase for external placements, increasing costs to the Council.				
6	Corporate Procurement Framework – Corporate Compliance 076 2016/17	5.1.6 The Council does not have assurance that all its expenditure has been properly procured and it is possible that the Council has incurred expenditure where no formal competitive procurement exercise has been undertaken. Consequently, fit for purpose contracts are not in place and issues such as safeguarding, safety and value for money have not been considered.	12/06/17	31/03/18	Head of Children's Services	161776f2 - Second Follow Up Review The Corporate Procurement Manager confirmed that she has held meetings with Heads of Service to identify all future contracts and tenders to ensure all are identified for procurement activity. Services either have completed or are in the process of reviewing current services provided by external providers to ensure that procurement regulations have been complied with and fit for purpose contracts in place.
Housing						
7	Housing Rents – Readiness for Universal Credit 171818	10 The Housing Rents system (Orchard) is currently not up to date with the current recovery processes. Arrears listings are increased due to the difficulties in calculating and managing monthly payments on a weekly-rent raised system. In addition, recommendations for recovery intervention will reoccur each week although matters have been addressed, such as receipts of regular payments made	24/01/18	31/10/18	Housing Performance and Information Systems Officer	The Senior Housing Management Officer will update Orchard system when the new procedures are adopted

Ref	Report	Issue / Risk	Date Raised	Agreed Target Date	Responsible Officer	Comments
		by the tenant but are still in arrears. As a result, it is unable to identify actual arrears issues requiring immediate attention, making the recovery processes inefficient.				
8	Corporate Procurement Framework – Corporate Compliance 076 2016/17	5.1.3 The Council does not have assurance that all its expenditure has been properly procured and it is possible that the Council has incurred expenditure where no formal competitive procurement exercise has been undertaken. Consequently, fit for purpose contracts are not in place and issues such as safeguarding, safety and value for money have not been considered	12/06/17	31/03/18	Head of Housing Services	161776f2 - Second Follow Up Review The Corporate Procurement Manager confirmed that she has held meetings with Heads of Service to identify all future contracts and tenders to ensure all are identified for procurement activity. Services either have completed or are in the process of reviewing current services provided by external providers to ensure that procurement regulations have been complied with and fit for purpose contracts in place.
Resources						
9	PCI DSS Compliance 066 2016/17	1.5a The debit / credit card environment of the Council has not been mapped to identify the type of transactions and where these are taken in order to ensure an understanding of the environment. There is therefore a risk that the Council is not aware of the card payment environment and are therefore unable to protect its security adequately leading to loss of cardholder data	22/09/16	02/02/18	Revenues & Benefits Manager	Currently being undertaken. Implementation in accordance with PCI DSS Implementation Plan.
10	PCI DSS Compliance 066 2016/17	1.1a There is no formal plan or programme which is regularly reviewed / updated, or when a major change occurs, to ensure corporate compliance with PCI DSS. This can lead to the work towards compliance being ineffective and inefficient with no timescales to ensure swift action and therefore non-compliance. Non-	22/09/16	01/06/18	Revenues & Benefits Manager	PCI DSS Project Improvement Plan in place. Draft PCI DSS out currently for consultation.

Ref	Report	Issue / Risk	Date Raised	Agreed Target Date	Responsible Officer	Comments
		compliance can lead to increased transaction costs, reputational damage and / or restrictions or permanent withdrawal from payment card acceptance programmes.				
11	Housing Rents – Readiness for Universal Credit 171818	8 The Housing Service is currently providing tenants with the option to pay through standing order. Bank reconciliations are currently undertaken manually; therefore, payments made through standing orders may not be recognised and coded into the correct account promptly, depending on resource capacity. The Income Section is currently trialling implementation of an automated system. However, there is a risk that the bank reconciliations will not be automated by the go live date. Department for Work and Pensions (DWP) payments are also currently posted manually affecting promptness of DWP receipts (council tax and rents).	24/01/18	31/03/18	Revenues & Benefits Manager	This forms part of improving Income 2018/19 Improvement Plan. UC roll-out delayed until December, 2018. Action for Housing – transfer over payments, move from Standing Order to Direct Debit.
Learning						
12	Primary Schools Themed Audit – Income Collection 171813	1 The Learning Service has not provided updated guidance relating to the collection and recording of income, chasing debt and the security of cash onsite to schools or made schools fully aware of their responsibilities. There is a risk of schools administering income inefficiently and being exposed to fraudulent behaviour and theft, leading to a loss of income and possible negative media attention.	06/11/18	30/11/18	Schools Effectiveness Officer School Business Support Project Officer	The agreed management response for this issue / risk included 3 management actions due in this update period which are recorded separately on 4Action.

Ref	Report	Issue / Risk	Date Raised	Agreed Target Date	Responsible Officer	Comments
13	Primary Schools Themed Audit – Income Collection 171813	2 There is no central compliance monitoring to ensure policies and guidance are followed. There is a risk that school funds will not be properly administered and independently audited annually, school meals income forms will not be returned by all schools every month, forms will not be completed correctly and all income will not be accounted for, also increasing the risk of misappropriation and reputational damage to the school and the Council.	06/11/18	30/11/18	Standards and Inclusion Senior Manager Administration Officer School Business Support Project Officer	The agreed management response for this issue / risk included 3 management actions due in this update period which are recorded separately on 4Action.
Adults Services						
14	Corporate Procurement Framework – Corporate Compliance 076 2016/17	5.1.3 The Council does not have assurance that all its expenditure has been properly procured and it is possible that the Council has incurred expenditure where no formal competitive procurement exercise has been undertaken. Consequently, fit for purpose contracts are not in place and issues such as safeguarding, safety and value for money have not been considered.	12/06/17	31/12/18	Head of Adults Services	161776f2 - Second Follow Up Review The Corporate Procurement Manager confirmed that she has held meetings with Heads of Service to identify all future contracts and tenders to ensure all are identified for procurement activity. Services either have completed or are in the process of reviewing current services provided by external providers to ensure that procurement regulations have been complied with and fit for purpose contracts in place.
Transformation						
15	PCI DSS Compliance 066 2016/17	3.3 There is no process to assess and record the impact of change to ICT infrastructure on PCI DSS components. There is a risk that any changes could compromise the security of cardholder data	22/09/16	30/04/18	IT Service & Performance Management Manager	

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ISLE OF ANGLESEY COUNTY COUNCIL	
REPORT TO:	**AUDIT COMMITTEE**
DATE:	**12 FEBRUARY 2019**
SUBJECT:	**TREASURY MANAGEMENT STRATEGY STATEMENT 2019/20**
LEAD OFFICER:	**MARC JONES**
CONTACT OFFICER:	**GARETH ROBERTS (TEL: EXT 2675)**
Nature and reason for reporting For scrutiny - consistent with professional guidance.	

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

2. The CIPFA Code of Practice on Treasury Management (Section 7) recommends that the Authority's Treasury Management Practices (TMPs) should be approved, documented and monitored. It goes on to state that the nature and extent of the involvement of an organisation's responsible body in approving and monitoring its TMPs and accompanying schedules is a matter for local decision and recognises that in some organisations this may be delegated to the responsible officer. In all cases it should be subjected to scrutiny by the responsible body following recommendations by the responsible officer. This Authority have produced documented TMPs, and were approved by the Audit Committee on 6 December 2016. There was a change to the TMP's in the 2018/19 Treasury Management Strategy Statement which was to increase the minimum cash balance from £5m to £6m in accordance with the latest approved reserve policy.

3. In terms of updates to the Treasury Management Strategy Statement there are no proposed amendment to the core principals and policies of the 2018/19 Statement.

4. Under the revised Code of Practice it is now a requirement that the Council prepares a Capital Strategy which takes a longer term view as to the capital investment that is required and how that investment will be funded. This strategy will be approved by the Executive, along with other budget resolutions. This Treasury Management Strategy then sits below the Capital Strategy and considers the impact of that strategy on the Council's borrowing and investments and sets out how both will be undertaken in a controlled way, which is in line with a suitable level of risk which the Council wishes to take bearing in mind the guidance set out in the CIPFA Code of Practice on Treasury Management.

5. Recommendations

- To consider the Treasury Management Strategy for 2019/20 and to make recommendations or note comments for consideration by the Executive Committee.

ANNEX A

TREASURY MANAGEMENT STRATEGY STATEMENT

ANNUAL INVESTMENT STRATEGY, MINIMUM REVENUE PROVISION POLICY STATEMENT AND TREASURY MANAGEMENT POLICY STATEMENT 2019/20

1. BACKGROUND

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

The Treasury Management Policy Statement defines the policies and objectives of the treasury management activities (see **Appendix 1**)

1.2. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested with counterparties which meet the criteria in terms of security, liquidity and investment return as set out in this strategy.

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

1.4. The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the Council's cash reserves.

2. CIPFA CODE OF PRACTICE ON TREASURY MANAGEMENT

2.1. The CIPFA Code of Practice on Treasury Management requires the Council to prepare and approve the following documents:-

- A Capital Strategy Statement which sets out a high level,long term overview of capital expenditure and financing, along with details on any associated risks and how they will be managed.
- A Treasury Management Strategy which sets out the Council's strategy in terms of borrowing and investment which follows on from the capital strategy, sets out the constraints on borrowing, determines a set of prudential indicators and determines the Council's risk appetite and strategy in respect of investments.

