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ERHYBUDD O GYFARFOD		NOTICE OF MEETING
PWYLLGOR ARCHWILIO		**AUDIT COMMITTEE**
DYDD MAWRTH, 4 CHWEFROR, 2014 am 2 o'r gloch y prynhawn		**TUESDAY, 4 FEBRUARY 2014 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:-

Annibynnol / Independent

Jim Evans, Dafydd Rhys Thomas and Richard Owain Jones

Plaid Cymru / The Party of Wales

T Ll Hughes (Is-Gadeirydd/Vice-Chair), John Griffith and Vaughan Hughes

Heb Ymaelodi / Unaffiliated

R Ll Jones (Cadeirydd/Chair) and Raymond Jones

AELODAU LLEYG / LAY MEMBERS

Mrs Sharon Warnes and Mr Richard Barker

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 11TH DECEMBER 2013 MEETING** (Pages 1 - 8)

The minutes of the previous meeting of the Audit Committee held on 11th December, 2013 will be submitted for confirmation.

3 **TRANSFORMATION PROGRAMME FRAMEWORK**

Deputy Chief Executive to give a presentation to the Committee on the Transformation Programme Framework.

4 **INFORMATION GOVERNANCE**

To report that the Executive at its meeting held on 13th January, 2014 resolved as follows with regard to the concerns expressed by the Audit Committee at its December meeting in relation to Information Governance:

"RESOLVED to refer the concerns of the Audit Committee to the SLT for consideration, with a request that they submit a status report to the Executive in March."

5 **HOUSING SERVICES BUILDING MAINTENANCE UNIT** (Pages 9 - 12)

To receive a further update on progress on transforming the services delivered by the Housing Services' Building Maintenance Unit.

6 **TREASURY MANAGEMENT QUARTER 3** (Pages 13 - 26)

To submit the Treasury Management Quarter 3 2013/14 report.

7 **TREASURY MANAGEMENT STRATEGY 2014/15**

To present the Treasury Management Strategy for 2014/15. *(Late Report)*

8 **EXTERNAL AUDIT - UPDATE ON PERFORMANCE WORK PROGRAMME** (Pages 27 - 30)

To receive an External Audit update on the Performance Work Programme.

9 **EXTERNAL AUDIT - IMPROVEMENT ASSESSMENT LETTER 2** (Pages 31 - 34)

To receive the IA Letter 2.

10 **AGENCY STAFF**

To receive a verbal report by the Audit Manager.

AUDIT COMMITTEE

Minutes of the meeting held on 11 December, 2013

PRESENT:	Councillor R.Llewelyn Jones (Chair) Councillors Jim Evans, John Griffith, Richard Owain Jones, Dafydd Rhys Thomas Lay Members: Mrs Sharon Warnes, Mr Richard Barker
IN ATTENDANCE:	Chief Executive Deputy Chief Executive Head of Function (Resources) & Section 151 Officer Corporate Director Sustainability (for item 5) Head of Function (Council Business) (for item 3) Head of Service (Housing Services) (for item 4) Head of Service (EWT) (for item 8) Audit Manager (JF) Project Manager (EC) (for item 5) Committee Officer (ATH)
APOLOGIES:	Councillor Trefor Lloyd Hughes
ALSO PRESENT:	Mr Patrick Green (RSM Tenon), Mr Andy Bruce (WAO), Mr Ian Davies (PwC)

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1 DECLARATION OF INTEREST

Mr Richard Barker and Mrs Sharon Warnes declared an interest in respect of item 10 on the agenda as the Lay Members on the Audit Committee and were not present when the matter was discussed.

2 MINUTES

The minutes of the previous meeting of the Audit Committee held on 24th September, 2013 were submitted and confirmed as correct.

3 INFORMATION GOVERNANCE

An update report by the Head of Function (Council Business) summarising progress to date in taking forward the Information Governance Project was presented for the Committee's consideration.

The Head of Function (Council Business) and SIRO reported on the context and background to the establishment of the Information Governance Project along with the requirements of the Data Protection legislation which underpins the project in relation to the lawful processing of personal data. The Officer brought the following matters to Members' attention -

- The DPA Action Plan for Improvement incorporates all previous regulatory activity with regard to Information Governance and Management.
- The Information Governance Project Board as part of the Council's Business Transformation programme is the vehicle for delivering the Action Plan and began work in November, 2013.The target completion date is August, 2014 when it will be replaced by a group of officers to ensure ongoing compliance

- The audit of the Council's compliance with the Data Protection Act by the Information Commissioner's Officer in July 2103 will be repeated in the near future and failure to implement change could result in enforcement action being taken against the Council.
- The implementation of the ICO's recommendations from its July 2013 audit will mitigate against the risks of a serious breach of the Act. These have been distilled into five key themes.
- Capacity has been awarded to the management of the project for ICT, HR and DP/Legal Support.
- The absence of the Lead Operational Officer and designated Project Manager has hampered progress. Interim arrangements have been made to ensure movement on the Action Plan with particular focus on actions timed for November and December.
- Four core policies have been prepared and endorsed by the Senior Leadership Team – Data Breach Policy, Privacy Impact Assessment Policy, Personal Data Classification Policy and Information Risk.
- A review of outstanding recommendations from previous regulatory reports has been completed and those have either been assimilated into the Information Governance Project or will be added to it before its closure.
- A review of the Authority's standard contractual templates in relation to third parties who undertake work for the Authority is being undertaken following the completion of which the services will be required to review and renegotiate their existing contracts to ensure they include data protection provisions and terms.
- Certain actions remain outstanding or have not commenced. These relate to ICT and Property and are connected with access and security, and with storage arrangements. The latter has resource implications.
- Assurance can be given that appropriate arrangements have been put in place through the project and that progress has been made against targets in the Action Plan. At this point in time there remains some concern in respect of some timelines in relation to certain aspects of work not yet commenced.
- The project's timeframe provides some flexibility to enable slippage to be overcome. However, the Project is designed to be incremental meaning any additional slippage in the form of elements not completed to time will impact on other subsequent elements of the work.
- The Information Governance Project Board will next meet on 9th January. A status report will be presented to the Business Transformation Board.