2.2. The key principles of the CIPFA Treasury Management Code of Practice are set out in **Appendix 2**.

3. EXTERNAL CONTEXT

3.1. Setting the Treasury Management Strategy cannot be undertaken in isolation, and consideration must be given to the economic situation as this has an impact on investment interest rates, the cost of borrowing and the financial strength of counterparties. A full summary of the economic outlook is set out in **Appendix 3**, but the main points to consider are as follows:-

- Weakening economic growth in the US, China and the Eurozone
- Continued low levels of inflation in the UK with rates being on or close to the Bank of England's target of 2%.
- A potential for interest rates rises from late 2019 onwards.
- Continuing uncertainty surrounding Brexit and its impact on the UK and Eurozone economy.
- Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years

3.2. Having considered the available information and having considered the advice from the Council's Treasury Management Advisors, the following table sets out the Council's view on interest rate levels for the following 3 years:-

Table 1
Prospects for Interest Rates to March 2022

Annual Average (%)	Bank Rate (%)	PWLB Borrowing Rates (including certainty rate adjustment)		
		5 year	25 year	50 year
December 2018	0.75	2.00	2.90	2.70
March 2019	0.75	2.10	2.90	2.70
June 2019	1.00	2.20	3.00	2.80
September 2019	1.00	2.20	3.10	2.90
December 2019	1.00	2.30	3.10	2.90
March 2020	1.25	2.30	3.20	3.00
June 2020	1.25	2.40	3.30	3.10
September 2020	1.25	2.50	3.30	3.10
December 2020	1.50	2.50	3.40	3.20
March 2021	1.50	2.60	3.40	3.20
June 2021	1.75	2.60	3.50	3.30
September 2021	1.75	2.70	3.50	3.30
December 2021	1.75	2.80	3.60	3.40
March 2022	2.00	2.80	3.60	3.40

Information provided by Link Asset Services is attached as **Appendix 4**.

3.3. Given the forecast for bank base rates, the following rates of return on investments are expected during the financial years:-

2018/19: 0.75%;

2019/20: 1.00%;

2020/21: 1.50%;

2021/22: 1.75%;

2022/23: 1.75%;

2023/24: 2.00%;

2024/25 Onwards: 2.50%

4. THE COUNCIL'S CURRENT POSITION

4.1. Borrowing

4.1.1. The Council's current external borrowing is set out in Table 2 below. A full analysis is attached as **Appendix 5**.

Table 2
Summary of the Council's Current Outstanding Loans

PWLB LOANS					
	PWL / PWLB Maturity	PWLB EIP/ Annuity	Market Loans	PWLB Variable	Total Maturing
Loan Outstanding	**£121,184k**	**£236k**	**£0k**	**£0k**	**£121,415k**
Average life(years)	24.63	7.61	0.00	0.00	24.60
Average rate (%)	5.26	9.41	0.00	0.00	5.15

OTHER LOANS						
	Welsh Government	**Salix Loan 1**	**Salix Loan 2**	**Salix Loan 3**	**Salix Loan 4**	**Total**
Outstanding Balance	£88k	£90k	£319k	£635k	£264k	£1,397k
Repayment Date	2020/21	2024/25	2025/26	2028/29	2027/28	
Interest Rate (%)	0.00	0.00	0.00	0.00	0.00	

4.2. Investments

4.2.1. Any surplus cash is currently invested in short term deposit and call accounts. The balance invested in these accounts changes daily (balance as at 31 December 2018 was £5.7m.

4.2.2. Under the current treasury management strategy, the council invests surplus cash ensuring first of all the security of the deposit, secondly the liquidity of the deposit and finally the return on the investment. In practice, in order to ensure the first and second principles, the rate of return on investments is sacrificed and the current average return on investments is 0.38%.

5. IMPACT OF FUTURE PLANS ON BORROWING

5.1. Capital expenditure is partly funded from borrowing and the capital programme as set out in the Capital Strategy is set out in Table 3 below**:-**

Table 3
Proposed Capital Expenditure Programme 2019/20 – 2021/22

	2019/20 £'000	2020/21 £'000	2021/22 £'000
Non - HRA	**14,620**	**20,321**	**20,607**
HRA	**13,110**	**18,431**	**19,744**
Commercial Activities / Non Financial Investment	**3,400**	**100**	**0**
TOTAL EXPENDITURE	**31,130**	**38,852**	**40,351**
Financed By			
Capital Grants	**14,316**	**12,324**	**9,424**
Capital Receipts	**0**	**0**	**0**
Reserves	**0**	**0**	**0**
Revenue	**9,450**	**9,471**	**10,634**
Balance Funded from Borrowing	**7,364**	**17,057**	**20,293**

5.2. An important factor to consider is the impact of borrowing on the Council's Capital Financing Requirement (CFR). The CFR is the measure of the Council's underlying borrowing need. Borrowing is not limited to external borrowing from PWLB but also the use of the Council's own cash balances (internal borrowing) which have been used to fund capital expenditure.

5.3. Capital expenditure will increase the CFR but only by the sum that is not funded from grants, capital receipts, reserves or revenue. The CFR will also reduce annually by the sum of the Minimum Revenue Provision (MRP) which is charged to revenue. The level of the CFR is an important measure to ensure that the Council does not commit itself to unaffordable levels of borrowing.

5.4. In order to ensure that the Council has sufficient funds available to repay debt as it falls due, the Council is required to make a charge to the revenue account each year and this charge is known as the Minimum Revenue Provision. Regulations require that the Council approves an MRP statement in advance of each financial year. The policy for 2019/20 is set out in **Appendix 6**. The Council's MRP was substantially revised in 2018 but there are no changes from that revised policy for 2019/20. By making the MRP charge each year, the Council's cash balances are replenished and that in turn reduces the level of internal borrowing.

5.5. The policy will provide an equal charge on borrowing up to 31 March 2018 and for all borrowing after that date, the MRP charge will be based on the useful life of the asset which has been funded from borrowing. e.g. if £1m is borrowed to fund the capital expenditure on an asset that has an asset life of 20 years, the annual MRP in respect of that loan would be £50k per annum. As new borrowing is undertaken it will increase the MRP charge over time and this increase in costs is allowed for in the Council's budgets.

5.6. The impact of the Council's capital expenditure plans and the MRP charge on the CFR and level of external and internal borrowing is shown in Table 4 below.

Table 4
Capital Financing Requirement and Borrowing 2018/19 to 2021/22

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Capital Financing Requirement				
Opening Balance of CFR	**136,866**	**141,191**	**145,101**	**158,468**
Capital Expenditure	32,956	38,130	38,852	40,351
External Capital Grants	(15,605)	(21,316)	(12,324)	(9,424)
Capital Receipts	(1,826)	0	0	0
Revenue Contribution & Reserves	(7,958)	(9,450)	(9,471)	(10,634)
Minimum Revenue Provision	(3,242)	(3,454)	(3,690)	(3,940)
CLOSING BALANCE OF CFR	**141,191**	**145,101**	**158,468**	**174,821**
External Borrowing				
Opening Balance of External Borrowing	**117,029**	**122,812**	**124,996**	**137,339**
Borrowing to Fund Capital Expenditure	898	7,364	17,057	20,293
Borrowing to Fund Loan Repayments	5,000	0	0	0
Borrowing to Replace Internal Borrowing	10,000	0	0	0
Loan Repayments	(10,115)	(5,180)	(4,714)	(173)
Closing Balance of External Borrowing	**122,812**	**124,996**	**137,339**	**157,459**
Internal Borrowing				
Opening Balance of Internal Borrowing	**19,837**	**18,379**	**20,105**	**21,129**
Replacement of Internal Borrowing	(10,000)	0	0	0
Funding Loan Repayments from Ext. Borrowing	(5,000)	0	0	0
External Loan Repayments	10,115	5,180	4,714	173
Borrowing to Fund Capital Expenditure	6,669	0	0	0
Minimum Revenue Provision	(3,242)	(3,454)	(3,690)	(3,940)
Closing Balance of Internal Borrowing	**18,379**	**20,105**	**21,129**	**17,362**
TOTAL BORROWING	**141,191**	**145,101**	**158,468**	**174,821**

6. BORROWING STRATEGY

6.1. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This approach is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered. As part of this strategy the ability to externally borrow to repay the reserves and balances if needed is important. Table 4 indicates that £18.379m may need to be externally borrowed if urgently required. This is the amount of council reserves and balances used in the past to fund the capital programme instead of taking out borrowing.

6.2. Against this background and the risks within the economic forecast, caution will be adopted with the 2019/20 treasury operations. The S151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:-

- if it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered if it is cost effective to do so.
- If it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years
- Any decisions will be reported to this committee at the next available opportunity.

6.3. External v Internal Borrowing

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

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

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

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

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

6.3.4. However, short term savings by avoiding new long term external borrowing in 2018/19 must also be weighed against the potential for incurring additional long term extra costs, by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be higher. Additionally, the cash flow implications of internalising borrowing require regular review and will limit the potential extent of internalising borrowing.

6.3.5. Against this background, caution will be adopted with the 2019/20 treasury operations. The S151 Officer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the appropriate decision making body at the earliest opportunity.

6.4. Borrowing in Advance of Need

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

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

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

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

6.5. Debt Rescheduling

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

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

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

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

6.5.4. All rescheduling will be reported to the Audit Committee, at the earliest practicable meeting following its action.

6.6. Debt Profile

6.6.1. As can be seen from **Appendix 5**, the existing borrowing is due to be repaid in various years up to 2068/69. As part of any decision on future borrowing, the Council will aim to ensure that the repayment date is arranged so as to smooth out repayments as far as possible, but priority will be given to the interest rate payable when determining the type of loan (maturity or annuity) and the length of the loan.