Members of the Audit Committee considered the information and they made the following points –

- Whether tasks identified in the Action Plan have designated owners to facilitate and ensure their delivery. It was noted that actions and the responsibility for them become more dissipated as they are extended outwards to the services.
- Whether the Audit Committee is able to make an input to ensure key actions are brought back in line with the timescale.
- Whether the project is being adequately resourced to ensure that matters identified as requiring action are remediated expeditiously and fully.
- Concerns regarding the extent to which the situation has been allowed to escalate over time.
- Whether breaches that have occurred are due to lack of training on the requirements of data protection or due to carelessness and disregard.
- The imperative need for Heads of Service to take responsibility for data protection.
- That addressing data protection issues and putting safeguards in place are a matter of priority.
- The possibility of taking disciplinary action in response to and/or as a deterrent against future breaches.
- That the Executive be apprised of the Audit Committee's concerns regarding the situation and its views on the need to prioritise data protection issues in terms of time and resources; to consider disciplinary action as an option to responding to any future data protection breaches; to provide training to all staff on the range of data protection policies; to remind Heads of Service of their responsibilities with regard to data protection.

  The Head of Function (Council Business) responded to the points made by expanding on the current and planned actions and their expected outputs and explaining the nature of those tasks not commenced and the risks attached to them.

The Chief Executive stated that historically capacity issues have been a factor in addressing data protection compliance. The Executive has responded positively to the requirements in terms of strengthening capacity to ensure the shortcomings identified are addressed. In general terms there needs to be a change of mindset within the Authority corporately so that compliance with data protection requirements becomes an integral part of the work of the Authority across all services.

It was resolved –

- **To note the report and the update provided.**
- **To refer the Audit Committee's concerns with regard to Data Protection compliance within the Authority to the Executive with the request that it considers and provides assurance to the Audit Committee on the following matters –**
    - **That an appropriate level of resources is allocated to ensure that shortcomings in data protection compliance are remedied fully and properly.**
    - **That disciplinary action be considered as an option in responding to any future data protection breaches.**
    - **That the Authority's staff are provided with training on all data protection policies.**
    - **That all Heads of Services are reminded of their data protection responsibilities within their respective services and the importance thereof.**

ACTION ARISING: Audit Committee concerns to be reported to the Executive with a request for a response.

4 HOUSING BUILDING MAINTENANCE UNIT

The report of the Head of Service (Housing Services) outlining progress made to date on transforming the services delivered by the Housing Services' Building Maintenance Unit (BMU) since the previous report to Committee in May, 2012 was presented for the Committee's consideration.

The Head of Service (Housing Services) reminded Members of the Committee of the key recommendations from two previous service reviews the one an advisory review by the Wales Audit Office and the other a value for money review by a specialist company. The Officer referred to a third review of the service which was undertaken by Internal Audit and which focussed on the BMU's procurement arrangements. She said that as a result of these three critical reviews, a comprehensive action plan was put in place and she explained the progress to date on delivering the action plan. An options appraisal and an independent evaluation of progress will be carried out in February, 2014 and reported to the Executive. Progress in terms of implementing the chosen option will be reported to the Service Transformation Board and a formal project management approach will be adopted.

Members asked the Head of Services (Housing) whether she was satisfied that the transformation is being delivered to timescale to which she replied in the affirmative with the caveat that there remain certain risks in relation to procurement and contracts. The Audit Committee requested that it be provided with a further update in February to cover options, timeframes and any attendant financial risks.

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

ACTION ARISING: Head of Service (Housing) to provide the Committee with a further update at its February, 2014 meeting.

5 ANGLESEY THREE TOWNS CAPITAL PROJECT

A report by the Director of Sustainability in relation to the Anglesey Three Towns Capital project was presented for the information of the Audit Committee. The report made reference to the project's governance arrangements and framework, the funding elements along with achieved and projected outputs.

The Director of Sustainability explained to the Committee's Members that during the life of the project the Welsh Government has reprofiled its £37m scheme and consequently Anglesey Council has been given a number of opportunities to also reprofile and extend which has allowed the actions described in the report. The Officer said that what has been perceived as slippage is in fact a planned reprofile in order to maximise benefits.

Members of the Committee asked a number of questions on the operation of the project in relation to the compass of the grant scheme, expenditure, jobs created and tendering arrangements which the Project Manager further clarified. It was suggested that it would be helpful if more information about the project and the elements completed was publicly available. Members also requested a further update on the scheme's progression. The Director of Sustainability said that there is a list of schemes that is publicly available. A project closure report will be issued in June, 2014 which will be subject to audit as required by EU law and which will be made available to the Audit Committee.

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

ACTION ARISING: Audit Manager to co-ordinate the submission of the end of project report to the Audit Committee at the appropriate time.

6 EXTERNAL AUDIT – PERFORMANCE WORK PROGRAMME

An update by External Audit on the current status of scheduled and ongoing pieces of performance work was presented and noted by the Committee.