7. INVESTMENT STRATEGY

7.1. In-house funds: Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.

- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

7.2. Management of Risk

7.2.1. CIPFA has extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

7.2.2. The Council's investment policy has regard to the following:-

- Welsh Government's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

- The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

7.2.3. The above guidance from the Welsh Government and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

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

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

4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in **Appendix 7** under the categories of 'specified' and 'non-specified' investments.
   - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
   - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Non-specified investments limit**. The Council has determined that it will limit the maximum total exposure to non-specified investments as being X% of the total investment portfolio,

6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table as set out in the Creditworthiness section of this strategy.

7. **Transaction limits** are set for each type of investment in **Appendix 8**.

8. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 7.1).

9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 7.x).

10. This authority has engaged **external consultants**, to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in **sterling.**

12. As a result of the change in accounting standards for 2018/19 under **IFRS 9,** this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.

7.3. Creditworthiness Policy

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

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

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

7.3.2. The S151 Officer will maintain a counterparty list in compliance with the criteria set out in **Appendix 8** and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

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

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

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

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

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

Yellow:	5 years *
Dark pink :	5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
Light pink :	5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
Purple:	2 years
Blue:	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange:	1 year
Red:	6 months
Green:	100 days
No colour:	not to be used

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

7.3.8. Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

7.3.9. All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

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7.3.10. Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on any external support for banks to help support its decision making process.

7.3.11. The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

7.3.12. Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

7.3.13. While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

7.4. Country Limits

7.4.1. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria as at the date of this report are shown in **Appendix 9**. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

8. GOVERNANCE AND CONTROL

8.1. The Prudential Code reflects a move towards self regulation for local authorities and effective corporate governance is one of the key elements to the successful implementation of the Code.

8.2. Corporate Governance includes the following elements:-

- A formal role for the Section 151 Officer
- Setting and monitoring of Prudential and Treasury Indicators
- A scheme of delegation and a process of formal approval
- Reporting on Treasury Management matters to Members

8.3. Role of the Section 151 Officer and Members

8.3.1. The Section 151 Officer is responsible for ensuring that matters relating to Treasury Management and Capital Financing are taken into account and reported to the Executive / Full Council for consideration and that procedures are established to monitor performance.

8.3.2. The Section 151 must ensure that prudential indicators are set and monitored in order to demonstrate the legislative requirement that the Council's financial plans are affordable.

8.3.3. Members also play an important role in not just authorising the relevant decisions but also in scrutinising treasury management processes, decisions and performance. In order to undertake this role The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. In order to support the scrutiny role of the members of the Audit and Governance Committee, the committee's members received training in treasury management, delivered by the appointed treasury management consultants on November 8 2017. Further training will be arranged when required. The training needs of treasury management officers are regularly reviewed and addressed.

8.3.4. The Treasury Management Scheme of Delegation and a fuller explanation of the role of the Section 151 Officer is set out in **Appendix 10**.

8.4. Treasury Management Advice

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

8.4.2. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers. Final responsibility for treasury management decisions remains with the Council.

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

8.5. Prudential and Treasury Indicators

8.5.1. The Prudential and Treasury Indicators set out in **Appendix 11** cover affordability, prudence and sets out limits for capital expenditure, external debt and the structure of the debt. It is for the Council to set the Prudential Indicators and it is important to not just to consider the indicators for each individual year in isolation but also to consider the past performance and the future forecasts. A fuller explanation of the purpose of each indicator is set out in **Appendix 12.**

8.6. Reporting

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

8.6.2. Prudential and Treasury Management Indicators and Treasury Strategy - The first and most important report (this report) covers:-

- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury management indicators;
- an Investment Strategy (the parameters on how investments are to be managed);

- a Minimum Revenue Provision (MRP) Policy (how residual capital expenditure is charged to revenue over time);
- a Treasury Management Policy Statement (definition of the policies and objectives of the treasury management function); and
- the capital plans (including the associated prudential indicators).

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

8.6.4. An Annual Treasury Report - This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

APPENDICES

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

APPENDIX 1

Treasury Management Policy Statement

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

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

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

APPENDIX 2

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

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

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

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

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

The Code then goes on to say that:

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

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

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

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

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

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

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

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

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

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

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

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

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

Economic Background

GLOBAL OUTLOOK. World growth has been doing reasonably well, aided by strong growth in the US. However, US growth is likely to fall back in 2019 and, together with weakening economic activity in China and the eurozone, overall world growth is likely to weaken.

Inflation has been weak during 2018 but, at long last, unemployment falling to remarkably low levels in the US and UK has led to an acceleration of wage inflation. The US Fed has therefore increased rates nine times and the Bank of England twice. However, the ECB is unlikely to start raising rates until late in 2019 at the earliest.

KEY RISKS - central bank monetary policy measures

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

The key issue now is that period of stimulating economic recovery and warding off the threat of deflation, is coming towards its close. A new period is well advanced in the US, and started more recently in the UK, of reversing those measures i.e. by raising central rates and, (for the US), reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of a reduction in spare capacity in the economy and of unemployment falling to such low levels, that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this also encouraged investors into a search for yield and into investing in riskier assets such as equities. Consequently, prices in both bond and equity markets rose to historically high valuation levels simultaneously. This meant that both asset categories were exposed to the risk of a sharp downward correction and we did, indeed, see a sharp fall in equity values in the last quarter of 2018. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery, by taking too rapid and too strong action, or, conversely, let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.** At the time of writing, (early January 2019), financial markets are very concerned that the Fed is being too aggressive with its policy for raising interest rates and is likely to cause a recession in the US economy.

The world economy also needs to adjust to a sharp change in **liquidity creation** over the last five years where the US has moved from boosting liquidity by QE purchases, to reducing its holdings of debt (currently about $50bn per month). In addition, the European Central Bank ended its QE purchases in December 2018.

UK. The flow of positive economic statistics since the end of the first quarter of 2018 has shown that pessimism was overdone about the poor growth in quarter 1 when adverse weather caused a temporary downward blip. Quarter 1 at 0.1% growth in GDP was followed by a return to 0.4% in quarter 2 and by a strong performance in quarter 3 of +0.6%. However, growth in quarter 4 is expected to weaken significantly.

At their November quarterly Inflation Report meeting, the MPC repeated their well-worn phrase that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time, but declined to give a medium term forecast. However, with so much uncertainty around Brexit, they warned that the next move could be up or down, even if there was a disorderly Brexit. While it would be expected that Bank Rate could be cut if there was a significant fall in GDP growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, they warned they could also *raise* Bank Rate in the same scenario if there was a boost to inflation from a devaluation of sterling, increases in import prices and more expensive goods produced in the UK replacing cheaper goods previously imported, and so on. In addition, the Chancellor could potentially provide fiscal stimulus to support economic growth, though at the cost of increasing the budget deficit above currently projected levels.

It is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Getting parliamentary approval for a Brexit agreement on both sides of the Channel will take well into spring 2019. However, in view of the hawkish stance of the MPC at their November meeting, the next increase in Bank Rate is now forecast to be in May 2019, (on the assumption that a Brexit deal is agreed by both the UK and the EU). The following increases are then forecast to be in February and November 2020 before ending up at 2.0% in February 2022.

Inflation. The Consumer Price Index (CPI) measure of inflation has been falling from a peak of 3.1% in November 2017 to 2.1% in December 2018. In the November Bank of England quarterly Inflation Report, inflation was forecast to still be marginally above its 2% inflation target two years ahead, (at about 2.1%), given a scenario of minimal increases in Bank Rate.

As for the **labour market** figures in October**,** unemployment at 4.1% was marginally above a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 3.3%, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates less CPI inflation), earnings are currently growing by about 1.2%, the highest level since 2009. This increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC was right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy.

In the **political arena**, the Brexit deal put forward by the Conservative minority government was defeated on 15 January. It is unclear at the time of writing, how this situation will move forward. *(Officers are likely to need to verbally update members as events are constantly evolving.)* However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to reaching an orderly Brexit though the risks are increasing that it may not be possible to get full agreement by the UK and EU before 29 March 2019, in which case this withdrawal date is likely to be pushed back to a new date. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary and fiscal policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA. President Trump's massive easing of fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2% (annualised rate) in quarter 1 to 4.2% in quarter 2 and 3.5%, (3.0% y/y), in quarter 3, but also an upturn in inflationary pressures. The strong growth in employment numbers and the reduction in the unemployment rate to 3.9%, near to a recent 49 year low, has fed through to an upturn in wage inflation which hit 3.2% in November. However, CPI inflation overall fell to 2.2% in November and looks to be on a falling trend to drop below the Fed's target of 2% during 2019. The Fed has continued on its series of increases in interest rates with another 0.25% increase in December to between 2.25% and 2.50%, this being the fifth increase in 2018 and the ninth in this cycle. However, they did also reduce their forecast for further increases from three to two. This latest increase compounded investor fears that the Fed is over doing the speed and level of increases in rates and that it is going to cause a US recession as a result. There is also much evidence in previous monetary policy cycles of the Fed's series of increases doing exactly that. Consequently, we have seen stock markets around the world falling under the weight of fears around the Fed's actions, the trade war between the US and China and an expectation that world growth will slow.

The tariff war between the US and China has been generating a lot of heat during 2018, but it is not expected that the current level of actual action would have much in the way of a significant effect on US or world growth. However, there is a risk of escalation if an agreement is not reached soon between the US and China.