7 EXTERNAL AUDIT – ANNUAL AUDIT LETTER

The Annual Audit Letter summarising the key messages arising from the Appointed Auditor's statutory responsibilities under the Public Audit (Wales) Act 2004 and reporting responsibilities under the Code of Audit Practice was presented for the Committee's consideration.

Mr Ian Davies PwC said that the Letter formally summarises the output from the audit of accounts process which was reported more fully to the September, 2013 meeting of the Committee. The Letter, whilst confirming that an unqualified audit opinion was issued on the accounting statements, draws attention to the need for arrangements to be put in place to ensure that the Finance Service has adequate and appropriately skilled resources going forwards.

The Head of Function (Resources) and Section 151 Officer informed Members that a structure is being implemented within the Finance Service. She confirmed that plans are already in place for the start of the closure of accounts process 2013/14 and she outlined to the Committee the substance of those plans.

It was resolved to accept the Annual Audit Letter and to note its contents.

NO FURTHER ACTION ARISING

8 GOVERNANCE AND ASSURANCE ARRANGEMENTS

The report of the Deputy Chief Executive setting out progress against the Governance and Assurance Action Plan arising from the review of the Council's Governance Framework and the Annual Governance Statement 2012/13 was presented for the Committee's consideration. The updated Governance and Assurance Action Plan was provided at Appendix B to the report.

Members considered the Action Plan and sought clarification of certain points regarding the reporting arrangements for the Transformation Boards and the status of the consultation on the Commissioning and Procurement Policy and Strategy. The absence of a specified target date for planning and delivering the savings required of the Council was highlighted and given the centrality of this work to the Council's business going forwards, questions were asked regarding the position in terms of the progress made to date.

The Head of Function (Resources) and Section 151 Officer said that linking into strategies across the Council is part of the work of developing the MTFP e.g. twenty-First Century Schools Strategy, IT Strategy. Some strategies are more advanced than others. The MTFP will include investments and will highlight the savings gap over the next four years which will be met by the Efficiency Strategy. Plans will now have to be developed for the 2015/16 financial year based on forward thinking rather than on a salami slicing approach. The work that needs to be done in the immediate future is to work with the transformation boards and service reviews to bridge the savings gap.

The Deputy Chief Executive said that the Transformation Plan has been developed, restructuring has taken place and additional capacity allocated, and the first step is the identification of the case for change the revenue consequences of which will then will feed into the longer term efficiency strategy. Work to date has been of a post intervention nature with time and capacity to forward plan only now becoming available. The Corporate Plan has been agreed and that will drive matters forward. In terms of areas where savings can be identified e.g. smarter working, school modernisation etc. the point has now been reached where the Authority can focus on driving these and other initiatives forward which will then be reflected in the MTFP and Efficiency Strategy. The transformation programme is seeking to marry improvement in services with better use of resources. The Officer elaborated on work to be done in the period between now and the end of the financial year along with actions being taken and she confirmed that the agenda is moving.

Members noted that progress is being made but not in as expeditious a manner as they would have liked and consequently they requested that they be kept informed of developments.

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

ACTION ARISING: Deputy Chief Executive to brief the Audit Committee at its next meeting on the Transformation programme framework and structure with a view to providing assurance that the process is able to deliver to targets.

9 RISK MANAGEMENT FRAMEWORK AND CORPORATE RISK REGISTER

The Deputy Chief Executive provided the Committee with a verbal update on matters relating to risk management.

The Deputy Chief Executive reported to Members on the importance of embedding risk management within the Authority as an organisation. Progress has been made in terms of identifying the risks in relation to the Transformation agenda but more needs to be done in embedding risk management within the services and it has been agreed with Heads of Services that risk management should now take place effectively within their services. The Officer said that more work needs to be done to ensure that the management of risk across the Authority occurs systematically.

Members of the Committee noted that the issue of risk management is a longstanding concern of the Audit Committee and they pointed out the length of time it has taken to implement an effective system of risk management within the Authority.

The Audit Manager said that the objective should be for Heads of Service to focus on what is happening in their services in terms of risk management, how to embed the process therein and how that is then reported upwards to the Corporate Risk register so that the SLT as the risk owners and the Audit Committee as the forum with oversight responsibility are provided with assurance that the risks are being managed. The reporting and assurance process up and down the organisation needs to be clear. The Deputy Chief Executive said that Heads of Service need to be aware of the expectations on them with regard to managing risks within their services and that those expectations need to be articulated clearly via for example, development sessions.

It was resolved to note the information.

ACTION ARISING: Deputy Chief Executive to report back to the Audit Committee in June, 2014 on the extent to which risk management has been effectively implemented within the Authority along with the arrangements to provide assurance that that is the case.

10 REVIEW OF INDEPENDENT MEMBER APPOINTMENTS

A report by the Head of Function (Resources) incorporating options for the appointment of Independent Members to the Audit Committee to serve from July, 2014 in line with the requirements of the Local Government Measure was presented for the Committee's consideration.

Having declared an interest in this matter, Mr Richard Barker and Mrs Sharon Warnes withdrew from the meeting during the discussion thereon.

It was resolved to extend the current arrangements with the existing Independent Members from July, 2014 for a further two years.

NO FURTHER ACTION ARISING

11 PROGRESS REPORT ON INTERNAL AUDIT

A report by the Audit Manager documenting the activities of the Internal Audit Section during the period from April to November, 2013 was presented for the Committee's consideration.