Eurozone. Growth was 0.4% in quarters 1 and 2 but fell back to 0.2% in quarter 3, though this was probably just a temporary dip. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of its manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of nearly 2% for 2018, the horizon is less clear than it seemed just a short while ago. Having halved its quantitative easing purchases of debt in October 2018 to €15bn per month, the European Central Bank ended all further purchases in December 2018. The ECB is forecasting inflation to be a little below its 2% top limit through the next three years so it may find it difficult to warrant a start on raising rates by the end of 2019 if the growth rate of the EU economy is on a weakening trend.

China. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems. Progress has been made in reducing the rate of credit creation, particularly from the shadow banking sector, which is feeding through into lower economic growth. There are concerns that official economic statistics are inflating the published rate of growth.

Japan - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. It is likely that loose monetary policy will endure for some years yet to try to stimulate growth and modest inflation.

Emerging countries. Argentina and Turkey are currently experiencing major headwinds

and are facing challenges in external financing requirements well in excess of their reserves of foreign exchange. However, these countries are small in terms of the overall world economy, (around 1% each), so the fallout from the expected recessions in these countries will be minimal.

INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services in paragraph 3.2 are **predicated on an assumption of an agreement being reached on Brexit between the UK and the EU.** On this basis, while GDP growth is likely to be subdued in 2019 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement is likely to lead to a boost to the rate of growth in 2020 which could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- In the event of an **orderly non-agreement exit**, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.
- If there was a **disorderly Brexit**, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

However, there would appear to be a majority consensus in the Commons against any form of non-agreement exit so the chance of this occurring has now substantially diminished.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for ten years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

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

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England monetary policy** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **eurozone sovereign debt crisis**, possibly in **Italy**, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. The EU rejected the initial proposed Italian budget and demanded cuts in government spending which the Italian government initially refused. However, a fudge was subsequently agreed, but only by *delaying* the planned increases in expenditure to a later year. This can has therefore only been kicked down the road to a later time. The rating agencies have started on downgrading Italian debt to one notch above junk level. If Italian debt were to fall below investment grade, many investors would be unable to hold it. Unsurprisingly, investors are becoming increasingly concerned by the words and actions of the Italian government and consequently, Italian bond yields have risen – at a time when the government faces having to refinance large amounts of debt maturing in 2019.

- Weak capitalisation of some **European banks**. Italian banks are particularly vulnerable; one factor is that they hold a high level of Italian government debt - debt which is falling in value. This is therefore undermining their capital ratios and raises the question of whether they will need to raise fresh capital to plug the gap.
- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD is reviewing whether it can continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018, (a new party leader has now been elected). However, this makes little practical difference as she is still expected to aim to continue for now as the Chancellor. However, there are five more state elections coming up in 2019 and EU parliamentary elections in May/June; these could result in a further loss of electoral support for both the CDU and SPD which could also undermine her leadership.
- **Other minority eurozone governments.** Spain, Portugal, Ireland, the Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile. Sweden is also struggling to form a government due to the anti-immigration party holding the balance of power, and which no other party is willing to form a coalition with. The Belgian coalition collapsed in December 2018 but a minority caretaker government has been appointed until the May EU wide general elections.
- **Austria, the Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU while **Italy,** in 2018, also elected a strongly anti-immigration government. Elections to the EU parliament are due in May/June 2019.
- Further increases in interest rates in the US could spark a **sudden flight of investment funds** from more risky assets e.g. shares, into bonds yielding a much improved yield. Throughout the last quarter of 2018, we saw sharp falls in equity markets interspersed with occasional partial rallies. Emerging countries which have borrowed heavily in dollar denominated debt, could be particularly exposed to this risk of an investor flight to safe havens e.g. UK gilts.
- There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is now rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.
- **Geopolitical risks,** especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **Brexit** – if both sides were to agree by 29 March a compromise that quickly removed all threats of economic and political disruption and so led to an early boost to UK economic growth.
- **The Fed causing a sudden shock in financial markets** through misjudging the pace and strength of increases in its Fed Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Brexit timetable and process

- March 2017: UK government notified the European Council of its intention to leave under the Treaty on European Union Article 50 on 29 March 2019.
- 25.11.18 EU27 leaders endorsed the withdrawal agreement
- Dec 2018 vote in the UK Parliament on the agreement was postponed
- 21.12.18 – 8.1.19 UK parliamentary recess
- 15.1.19 Brexit deal defeated in the Commons vote by a large margin
- By 29.3.19 second vote (?) in UK parliament
- By 29.3.19 if the UK Parliament approves a deal, then ratification by the EU Parliament requires a simple majority
- By 29.3.19 if the UK and EU parliaments agree the deal, the EU Council needs to approve the deal; 20 countries representing 65% of the EU population must agree
- 29.3.19 Either the UK leaves the EU, or asks the EU for agreement to an extension of the Article 50 period if the UK Parliament has been unable to agree on a Brexit deal.
- 29.3.19: if an agreement is reached with the EU on the terms of Brexit, then this will be followed by a proposed **transitional period ending around December 2020.**
- UK continues as a full EU member until March 2019 with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy may leave the single market and tariff free trade at different times during the transitional period.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK could also exit without any such agreements in the event of a breakdown of negotiations.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On full exit from the EU: the UK parliament would repeal the 1972 European Communities Act.

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

Rhagolygon Graddfeydd Llog 2019/2022
Interest Rate Forecasts 2019/2022

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

Link Asset Services Interest Rate View	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%
Bank Rate													
Link Asset Services	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
Capital Economics	0.75%	1.00%	1.25%	1.50%	1.70%	1.75%	2.00%	2.00%	-	-	-	-	-
5yr PWLB Rate													
Link Asset Services	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
Capital Economics	2.03%	2.15%	2.40%	2.65%	2.70%	2.75%	2.80%	2.85%	-	-	-	-	-
10yr PWLB Rate													
Link Asset Services	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
Capital Economics	2.43%	2.55%	2.80%	3.05%	3.05%	3.05%	3.05%	3.05%	-	-	-	-	-
25yr PWLB Rate													
Link Asset Services	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
Capital Economics	2.96%	3.08%	3.33%	3.58%	3.53%	3.48%	3.43%	3.38%	-	-	-	-	-
50yr PWLB Rate													
Link Asset Services	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%
Capital Economics	2.78%	2.90%	3.15%	3.40%	3.40%	3.40%	3.40%	3.40%	-	-	-	-	-

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

ATODIAD 5 /APPENDIX 5

DADANSODDIAD BENTHYCIADAU YN AEDDFEDU 2018/19 YMLAEN GAN PWLB / PWLB LOANS MATURITY ANALYSIS 2018/19 ONWARDS						
	PWLB Aeddefedu/ PWLB Maturity £'000	**PWLB EIP/ Annuity/ PWLB EIP/ Annuity £'000**	**Benthyciadau Marchnad/ Market Loans £'000**	**PWLB Amrywiol/ PWLB Variable £'000**	**Cyfanswm yn Aeddfedu/ Total Maturing £'000**	**%Yn Aeddfedu o'r Cyfran yn sefyll/ Maturing of Total Outstanding %**
2019/20	5,000	11	0	0	5,011	4.1
2020/21	4,500	12	0	0	4,512	3.7
2021/22	0	14	0	0	14	0.0
2022/23	2,285	15	0	0	2,300	1.9
2023/24	1,854	16	0	0	1,870	1.5
2024/25	0	18	0	0	18	0.0
2025/26	0	20	0	0	20	0.0
2026/27	1,381	22	0	0	1,403	1.2
2027/28	2,165	24	0	0	2,189	1.8
2028/29	262	26	0	0	288	0.2
2029/30	1,539	21	0	0	1,560	1.3
2030/31	451	15	0	0	466	0.4
2031/32	1,941	9	0	0	1,950	1.6
2032/33	315	8	0	0	323	0.3
2033/34	637	0	0	0	637	0.5
2034/35	624	0	0	0	624	0.5
2035/36	611	0	0	0	611	0.5
2036/37	599	0	0	0	599	0.5
2037/38	587	0	0	0	587	0.5
2038/39	225	0	0	0	225	0.2
2039/40	5,000	0	0	0	5,000	4.1
2040/41	3,500	0	0	0	3,500	2.9
2042/43	1,000	0	0	0	1,000	0.8
2043/44	1,020	0	0	0	1,020	0.8
2044/45	1,010	0	0	0	1,010	0.8
2045/46	11,464	0	0	0	11,464	9.4
2050/51	2,000	0	0	0	2,000	1.6
2052/53	28,238	0	0	0	28,238	23.3
2054/55	3,000	0	0	0	3,000	2.5
2055/56	3,500	0	0	0	3,500	2.9
2056/57	5,000	0	0	0	5,000	4.1
2057/58	8,513	0	0	0	8,513	7.0
2059/60	1,763	0	0	0	1,763	1.5
2066/67	6,200	0	0	0	6,200	5.1
2068/69	15,000	0	0	0	15,000	12.4
	121,184	**236**	**0**	**0**	**121,415**	**100.0**
Cyfartaledd bywyd (blynyddoedd)/ Average life(years)	24.63	7.61	0.00	0.00	24.60	
Cyfartaledd graddfa (%)/ Average rate (%)	5.26	9.41	0.00	0.00	5.15	

PROFFIL AD-DALU BENTHYCIADAU ERAILL 2018/19 YMLAEN / OTHER LOANS REPAYMENT PROFILE 2018/19 ONWARDS						
	Llywodraeth Cymru / Welsh Government £'000	Benthycaf Salix Loan 1 £'000	Benthycaf Salix Loan 2 £'000	Benthycaf Salix Loan 3 £'000	Benthycaf Salix Loan 4 £'000	Cyfanswm / Total £'000
2019/20	44	16	46	63	0	169
2020/21	43	16	46	63	33	201
2021/22	0	17	46	63	33	159
2022/23	0	17	46	63	33	159
2023/24	0	17	45	63	33	158
2024/25	0	8	45	64	33	150
2025/26	0	0	45	64	33	142
2026/27	0	0	0	64	33	97
2027/28	0	0	0	64	33	97
2028/29	0	0	0	64	0	64

Minimum Revenue Provision Policy Statement 2019/20

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

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

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

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

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

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

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

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

Any repayments included in annual PFI or finance leases are applied as MRP and will be consistent with the asset life basis over the life of the lease or PFI scheme.

Specified and Non-Specified Investments

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

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

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

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

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

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

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

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

During 2019/20 the Council does not intend to make any investments in foreign currencies, nor any with low credit quality bodies, nor any that are defined as capital expenditure by legislation (such as company shares). Non-specified investments will therefore be limited to (i) long-term investments; and (ii) deposits with the Council's own banker for transactional purposes if it fails to meet the basic credit criteria; in this instance balances will be minimised as far as is possible

The table in Appendix 6 set out the investment criteria and limits for the categories of investments intended for use during 2019/20 and therefore form the basis for the approved lending list.

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

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

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

*** *Paragraph 6.1 of the 'Guidance' recommends that ''the Strategy should set out the authority's approach to assessing the risk of loss of investments, making clear in particular:*

- ***(a)*** *to what extent, if any, risk assessment is based upon credit ratings issued by one or more credit rating agencies;*
- ***(b)*** *where credit ratings are used, how frequently credit ratings are monitored and what action is to be taken when ratings change; and*
- ***(c)*** *what other sources of information on credit risk are used, additional to or instead of credit ratings.''*

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

Counterparty Criteria

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

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

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

Notes and Clarifications

(1) Cash Limit

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

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

(2) Time Limit

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

(3) Foreign Countries

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

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

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

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

4. Credit Rating Downgrade

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

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

Approved countries for investments [correct as at 8 November 2018]

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

Based on lowest available rating

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

AA+
- Finland
- U.S.A.

AA
- Abu Dhabi (UAE)
- France
- Hong Kong
- U.K.

AA-
- Belgium
- Qatar

Treasury management scheme of delegation

(i) County Council

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

(ii) Executive Committee

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

(iii) Audit Committee

- Scrutiny of Treasury Management matters as required by CIPFA's Code of Practice on Treasury Management and the Council's Treasury Management Policy. This includes:-

  – scrutinising the annual Treasury Management Strategy Statement, Annual Investment Strategy, Annual MRP Policy, Annual Treasury Management Policy and Treasury Management Practices and making recommendations to the Executive Committee and County Council as appropriate;
  – scrutinising proposals for amendments to the annual Treasury Management Strategy Statement, Annual Investment Strategy, Annual MRP Policy, Annual Treasury Management Policy and Treasury Management Practices and to the adopted clauses and making recommendations to the Executive and County Council as appropriate;
  – receiving and scrutinising any other proposals relating to the treasury management which require a decision by the Executive or County Council; and
  – receiving and scrutinising monitoring reports on treasury management policies, practices and activities and make recommendations to the Executive and County Council as appropriate.

The Treasury Management role of the Section 151 Officer

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

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

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following: -
    - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
    - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
    - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;
    - Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;
    - Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

PRUDENTIAL & TREASURY INDICATORS **APPENDIX 11**
BUDGET SETTING 2019/20

No.	Indicator	2017/18 out-turn	2018/19 estimate	2019/20 proposal	2020/21 proposal	2021/22 proposal
Affordability						
1,2	Estimates of [or actual] ratio of financing costs to net revenue stream:					
	Council Fund	6.10%	4.95%	5.23%	5.28%	5.63%
	Housing Revenue Account (inclusive of settlement)	22.36%	16.86%	15.57%	16.08%	16.16%
	Total	7.98%	6.37%	6.51%	6.65%	7.03%
Prudence						
3	Gross debt and the Capital Financing Requirement (CFR)	✓	✓	✓	✓	✓
	Is the gross external debt < the CFR for the preceding year plus the estimates of any additional CFR for the current and the next two financial years?			✓	✓	✓
Capital Expenditure		**£000**	**£000**	**£000**	**£000**	**£000**
4,5	Estimates of [or actual] capital expenditure					
	Council Fund	20,064	23,685	18,020	20,421	20,607
	Housing Revenue Account	9,291	10,372	13,110	18,431	19,744
	Total	29,355	34,057	31,130	38,852	40,351
6,7	Estimates of [or actual] Capital Financing Requirement					
	Council Fund	95,218	100,376	104,103	111,991	122,822
	Housing Revenue Account	41,648	40,815	40,998	46,479	51,999
	Total	136,866	141,191	145,101	158,469	174,821
External Debt		**£000**	**£000**	**£000**	**£000**	**£000**
8	Authorised Limit					
	: General Borrowing	166,000	174,000	175,000	189,000	205,000
	: Other long term liabilities	3,000	3,000	3,000	3,000	3,000
	: Total	169,000	177,000	178,000	192,000	208,000

9	Operational Boundary					
	: General Borrowing	161,000	161,000	170,000	184,000	200,000
	: Other long term liabilities	3,000	3,000	3,000	3,000	3,000
	: Total	164,000	164,000	173,000	187,000	203,000
10	Actual External Debt	117,029				
Treasury Management		**2016/17 out-turn**	**2017/18 estimate**	**2018/19 proposal**	**2019/20 proposal**	**2020/21 proposal**
11	The Local Authority has adopted the CIPFA Code of Practice for Treasury Management in the Public Services	✓	✓	✓	✓	✓
		£000	**£000**	**£000**	**£000**	**£000**
12	Gross and net debt	100%	100%	100%	100%	100%
	The upper limit on the net debt as a proportion of gross debt					
13	The upper limit on fixed rate exposures:	149,000	157,000	158,000	172,000	188,000
	(net principal outstanding)					
14	The upper limit on variable rate exposures:	20,000	20,000	20,000	20,000	20,000
	(net principal outstanding)					
15	The limit for total principal sums invested for periods longer than 364 days	15,000	15,000	15,000	15,000	15,000
	(any long term investments carried forward from previous years will be included in each year's limit)					
			2019/20 upper limit		**2019/20 lower limit**	
16	The upper and lower limits for the maturity structure of fixed rate borrowing					
	• under 12 months		20%		0%	
	• 12 months and within 24 months		20%		0%	
	• 24 months and within 5 years		50%		0%	
	• 5 years and within 10 years		75%		0%	
	• 10 years and above		100%		0%	
			no change		no change	

Information on Prudential & Treasury Management indicators

A) Affordability

1 & 2 Ratio of financing costs to net revenue stream

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

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

B) Prudence

3 Gross Debt and the CFR

The Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

C) Capital expenditure

4 & 5 Estimates of Capital Expenditure

This is the forecast Capital Expenditure from 2018/19 to 2021/22, and is based on the Capital Programme for 2018/19 and the Capital Strategy for 2019/20.

6 & 7 The Council's borrowing need (the Capital Financing Requirement)

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

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life, and so charges the economic consumption of capital assets as they are used.

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

CH) External Debt

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

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

9. **The operational boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Audit and Governance Committee
Date:	12 February 2019
Subject:	Internal Audit Strategy 2019/20
Head of Service:	Marc Jones, Head of Function (Resources) / S151 Officer 01248 752601 MarcJones@ynysmon.gov.uk
Report Author:	Marion Pryor, Head of Audit and Risk 01248 752611 MarionPryor@ynysmon.gov.uk
Nature and Reason for Reporting: This report submits the proposed Internal Audit Strategy for 2019/20 for the Audit and Governance Committee's approval. The Public Sector Internal Audit Standards require the chief audit executive to establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals, which the Audit and Governance Committee must approve (Standard 1110).	

1. Introduction

1.1. The proposed Internal Audit Strategy for 2019/20 is attached for review and discussion by the Committee.

2. Background

2.1. The Public Sector Internal Audit Standards (PSIAS) require me, as the chief audit executive, to establish risk-based plans to determine the priorities of the internal audit activity, consistent with the Council's goals. In prioritising our finite resource, we have to undertake sufficient work to enable me to deliver an annual internal audit opinion for the Council to inform its Annual Governance Statement.

2.2. As its basis, I have used the corporate risk register to determine the priorities for internal audit activity. In addition, I have met with the Head of Function (Resources) and Section 151 Officer and the Heads of Service to discuss their views on the proposed areas for review.

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

3. Recommendation

3.1. That the Audit and Governance Committee approves the Internal Audit Strategy for 2019/20.

INTERNAL AUDIT STRATEGY 2019-20

Marion Pryor BA MA CMIIA CPFA

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01248 752611

CYNGOR SIR YNYS MÔN ISLE OF ANGLESEY COUNTY COUNCIL

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INTRODUCTION

Internal Audit is an independent and objective internal team that provides assurance and advice to all levels of management and elected members on the quality of operations within the Council.