The Audit Manager made particular reference to the following matters –

- Output in the form of reports issued since the previous update
- Audit reviews carrying a Red or Red/Amber opinion - Creditors and the Civica Accounting System respectively
- Performance in relation to implementing internal audit recommendations
- Current audit concerns and related actions
- Unimplemented High Category recommendations and the review areas to which they relate.

Members raised the following points on the information presented –

- Clarification of the issues arising from the review of the Civica main accounting system and whether they are attributable to the Civica application itself or to the use of it.
- With regard to the advisory review on agency payments, clarification of the Authority's deployment of agency staff as regards the extent of the practice in terms of the numbers involved, the costs and the practice's financial viability.
- Whether the actions with regard to unimplemented high category recommendations are considered adequate to remedy the situation.

The Head of Function (Resources) elaborated on the issues that had arisen in the lead up period to the implementation of the Civica system and which had impacted thereon along with the actions taken thereafter. The Deputy Chief Executive informed Members that the Human Resources section is carrying out a piece of work on agency staff.

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

ACTIONS ARISING:

- **Head of Function (Resources) to provide the Audit Committee in due course with feedback from a post implementation review of the Civica Accounting System**
- **Audit Manager to liaise with Head of Profession (Human Resources) regarding the provision to the Audit Committee of a report regarding Agency staff.**

12 TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY

The report of the Head of Function (Resources) outlining the Treasury Management position and related matters as at the mid-point of the 2013/14 financial year was presented for the Committee's consideration.

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

NO FURTHER ACTION ARISING

Councillor R.Llewelyn Jones
Chair

Committee:	Audit Committee
Date:	4th February 2014
Title of report:	Review of the Building Maintenance Unit
Purpose of Report:	To update members of progress made with review of the Building Maintenance Unit (previously known as the DLO)
Author:	Shan Lloyd Williams. Head of Housing Services
Portfolio Holder:	Councillor Kenneth P Hughes

1.0 Introduction

1.1 A progress report was presented to Committee Members in December, 2013 against recommendations of a Value for Money review previously undertaken by Solutions for Housing and recommendations of reports commissioned from the Wales Audit Office and Internal Audit. An action plan had been developed capturing all the recommendations, with implementation being led by the Operations Manager BMU.

1.2 It was reported to Committee that the transformation project had been paused and a further review commissioned from the same company. The review is looking independently at the progress made to date against the transformation action plan, options appraisal afro the delivery of the BMU Repairs and Maintenance Service, together with the implementation and costs involved in the identified options.

1.3 The Audit Committee requested that it be provided with a further update in February to cover options, timeframes and any attendant financial risks.

2.0 Review to date

2.1 Two consultants working for Solutions for Housing have been on site to date (as at 20/01/14).

An initial project initiation meeting was held 10th January, 2014 with staff of BMU and Repairs and Maintenance client together with representatives from Finance, Human Resources and Housing Services Management Team. At that meeting, the following were confirmed:

- Limits and parameters on the work;
- timescales for the review and key milestones;
- vision and ambition of the Housing Service and its requirements for the Repairs Service;
- stakeholder involvement requirements;
- documentation required for the review;
- Communication Plan.

2.2 Options Appraisal Event – future of Repairs and Maintenance

An Options Appraisal event was held 16th January, 2014 with additional staff members from both BMU and client and Housing Services Management Team. The event looked at:

- High level ambitions for the repairs service;
- current performance and gap to achieve "excellence";
- identification of options for the service;
- strengths , benefits, weaknesses and risks of each option;
- implementation issues for each option;
- scoring model for the options appraisal was agreed.

2.3 Options being looked as part of the review are:

i) internal provision (i.e. BMU) with client / contractor split but on partnering basis;
ii) internal provision without client / contractor split;
iii) external (outsourced) works only;
iv) external with client and works;
v) outsourcing points of the service;
vi) joint venture;
vii) social enterprise;
viii) other models.

2.4 Verbal feedback will be given to Committee Members of progress since writing the Report (20/01/14).

3.0 Next steps and key milestones

3.1 The Consultants are on-site to undertake a detailed review of the evidence of progress made against transformation plan in the next week and also looking at the current structure and costs etc.

3.2 The final event will be held on 11/02/14 where the same Officers who attended the event on 16th January, 2014 will be invited to attend.

3.3 The final report will be presented to the Executive Committee for a decision on chosen option for the future in March / April, 2014. The final report will, as a matter of course, also be presented to the Audit Committee and Isle of Enterprise Transformation Board.

3.4 The Action Plan of whatever the chosen option will be project managed using the corporate project management framework. Whatever the chosen option, there will be a need to procure expert consultancy support to manage the entire procurement process. There is also potentially significant cost of internal staff's time required to set up the new arrangements whilst managing out the old (current) arrangement.

3.5 Further costs could be possible in connection with employment law and pension advice in relation to TUPE issues (if externalising the service).

3.6 For in-house solutions, there could be costs of specialised transformational change consultants to assist the team to achieve the required standards of performance and quality.

3.7 It should be noted that some or all of these costs can be offset by the generation of efficiencies within the newly modernised service.

4.0 Recommendations

4.1 That Members of the Audit Committee note progress to date from the review.

Report author: Shan L Williams, Head of Housing Services

Date: 20th January, 2014

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ISLE OF ANGLESEY COUNTY COUNCIL	
REPORT TO	**AUDIT COMMITTEE**
DATE	**4 FEBRUARY 2014**
SUBJECT	**TREASURY MANAGEMENT - THIRD QUARTER 2013/14**
LEAD OFFICER	**CLARE WILLIAMS**
CONTACT OFFICER	**CLARE WILLIAMS (TEL: 2601)**

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. This Code recommends that Members should be updated on treasury management activities at least twice a year, but preferably quarterly.

2. The Council's Treasury Advisers (Capita Asset Services) provided a commentary on the economic background (Appendix 1) and also a commentary on the economic outlook (Appendix 2) together with the forecast interest rates in the table below:-

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.00%	1.25%
5yr PWLB rate	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.40%
10yr PWLB rate	3.60%	3.70%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.20%	4.30%	4.30%	4.40%	4.50%
25yr PWLB rate	4.40%	4.50%	4.50%	4.60%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.10%
50yr PWLB rate	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.20%	5.20%	5.20%

2.1 The table above represents the view of Capita Asset Services after undertaking a review of its interest rate forecasts in late November. This was reflected in the mid-year treasury management report.

3. At the beginning of the year, the Council's borrowing portfolio was all from PWLB and was £10.3m below the Capital Financing Requirement (CFR) (i.e. part of the borrowing had been internalised). The CFR is projected to be £114m by the year end, and there is a borrowing requirement of £25m as a result. The treasury management strategy statement (Section 3.5.1) states that a flexible approach will need to be adopted with regards to the choice between internal and external borrowing. This has been, and will continue to be, the case, with consideration to all the factors listed in that section. The decision to continue to internalise has been driven mainly due to 2 factors: (1) To limit the Authority's exposure to credit risk (2) to limit the cost of carry. These are set against the backdrop of PWLB and investment rates continuing to remain at historically low levels with only a steady increase forecast into the medium term. This current stance is in line with many other local authorities that have been asked in seminars and workshops attended by officers within the finance service. The appointed treasury advisors (Capita Asset Services) have also supported the decision to continue to internalise borrowing at this time. External borrowing at year end is, therefore, expected to be £90m. Any changes to the current approach will be reported as appropriate.

4. Borrowing and investments at the beginning and end of the quarter were as follows:-

	31 December 2013		30 Sept 2013	
	£m	**%**	**£m**	**%**
Borrowing – fixed rate	89.6	5.58	96.1	5.53
Borrowing – variable rate	Nil	n/a	Nil	n/a
Deposits – Call to 30 days	9.4	0.50	14.7	0.67
Deposits – Fixed Term < 1 year	5.0	0.80	10.0	1.27
Deposits – Fixed Term 1 year +	Nil	n/a	Nil	n/a
Total Deposits	14.4	0.60	24.7	0.90
Average Deposits in the Quarter	24.6	0.69	26.0	0.88

4.1 As reported in the mid-year report, two fixed term deposits matured during the quarter: one was a 6 month, £5m deposit with the Royal Bank of Scotland (RBS) at a rate of 0.95% and the other was a 364 Day, £5m deposit with RBS at a rate of 1.58%. The first maturity was reinvested in full with RBS for 3 months at a rate of 0.8%. The second maturity was reinvested with RBS on a call basis only at a rate originally at 0.6%. The second maturity was reinvested on call basis only in order to maintain flexibility.

The credit rating of RBS was reduced by Standard & Poor's during the quarter by one level on short and long term ratings; this did not take the bank outside the Council's investment criteria, as set out in the Annual Investment Strategy, due to the part nationalised status of the bank.

The reason for deciding to reinvest with RBS was mainly due to the fact that its part nationalised status continues to make it one of the most creditworthy counterparties and this decision was to invest with RBS was supported by Capita Asset Services.

4.2 Additionally, for the same reasons as previously reported, investments have continued with Santander, on a call basis only.

4.3 The only change to the credit ratings of counterparties currently in use was to the Royal Bank of Scotland plc, as discussed above.

4.4 Details of the institutions holding the deposits can be found at Appendix 3.

4.5 There are two points worthy of note with regards to the investment climate;

- The list of creditworthy counterparties continues to be highly restricted, with very few counterparties standing up to the approved credit criteria; and
- Investment rates available in the market have continued at historically low levels.

4.6 As referred to in section 3, no external borrowing was taken up during the quarter. Additionally, debt rescheduling opportunities have continued to be limited in the current economic climate and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling was undertaken during the quarter.

5. During the quarter the Council remained within its Prudential and Treasury Limits.

6. The Council's budget for the current year includes revenue provision for potential unsupported borrowing. Any such additional borrowing requirement will need to be approved by the County Council

7. There has not been any activity since the end of the quarter to note.

8. The plans for the rest of the year are:

- To continue to invest surplus balances in a way that ensures, in order of priority, security as well as liquidity and yield;
- To continue to internalise borrowing whilst regularly monitoring market conditions;
- To monitor the market so that rescheduling can be undertaken at an appropriate time if opportunities are available; and
- To respond to possible initiatives for using unsupported borrowing or one-off borrowing support.

9. RECOMMENDATION

To consider the content of the report.