We operate to the Public Sector Internal Audit Standards[1] (PSIAS), which define internal auditing as:

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

An important aspect of internal auditing is the extent to which it helps the organisation to achieve its objectives and improve. This means that our work must focus on the things that matter to the organisation, and the opinions and improvement suggestions that we provide must help the organisation and be valued by stakeholders. The service's objectives are therefore as follows:

- To provide independent assurance and advice to management and elected members on risk management, governance and internal control
- To develop and promote our role to make a significant contribution to the Council's aim to modernise, deliver efficiencies and improve services for our customers
- To add value in all areas of our work, providing excellent service to our customers

[1] The Relevant Internal Audit Standard Setters (CIPFA, Department of Health, Welsh Government, Department of Finance (NI), HM Treasury and the Scottish Government) issue the Public Sector Internal Audit Standards (2017) and are mandatory for all local and central government bodies.

SERVICE STRUCTURE AND CAPACITY

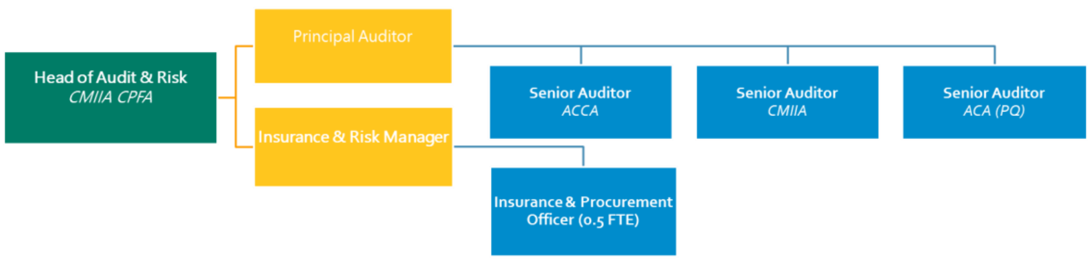
The Internal Audit team has undergone significant change in recent years. The Council outsourced the chief audit executive's post for 10 years, until April 2017, when it appointed its own Head of Audit and Risk.

Since then, we have adopted **a fully risk-based approach** to our work and further efficiencies have been achieved by adopting 'lean audit' – a methodology based on *'Systems Thinking'*.

Risk Management and Insurance also now forms part of the service. Close working between the two teams – Internal Audit and Risk Management, has brought added benefits when adopting the risk-based approach to internal auditing.

Two new Senior Auditors joined the team during 2018 and the team now includes a wealth of internal and external audit experience, along with an excellent mix of professional qualifications, including CIPFA[2], CIIA[3], ACCA[4] and ACA[5] and academic qualifications in Change Management, Business and Accountancy.

The organisation chart below shows the structure for 2019-20:



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

INTERNAL AUDIT ACTIVITY

There are various requirements of the Public Sector Internal Audit Standards to be satisfied when carrying out the planning of internal audit's work.

Risk-based Audit Planning

Standard 2010 states that the chief audit executive must establish **a risk-based plan** to determine the priorities of the internal audit activity, consistent with the organisation's goals. Similarly, Standard 2120 states that the internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

Over the last few years, the need to manage risks has been recognised as an **essential part of good corporate governance practice**. This has put organisations under increasing pressure to identify all the business risks they face and to explain how they manage them. In addition, the activities involved in managing risks have been recognised as playing a central and essential role in maintaining a sound system of internal control.

While the responsibility for identifying and managing risks belongs to management, one of the key roles of internal audit is to provide assurance that those risks have been properly managed. Risk-based internal auditing allows internal audit to provide assurance to *'those charged with governance'* that risk management processes are managing risks effectively, in relation to the risk appetite. It also seeks at every stage to reinforce the responsibilities of management and the elected members for managing risk.

Consequently, a professional internal audit activity can best achieve its mission as a cornerstone of governance by positioning its work in the context of the organisation's own risk management framework. Therefore**, we have aligned our internal audit activity with the corporate risk register**.

Risk-based internal audit is at the cutting edge of internal audit practice. It is a dynamic process and therefore more difficult to manage than traditional methodologies. Monitoring progress against a plan that is constantly changing is a challenge. However, the rewards outweigh these difficulties and we have reviewed our performance measures to ensure the difficulties in measuring internal audit's effectiveness have been taken into account (discussed later).

Compliance versus Assurance

Traditionally, auditing was mostly focused on evaluating the past and ensuring compliance. **Compliance is management's responsibility** and auditing has evolved to help organisations look forward and address issues that could affect business performance.

Internal audit is uniquely positioned within the organisation to provide global assurance to the Audit and Governance Committee and senior management on the effectiveness of internal governance and risk processes and to provide assurance in support of the Annual Governance Statement.

There are also other sources of assurance that can be used to provide assurance that risks are being effectively managed. The 'three lines of defence'[6] model is a framework that can be used to bring these sources of assurance together, and will give assurance to members, sector regulators and external auditors that appropriate controls and processes are in place and are operating effectively.

Our new risk management software (4risk) provides a facility to record the various 'three lines' of assurance in one place, which will be rolled out during 2019-20.

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[6] First Line of Assurance – front line action by the control owner; performance reports to committees/boards etc
Second Line of Assurance – overall management control, financial control (e.g. monitoring reports by other central functions)
Third Line of Assurance – overall assurance provided by internal, external or other regulatory bodies

Fraud

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

During 2019-20, we will review the Council's **approach to counter fraud, anti-bribery and corruption, anti-money laundering and terrorism financing. We will update the Fraud Response Plan accordingly**.

Improvement

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

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

PRIORITIES

Historically, the audit planning process in the Council used a three-year rolling plan. This involved predicting audit reviews that needed to be undertaken three years in advance, which in an ever-changing environment was difficult. In addition, the External Quality Assessment carried out in March 2017 concluded that **this approach was no longer appropriate**.

To provide a more flexible approach and to take account of changes in the organisation and the risk environment, we have aligned our work with the corporate risk register and will meet with senior management to discuss their latest risks, concerns and requirements. In this way, we will be fully up to date with, and aware of, emerging issues and will be able to **focus our resources in areas of greatest priority and risk.**

The Senior Leadership Team and the Audit and Governance Committee support this new approach.

Therefore, rather than have a traditional 'fixed' annual audit plan, the plan will change during the year following changes to the corporate risk register. As a result, this Strategy does not provide a definitive list of the projects that we will carry out during 2019-20 but provides the audits that the Council has identified as its main priorities now. Appendix A lists these current priorities. A contingency will also account for any *ad-hoc* work requested by management during the year.

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

FOLLOW UP

Standard 2500 states that the chief audit executive must establish a follow-up process to monitor and ensure that management has effectively addressed the risks raised or that senior management has accepted the risk of not taking action.

Competing priorities, budget limitations and other factors may prevent managers from addressing Risks/Issues in the agreed timeline or as previously designed to mitigate the risk.

Managers who do not address Risks/Issues arising from internal audit work expose the organisation to risk. By following up, this helps to prevent it becoming an issue.

In accordance with our agreed Internal Audit Charter, we will follow up all Risks/Issues included within audit reports with a 'Limited' or 'No' Assurance rating (definitions of assurance ratings are at Appendix B). Where reports continue to attract a 'Limited' or 'No' Assurance rating, the Audit and Governance Committee may invite the Head of Service to attend a meeting to discuss the report.

We will help the organisation to track the implementation of all actions and will log all agreed actions on an internal tracking system (4action).

REPORTING

A new, shorter one-page report will aid **a new bilingual reporting protocol**, which will also for the first time enable us to provide final agreed internal audit reports to the Executive Portfolio Holders and members of the Audit and Governance Committee, increasing transparency and accountability and improving the quality of assurance we provide.

We will record agreed action plans in a separate operational document, shared only between the service and us.

We will report progress with delivering the Strategy and will be held to account for our performance in delivering the Strategy by the Audit and Governance Committee and the Head of Function (Resources) and Section 151 Officer.

PERFORMANCE MEASURES

We have in place a quality assurance and improvement programme to ensure continuous improvement of our internal audit service. We will adopt a reduced and streamlined suite of performance measures to determine the effectiveness of our work, which can be seen at Appendix C.

Benchmarking

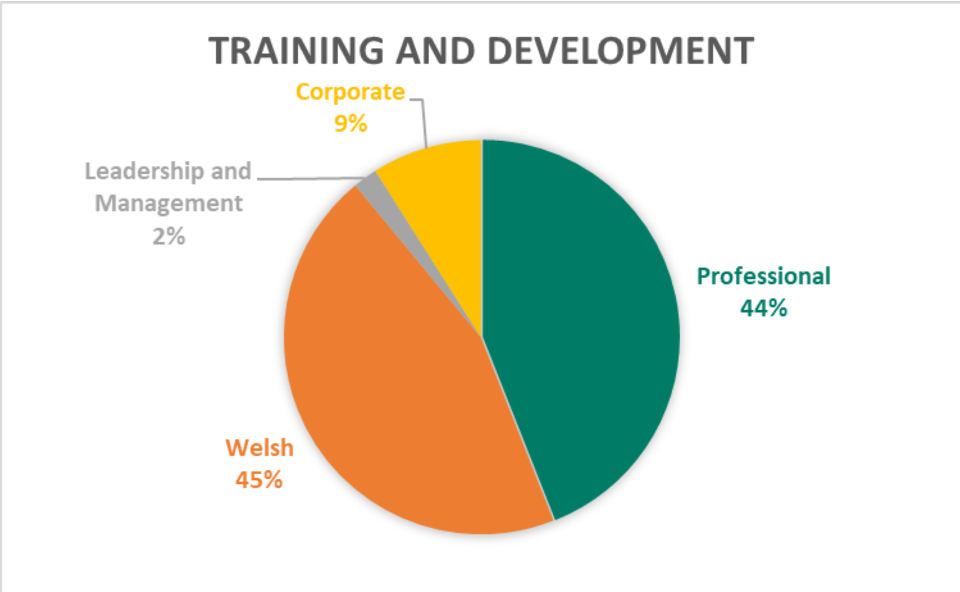
Externally, where relevant, **we will continue to benchmark our performance against our peers**. Benchmarking is a standard against which we are able to measure our quality. It helps the identification of best practice, resulting in changes that bring about improved services. Consequently, we benchmark our performance against the other 21 members of the Welsh Chief Auditors Group.

These performance measures are currently under review for their appropriateness.

TRAINING AND DEVELOPMENT

Most members of the team are professionally qualified, with a good mix of professional qualifications. The **service will continue to invest** to ensure they continue their professional development and stay abreast of emerging risks and developments in the sector.

We will also participate in the mandatory corporate training, where required. In total, the service will invest 100 days (7.7%) in training and development during 2019-20, consisting of the following:



CHALLENGES GOING FORWARDS

In a small team, staff absence can have a significant impact. In 2018-19, two vacancies and a long-term absence significantly reduced the resource available to deliver the internal audit activity. Consequently, we significantly missed our target of achieving 80% coverage of the red and amber residual risks in the corporate risk register.

Maternity leave will affect the first half of 2019-20 and reduce our capacity. However, it will be the third year in post for the Head of Audit and Risk and the second year of operating the new audit methodology. The experience from last year has provided valuable learning; a new, enthusiastic and dedicated team, and new risk management software, will place the internal audit team in **a good position to ensure delivery of its strategy and continue to support the Council as a key component of its governance structure**.

Delivery of this Strategy will enable the Head of Audit and Risk to fulfil the requirement to produce an annual internal audit opinion, **to support the Annual Governance Statement**.

APPENDIX A: INTERNAL AUDIT PRIORITIES 2019-20

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Residual)	Indicative Days 2019-20
CORPORATE-WIDE				
Corporate	Business Continuity	Corporate Risk Register	C2 YM9	10
Corporate	Welfare Reform	Corporate Risk Register	C2 YM10	10
Corporate	Corporate Safeguarding	Corporate Risk Register	D2 YM11	10
Corporate	Corporate Planning	Corporate Risk Register	C2 YM13	15
Corporate	Financial Planning	Corporate Risk Register	C2 YM19	15
Corporate	CONTEST (Countering Terrorism and Preventing Radicalisation)	Corporate Risk Register	E1 YM27	10
Corporate	General Data Protection Regulations	Corporate Risk Register	C2 YM31	10
Corporate	Payment Card Industry Data Security Standards (PCIDSS)	Corporate Risk Register	D1 YM34	15
Corporate	Leavers' Process	Concerns raised	n/a	15
Corporate	Risk Management	PSIAS requirement	n/a	10
Corporate	Managing the Risk of Fraud	PSIAS requirement	n/a	20
Corporate	Culture – Protecting Reputation and the Use of Social Media	Horizon Scanning	n/a	10
Corporate	Well-being of Future Generations Act	High-profile legislation that has a significant impact on the way the Council works. It is subject to specific review by WAO.	n/a	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

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Residual)	Indicative Days 2019-20
RESOURCES				
Resources	Recovery and Write-offs	Key Financial System - S151 concerns	n/a	10
Resources	Corporate Procurement	Corporate Risk Register	D2 / D2 YM20 YM22	10
Resources	Corporate Procurement Cards	Concerns raised	n/a	20
Resources	Payroll	Key Financial System - restructure and new system; external audit assurance	n/a	20
COUNCIL BUSINESS				
Legal Services	Land Registration	Concerns raised	n/a	15
TRANSFORMATION				
ICT	IT Audit - Cyber Security (Cloud Computing)	Corporate Risk Register	C1 YM28	15
ICT	IT Audit - IT Security	Corporate Risk Register	C1 YM38	15
Human Resources	Recruitment & Retention	Corporate Risk Register	C2 YM5	10
Human Resources	Workplace Culture – Discrimination and Staff Inequality	Horizon Scanning	n/a	10
REGULATION & ECONOMIC DEVELOPMENT				
Regulation & Economic Development	Energy Island Programme	Corporate Risk Register	C2/D2 YM16 YM17	20
Regulation & Economic Development	Leisure Services - Investment in Facilities	Corporate Risk Register	B3 YM32	10
Regulation & Economic Development	Leisure Services - Governance and Control	Head of Service Request - major structural changes (carried forward from 2018/19)	n/a	15
HIGHWAYS, WASTE & PROPERTY SERVICES				
Property	Asset Register	Concerns raised	n/a	10
Highways	Bridges	Horizon Scanning	n/a	10
HOUSING				
Housing	Gypsies and Travellers (Requirements of the Housing Act 2014)	Corporate Risk Register	C2 YM29	10

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Residual)	Indicative Days 2019-20
ADULT SERVICES				
Adults	Deprivation of Liberty Safeguards	Corporate Risk Register	C2 YM25	10
Adults	Continuous Healthcare	Horizon scanning	n/a	10
CHILDREN'S SERVICES				
Children's	Integrated Service Delivery Board	Corporate Risk Register	C2 YM36	10
Children's	Social Work Practice	Corporate Risk Register	D2 YM37	10
LEARNING				
Secondary Schools	Sixth Form Provision	Changes	d/b	20
	TOTAL AUDIT DAYS			**400**
CHARGEABLE NON PROGRAMMED DAYS (PRODUCTIVE)				
	Follow Up Work	Several limited assurance reports requiring follow up, includes reporting and administering 4Action		60
	General Counter Fraud Work, National Fraud Initiative			40
	Referrals			50
	Closure of Previous Year's Work			10
	Grant Certification: School Uniform Grant Rent Smart Wales Grant Education Improvement Grant Pupil Development Grant Sixth Form & Adult Continuing Learning	Grant Requirement		20
	Corporate consultancy			55
	Audit & Governance Committee, including training for members and self-assessment			40
	Management Review			25
	Contingency			26
	TOTAL			**306**

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Residual)	Indicative Days 2019-20
NON CHARGEABLE DAYS (NON-PRODUCTIVE				
	Risk & Insurance			24
	General Administration			40
	Personal Development & Review, 121 & Team Meetings			48
	Management, including liaison with External Audit and audit plan preparation			40
	Leave, including annual, statutory, special and sick leave			342
	Training and Development for staff			100
	TOTAL			**594**
	TOTAL RESOURCE REQUIREMENT			**1300**
	RESOURCE AVAILABLE			**1300**
	RESOURCE SHORTFALL			**0**
	PRODUCTIVITY			**55%**

APPENDIX B: DEFINITION OF ASSURANCE RATINGS

Level of Assurance	Definition	Management Intervention
Substantial Assurance	Arrangements for governance, risk management and internal control are **good**. **We found no significant or material Issues/Risks.**	No or only low impact management action is required. Issues/Risks, which management can easily address.
Reasonable Assurance	Arrangements for governance, risk management and/or internal control are **reasonable**. **Some inconsistency in application and opportunities still exist to mitigate against further risks.**	Management action of moderate to low impact is required. Issues/Risks, which management can address at service level.
Limited Assurance	Arrangements for governance, risk management and internal control are **limited**. **There are gaps in the process that leave the service exposed to risks. The service is not meeting its objectives or are meeting without achieving value for money.**	Management action of high to moderate impact is required. Issues/Risks, which Heads of Service need to resolve and SLT may need to be informed.
No Assurance	Arrangements for governance, risk management and internal control are **significantly flawed**. **Key controls are insufficient with the absence of at least one critical control mechanism. There is also a need to improve compliance with existing controls and we have detected errors and omissions.**	High impact management action is required in a number of areas. Issues/Risks that require the immediate attention of SLT, with possible Executive intervention.

APPENDIX C PERFORMANCE MEASURES AND BENCHMARKING WITH WELSH CHIEF AUDITORS GROUP (WCAG)

Performance Indicator	Target 2019/20	Actual Performance 2018/19 (to Q3)	Actual Performance 2017/18	WCAG Average 2017/18
Red and Amber Residual Risks in the Corporate Risk Register audited	80%	29%	Not Measured	Not Measured
Clients responses at least 'satisfied'	100%	100%	100%	98%
Customer Questionnaires Returned	65%	63%	41%	65%
Reported to Audit and Governance Committee within target	80%	87%	76%	Not Measured
Audits completed within planned time	90%	100%	86%	73%
Number of staff	5	4.0 FTE	4.3 FTE	7

ISLE OF ANGLESEY COUNTY COUNCIL	
COMMITTEE:	AUDIT AND GOVERNANCE COMMITTEE
DATE:	12 FEBRUARY 2019
TITLE OF REPORT:	APPROVING DRAFT STATEMENT OF ACCOUNTS
PURPOSE OF REPORT:	TO REQUEST THE COMMITTEE TO CHANGE THE PROCESS FOR APPROVING THE DRAFT STATEMENT OF ACCOUNTS
REPORT BY:	MARC JONES – HEAD OF FUNCTION (RESOURCES) / SECTION 151 OFFICER
ACTION:	FOR DECISION

1. INTRODUCTION

1.1 The Council's Constitution places a duty on the Audit and Governance Committee to "Review and scrutinise the Council's Statement of Accounts prior to its adoption by the full Council ensuring that proper accounting policies have been followed and all concerns arising from the financial statement or the audit are brought to the attention of the Council through appropriate reports and recommendations."

1.2 This part of the Council's Constitution was reaffirmed in the revised Terms of Reference for the Audit and Governance Committee, which was accepted by the Audit and Governance Committee at its meeting on 19th September 2018.