CLARE J WILLIAMS
HEAD OF FUNCTION (RESOURCES) & S151 OFFICER **21 JANUARY 2014**

Cefndir Economaidd / Economic background

The fourth quarter of 2013 saw:

- Signs that GDP growth may have accelerated;
- Evidence pointed to a moderation of household spending growth;
- Inflation fell to its lowest level since November 2009;
- Unemployment approached the MPC's 7% forward guidance threshold;
- The MPC maintained the stance of monetary policy;
- 10-year gilt yields rose to 3% and the FTSE 100 reach 6749;
- The Federal Reserve decided to reduce the size of its monthly asset purchases by $10bn (from $85bn to $75bn).
- After growing at a healthy quarterly rate of 0.8% in Q3, some of the early signs are that GDP growth was even stronger in the final quarter of last year. On the basis of past form, the CIPS/Markit business activity surveys point to quarterly GDP growth of around 1.5% in the final quarter. The official data available for the fourth quarter so far have also been encouraging. For example, if October's 0.4% monthly expansion in industrial output was matched in the final two months of the year, quarterly growth in Q4 would have been almost 1%.
- Household spending growth, though, may have slowed. Numerous indicators of retail sales, including the official measure and those produced by the CBI and BRC, suggest that consumer spending growth was weak in the first two months of Q4. This is not to say the consumer recovery has run its course. Indeed, the CBI survey showed a strong pick-up in sales in December. And the official measure of retail sales in the same month will be boosted by the inclusion of 'Black Friday' (despite this actually falling in the last week of November) which more timely data suggests saw a strong surge in sales. But it would take monthly growth of 1.6% in December for retail sales just to flat line in Q4 as a whole.
- Nevertheless, growth in sales off the high street may not have done so badly. For instance, although growth in new car registrations slowed in Q4, it remained fairly strong, achieving 7% annual growth in December. So it still seems likely that overall household spending rose in the fourth quarter.
- Although it is still high, the unemployment rate has been falling quickly towards the Monetary Policy Committee's (MPC) 7% threshold for re-assessing the stance of monetary policy. Employment rose by 250,000 in the three months to October, the largest quarterly gain since mid-2010. This brought the unemployment rate down to 7.4%, compared to a rate of 7.7% in the three months to July. What's more, the ONS' experimental single-month estimate of unemployment reached 7% in October.
- The decline in unemployment, which has been faster than the MPC predicted in November, has prompted overnight index swap markets to price in a rate rise as

soon as Q1 2015. But Committee members have increasingly emphasised that the 7% unemployment rate is a threshold for reconsidering policy, rather than a trigger for raising rates. Indeed, the Bank's Chief Economist Spencer Dale said that interest rates would remain low not just until unemployment had dropped, but also until the economy had "seen a prolonged period of strong growth...[and] real incomes are higher".

- The recent fall in, and improvement in the outlook for, inflation, suggests that interest rates will probably remain on hold even if the unemployment rate falls quickly to the 7% threshold. Indeed, CPI inflation has fallen quite sharply, reaching 2.1% in November. This was the lowest rate in four years. A number of factors contributed to this. Falling commodity prices put downward pressure on food and petrol prices, while sterling's 7% appreciation on a trade-weighted basis since its low point in July may have helped core inflation to fall. Admittedly, CPI inflation might have ticked up again in December when energy companies raised their prices. But inflation should continue to fall after that, given that commodity prices have been flat over the past year or so and sterling's recent strength has reduced import prices, which should begin feed into prices on the high street.
- The housing market continued to recover in Q4, supported by the earlier implementation of the mortgage guarantee element of the Government's Help to Buy Scheme. Prices rose at an annual rate of 8.4% and 6.4% in November according to the Halifax and Nationwide measures, respectively. And would-be buyers continue to enter the market more quickly than sellers, with the RICS survey pointing to further price rises. The cost of new mortgages remains low, too, with the quoted interest rate on a 5-year fixed mortgage at a 75% loan-to-value ratio at 3.36% in November, 2 basis points lower than the average in Q3 and 81 basis points lower than when the Funding for Lending Scheme (FLS) was introduced in July 2012. But talk of a housing bubble on the national level still seems to be wide of the mark, with prices well below their pre-crisis peak in real terms. Moreover, the FLS was adjusted so that it no longer provides cheap finance for mortgages.
- Meanwhile, there were few surprises in the Autumn Statement. The Chancellor announced a fiscally neutral package of policies, with measures to ease the cost of households' utility bills offset by further spending cuts. More bullish forecasts from the OBR left expected public borrowing over the next five years £73 billion lower than projected in the March Budget. All this left Mr Osborne expected to meet his primary fiscal mandate to balance the cyclically adjusted current budget in five years a year early, though he still misses the supplementary target for the debt to GDP ratio to be falling in 2015/16.
- Internationally, the biggest news was the Federal Reserve's decision at its December meeting to begin tapering its asset purchases. Although the announcement that the Fed's monthly purchases would be reduced by $10bn was not the consensus view, which saw tapering beginning in the early part of 2014, it was not a big surprise. The decision reflected the relative strength of the US labour market, which on average added over 200,000 jobs per month in the four months up to November.

- Markets took the Fed's move in their stride, with equities and bond yields up slightly on the day. Over the quarter, equities performed well domestically and overseas as economic prospects improved. The FTSE 100 was up by 4.4% to 6749, while the S&P 500 rose by almost 10%. Gilt yields also rose, with the ten-year rate ending Q4 28 basis points higher at 3%, having closely tracked US Treasury yields. Sterling rose by 2.3% against the dollar to finish the year at 1.66, while it rose by 0.5% against the euro to 1.20.
- Activity indicators in the Eurozone point towards continued weak, albeit positive, economic growth in the fourth quarter of 2013 after a mere 0.1% quarterly expansion in Q3. And disinflationary pressures are intense. Although CPI inflation rose from 0.7% to 0.9% in November, it remains well below the ECB's target of below but close to 2%. This is despite the ECB cutting its main refinancing rate by 25 basis points to 0.25% in November.

Allan gan / From: CAPITA ASSET SERVICES – TREASURY SOLUTIONS

Rhagolygon Economaidd / Economic Outlook

THE UK ECONOMY

Economic growth. Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth strongly rebounded in 2013 - quarter 1 (+0.3%), 2 (+0.7%) and 3 (+0.8%), to surpass all expectations as all three main sectors, services, manufacturing and construction contributed to this strong upturn. The Bank of England has, therefore, upgraded growth forecasts in the August and November quarterly Inflation Reports for 2013 from 1.2% to 1.6% and for 2014 from 1.7% to 2.8%, (2015 unchanged at 2.3%). The November Report stated that: -

> *In the United Kingdom, recovery has finally taken hold. The economy is growing robustly as lifting uncertainty and thawing credit conditions start to unlock pent-up demand. But significant headwinds — both at home and abroad — remain, and there is a long way to go before the aftermath of the financial crisis has cleared and economic conditions normalise. That underpins the MPC's intention to maintain the exceptionally stimulative stance of monetary policy until there has been a substantial reduction in the degree of economic slack. The pace at which that slack is eroded, and the durability of the recovery, will depend on the extent to which productivity picks up alongside demand. Productivity growth has risen in recent quarters, although unemployment has fallen by slightly more than expected on the back of strong output growth.*

Forward surveys are currently very positive in indicating that growth prospects are also strong for 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. This is very encouraging as there does need to be a significant rebalancing of the economy away from consumer spending to construction, manufacturing, business investment and exporting in order for this start to recovery to become more firmly established. One drag on the economy is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. This therefore means that labour productivity must improve significantly for this situation to be corrected by the warranting of increases in pay rates.

Forward guidance. The Bank of England issued forward guidance in August which said that the Bank will not start to consider raising interest rates until the jobless rate (Labour Force Survey / ILO i.e. not the claimant count measure) has fallen to 7% or below. This would require the creation of about 750,000 jobs and was forecast to take three years in August, but revised to possibly quarter 4 2014 in November. The UK unemployment rate has already fallen to 7.4% on the three month rate to October 2013 (although the rate in October alone was actually 7.0%). The Bank's guidance is subject to three provisos, mainly around inflation; breaching any of them would sever the link between interest rates and unemployment levels. This actually makes forecasting Bank Rate much more complex given the lack of available reliable forecasts by economists over a three year plus horizon. The recession since 2007 was notable for how unemployment did NOT rise to the levels that would normally be expected in a major recession and the August Inflation Report noted that productivity had sunk to 2005 levels. There has, therefore, been a significant level of retention of labour, which will mean that there is potential for a significant amount of GDP growth to be accommodated without a major reduction in unemployment. However, it has been particularly encouraging that the strong economic growth in 2013 has also been accompanied by a rapid increase in employment and forward hiring indicators are also currently very positive. It is therefore increasingly likely that early in 2014, the MPC will need to amend its forward guidance by reducing its 7.0% threshold rate and/or by adding further wording similar to the Fed's move in December (see above).

Credit conditions. While Bank Rate has remained unchanged at 0.5% and quantitative easing has remained unchanged at £375bn in 2013, the Funding for Lending Scheme (FLS) was extended to encourage banks to expand lending to small and medium size enterprises. The second phase of Help to Buy aimed at supporting the purchase of second hand properties, will also start in earnest in January 2014. These measures have been so successful in boosting the supply of credit for mortgages, and so of increasing house purchases, (though levels are still far below the pre-crisis level), that the Bank of England announced at the end of November that the FLS for mortgages would end in February 2014. While there have been concerns that these schemes are creating a bubble in the housing market, house price increases outside of London and the south-east have been minimal. However, bank lending to small and medium enterprises continues to remain weak and inhibited by banks still repairing their balance sheets and anticipating tightening of regulatory requirements.

Inflation. Inflation has fallen from a peak of 3.1% in June 2013 to 2.1% in November. It is expected to remain near to the 2% target level over the MPC's two year time horizon.

AAA rating. The UK has lost its AAA rating from Fitch and Moody's but that caused little market reaction.

THE GLOBAL ECONOMY

The Eurozone (EZ). The sovereign debt crisis has eased considerably during 2013 which has been a year of comparative calm after the hiatus of the Cyprus bailout in the spring. In December, Ireland escaped from its three year EZ bailout programme as it had dynamically addressed the need to substantially cut the growth in government debt, reduce internal price and wage levels and promote economic growth. The EZ finally escaped from seven quarters of recession in quarter 2 of 2013 but growth is likely to remain weak and so will dampen UK growth. The ECB's pledge to buy unlimited amounts of bonds of countries which ask for a bail out, has provided heavily indebted countries with a strong defence against market forces. This has bought them time to make progress with their economies to return to growth or to reduce the degree of recession. However, debt to GDP ratios (2012 figures) of Greece 176%, Italy 131%, Portugal 124%, Ireland 123% and Cyprus 110%, remain a cause of concern, especially as many of these countries are experiencing continuing rates of increase in debt in excess of their rate of economic growth i.e. these debt ratios are continuing to deteriorate. Any sharp downturn in economic growth would make these countries particularly vulnerable to a new bout of sovereign debt crisis. It should also be noted that Italy has the third biggest debt mountain in the world behind Japan and the US. Greece remains particularly vulnerable and continues to struggle to meet EZ targets for fiscal correction. Whilst a Greek exit from the Euro is now improbable in the short term, as Greece has made considerable progress in reducing its annual government deficit and a return towards some economic growth, some commentators still view an eventual exit as being likely. There are also concerns that austerity measures in Cyprus could also end up in forcing an exit. The question remains as to how much damage an exit by one country would do and whether contagion would spread to other countries. However, the longer a Greek exit is delayed, the less are likely to be the repercussions beyond Greece on other countries and on EU banks.