1.3 In practice, this function has been discharged in two stages:-

- Prior to the signing of the draft accounts and their submission for audit, the Committee has scrutinised the draft financial statement and made a resolution as to whether to accept and note the draft financial statement prior to submission for audit. This process takes place in the last week of June as the draft statements have to be published by the 30 June.

- The final Statement of Accounts, following the completion of the audit of the accounts, along with the report of the External Auditor are considered by the Committee in mid September and the Committee then recommend to the full Council whether to accept the financial statements or not. The full Council must approve the financial statements and they must be signed off by the External Auditor by 30th September.

2. CHANGES TO THE REPORTING TIMETABLE

2.1 The reporting timetable is set out in the Accounts and Audit (Wales) Regulations 2014 as amended by the Accounts and Audit (Wales) (Amendment) Regulations 2018. The revised timetable is set out in the table below:-

Timetable for the Publication of Draft and Final Financial Statements

	Financial Year Ending 31 March			
	2018	2019	2020	2021 Onwards
Completion of draft financial statements	15 June	31 May	31 May	14 May
Publication of Audit Committee Agenda	20 June	4 June	3 June	18 May
Audit Committee Meeting	27 June	11 June	10 June	25 May
Publication of the draft financial statements	30 June	15 June	15 June	31 May
Completion of final financial statements	8 September	23 August	22 August	10 July
Publication of Audit Committee Agenda	12 September	27 August	26 August	14 July
Audit Committee Meeting	19 September	3 September	2 September	21 July
Full Council Meeting	25 September	10 September	9 September	28 July
Publication of the audited financial statements	30 September	15 September	15 September	31 July

2.2 This revised timetable will be very challenging and in particular completing the draft final accounts by 14 May, only 6 weeks after the end of the financial year, will be extremely difficult for the staff concerned. In addition, completion by mid May could compromise the accuracy and quality of the draft financial statements and could result in a greater level of external audit work and subsequent post audit adjustments.

2.3 The Accounts and Audit Regulations (Wales) 2014 and the associated CIPFA Code of Practice do not require formal approval of the draft financial statements by a Committee of the Council before they are published and presented for audit. Regulation 10 (1) states that:-

"The responsible financial officer of a larger relevant body must, no later than the {prescribed date} immediately following the end of a year, sign and date the statement of accounts, and certify that it presents a true and fair view of the financial position of the body at the end of the year to which it relates and of that body's income and expenditure for that year".

3. PROPOSED AMENDMENT TO THE APPROVAL PROCESS

3.1 In light of the shortened timetable for the completion of the draft financial statements and the practical difficulties it will bring, it is proposed that the draft financial statements are signed by the Section 151 Officer (the Responsible Financial Officer) and presented for audit before they are considered by the Audit and Governance Committee. This proposal will give the following revised timetable:-

Revised Timetable for the Publication of Draft and Final Financial Statements

	Financial Year Ending 31 March		
	2019	2020	2021 Onwards
Completion of draft financial statements	15 June	15 June	31 May
Publication of the draft financial statements	15 June	15 June	31 May
Publication of Audit Committee Agenda	19 June	17 June	23 June
Audit Committee Meeting	26 June	24 June	30 June
Completion of final financial statements	23 August	22 August	10 July
Publication of Audit Committee Agenda	27 August	26 August	14 July
Audit Committee Meeting	3 September	2 September	21 July
Full Council Meeting	10 September	9 September	28 July
Publication of the audited financial statements	15 September	15 September	31 July

3.2 The proposed change would allow an additional 2 weeks for the completion of the draft financial statements.

4. RECOMMENDATIONS

4.1 The Committee is requested to approve the change in the timetable and allow the Section 151 Officer to sign the draft financial statements prior to their consideration by the Audit and Governance Committee.

MARC JONES
HEAD OF FUNCTION (RESOURCES) & SECTION 151 OFFICER **1 FEBRUARY 2019**

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CYNGOR SIR
YNYS MÔN
ISLE OF ANGLESEY
COUNTY COUNCIL

AUDIT & GOVERNANCE COMMITTEE

FORWARD WORK PROGRAMME

12 February 2019

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)
April 2019 **June 2019** **July 2019** **September 2019** **December 2019** **February 2020**	**Internal Audit Update** • An update on Internal Audit's latest progress in terms of its service delivery, assurance provision, reviews completed, performance and effectiveness in driving improvement.	**Head of Internal Audit & Risk** MarionPryor@ynysmon.gov.uk
April 2019 **June 2019** **July 2019** **September 2019** **December 2019** **February 2020**	**External Audit Update** • An update on External Audit's work: ○ Performance Audit ○ Financial Audit	**Performance Audit Lead – Wales Audit Office** Alan.Thomas@audit.wales **Financial Audit Manager – Deloitte** cedge@deloitte.co.uk
April 2019	**Annual Report of the Audit & Governance Committee – Chair's Report** • The Committee are asked to approve the Chair's Report for submission to full Council	**Head of Function (Resources) / S151 Officer** MarcJones@ynysmon.gov.uk
June 2019	**Draft Report of the Head of Function (Resources) / S151 Officer regarding the Annual Finance and Governance Statement 2018/19** • 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.	**Head of Function (Resources) / S151 Officer** MarcJones@ynysmon.gov.uk **Programme, Business Planning & Performance Manager** GethinMorgan@ynysmon.gov.uk

Date	Subject	Responsible Officer (including e-mail address)
June 2019	**Internal Audit Annual Report 2018/19** • 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.	**Head of Internal Audit & Risk** MarionPryor@ynysmon.gov.uk
June 2019	**Annual Insurance Performance Report 2018/19** • Annual performance report on insurance activity	**Head of Internal Audit & Risk** MarionPryor@ynysmon.gov.uk
July 2019	**Annual Treasury Management Report 2018/19** • The annual treasury report is a requirement of the Council's reporting procedures and covers the treasury activity for 2018/19.	**Head of Function (Resources) / S151 Officer** MarcJones@ynysmon.gov.uk
September 2019 February 2020	**Outstanding Internal Audit Issues / Risks** • A report of all outstanding internal audit Issues / Risks	**Head of Internal Audit & Risk** MarionPryor@ynysmon.gov.uk
September 2019 February 2020	**Corporate Risk Register** • In accordance with its terms of reference, the Audit and Governance Committee is required to review the Corporate Risk Register and, where appropriate, request a response from management on actions to manage risks.	**Head of Internal Audit & Risk** MarionPryor@ynysmon.gov.uk **Insurance & Risk Manager** JulieJones@ynysmon.gov.uk

Date	Subject	Responsible Officer (including e-mail address)
September 2019 February 2020	**Progress made on External Regulatory Reports** • The Audit and Governance Committee is requested to consider the progress made on external regulatory reports**,** which are directly related to the issues of governance or the management of risk within the Council.	**Programme, Business Planning & Performance Manager** GethinMorgan@ynysmon.gov.uk
September 2019	**Report of the Head of Function (Resources) regarding the Annual Finance and Governance Report 2019/20** The Audit and Governance Committee is charged with approving the accounts on behalf of the Council. The Audit and Governance Committee is therefore required to: • approve the Annual Finance and Governance Report 2019/20, including the Statement of Accounts 2019/20, • 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
September 2019	**Annual ICT Security Report 2018/19** • Annual report of the ICT Business Transformation Manager on digital data security/cyber security threats to the Council and the arrangements in place to manage those risks.	**ICT Business Transformation Manager** JohnThomas@ynysmon.gov.uk
September 2019	**Annual Corporate Health and Safety Report 2018/19** • Annual report of the Chief Public Protection Officer	**Corporate Health and Safety Advisor** StephenNicoll@ynysmon.gov.uk

Date	Subject	Responsible Officer (including e-mail address)
September 2019	**Internal Audit Charter** • The Public Sector Internal Audit Standards require the chief audit executive to produce an Internal Audit Charter, which the Audit and Governance Committee must approve. Although not due for review until 2021, the Charter will be updated for changes to the internal audit approach.	**Head of Internal Audit & Risk** MarionPryor@ynysmon.gov.uk
December 2019	**Review of the Audit and Governance Committee's Terms of Reference** • The Audit and Governance Committee should periodically review its terms of reference for appropriateness, with consideration given to sector guidance and the needs of the Council.	**Head of Function (Resources) / S151 Officer** MarcJones@ynysmon.gov.uk
December 2019	**Review of the Risk Management Strategy and Framework** • In accordance with its terms of reference, the Audit and Governance Committee is required to keep under review the Risk Management Strategy for the Council.	**Head of Internal Audit & Risk** MarionPryor@ynysmon.gov.uk
December 2019	**Mid-year Report on Treasury Management for 2019/20** • 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
February 2020	**Internal Audit Strategy 2020/21** • The Public Sector Internal Audit Standards (2017) requires the chief audit executive to present the Internal Audit Strategy to the Audit and Governance Committee for approval.	**Head of Internal Audit & Risk** MarionPryor@ynysmon.gov.uk

Date	Subject	Responsible Officer (including e-mail address)
February 2020	**Treasury Management Strategy 2020/21 and Actual Prudential Indicators for 2020/21** • 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 2020/21 in accordance with the requirements of the Prudential Code.	**Head of Function (Resources) / S151 Officer** MarcJones@ynysmon.gov.uk

DDIM I'W GYHOEDDI
NOT FOR PUBLICATION

(Teitl yr Adroddiad: /Title of Report:)

PRAWF BUDD Y CYHOEDD
PUBLIC INTEREST TEST

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

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