Sentiment in financial markets has improved considerably during 2013 as a result of firm Eurozone commitment to support struggling countries and to keep the Eurozone intact. However, the foundations to this current "solution" to the Eurozone debt crisis are still weak and events could easily conspire to put this into reverse. There are particular concerns as to whether democratically elected governments will lose the support of electorates suffering under EZ imposed austerity programmes, especially in countries like Greece and Spain which have unemployment rates of over 26% and unemployment among younger people of over 50%. The Italian political situation is also fraught with difficulties in maintaining a viable coalition which will implement an EZ imposed austerity programme and undertake overdue reforms to government and the economy. There are also concerns over the lack of political will in France to address issues of poor international competitiveness,

USA. The economy has managed to return to robust growth in Q2 2013 of 2.5% y/y and 4.1% y/y in Q3, in spite of the fiscal cliff induced sharp cuts in federal expenditure that kicked in on 1 March, and increases in taxation. The Federal Reserve therefore decided in December to reduce its $85bn per month asset purchases programme of quantitative easing by $10bn. It also amended its forward guidance on its pledge not to increase the central rate until unemployment falls to 6.5% by adding that there would be no increases in the central rate until 'well past the time that the unemployment rate declines below 6.5%, especially if projected inflation continues to run below the 2% longer run goal'. Consumer, investor and business confidence levels have all improved markedly in 2013. The housing market has turned a corner and house sales and increases in house prices have returned to healthy levels. Many house owners have, therefore, been helped to escape from negative equity and banks have also largely repaired their damaged balance sheets so that they can resume healthy levels of lending. All this portends well for a reasonable growth rate looking forward.

China. There are concerns that Chinese growth could be on an overall marginal downward annual trend. There are also concerns that the new Chinese leadership have only started to address an unbalanced economy which is heavily dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector. There are also concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit, which was aimed at protecting the overall rate of growth in the economy after the Lehmans crisis.

Japan. The initial euphoria generated by "Abenomics", the huge QE operation instituted by the Japanese government to buy Japanese debt, has tempered as the follow through of measures to reform the financial system and the introduction of other economic reforms, appears to have stalled. However, at long last, Japan has seen a return to reasonable growth and positive inflation during 2013 which augurs well for the hopes that Japan can escape from the bog of stagnation and deflation and so help to support world growth. The fiscal challenges though are huge; the gross debt to GDP ratio is about 245% in 2013 while the government is currently running an annual fiscal deficit of around 50% of total government expenditure. Within two years, the central bank will end up purchasing about Y190 trillion (£1,200 billion) of government debt. In addition, the population is ageing due to a low birth rate and, on current trends, will fall from 128m to 100m by 2050.

CAPITA ASSET SERVICES FORWARD VIEW

Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds.

There could well be volatility in gilt yields over the next year as financial markets anticipate further tapering of asset purchases by the Fed. The timing and degree of tapering could have a significant effect on both Treasury and gilt yields. Equally, while the political deadlock and infighting between Democrats and Republicans over the budget has almost been resolved the raising of the debt limit, has only been kicked down the road. A final resolution of these issues could have a significant effect on gilt yields during 2014.

The longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in economic recovery is also likely to compound this effect as a continuation of recovery will further encourage investors to switch back from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly weighted. However, only time will tell just how long this period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

The interest rate forecasts in this report are based on an initial assumption that there will not be a major resurgence of the EZ debt crisis, or a break-up of the EZ, but rather that there will be a managed, albeit painful and tortuous, resolution of the debt crisis where EZ institutions and governments eventually do what is necessary - but only when all else has been tried and failed. Under this assumed scenario, growth within the EZ will be tepid for the next couple of years and some EZ countries experiencing low or negative growth, will, over that time period, see a significant increase in total government debt to GDP ratios. There is a significant danger that these ratios could rise to the point where markets lose confidence in the financial viability of one, or more, countries. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a resurgence of the EZ debt crisis. While the ECB has adequate resources to manage a debt crisis in a small EZ country, if one, or more, of the large countries were to experience a major crisis of market confidence, this would present a serious challenge to the ECB and to EZ politicians.

Downside risks currently include:

- UK strong economic growth is currently very dependent on consumer spending and recovery in the housing market. This is unlikely to endure much beyond 2014 as most consumers are maxed out on borrowing and wage inflation is less than CPI inflation, so disposable income is being eroded.
- A weak rebalancing of UK growth to exporting and business investment causing a major weakening of overall economic growth beyond 2014
- Weak growth or recession in the UK's main trading partners - the EU and US, depressing economic recovery in the UK.
- Prolonged political disagreement over the raising of the US debt ceiling.
- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.
- A resurgence of the Eurozone sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis.

- The potential for a significant increase in negative reactions of populaces in Eurozone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- The Italian political situation is frail and unstable; this will cause major difficulties in implementing austerity measures and a programme of overdue reforms. Italy has the third highest government debt mountain in the world.
- Problems in other Eurozone heavily indebted countries (e.g. Cyprus and Portugal) which could also generate safe haven flows into UK gilts, especially if it looks likely that one, or more countries, will need to leave the Eurozone.
- A lack of political will in France, (the second largest economy in the EZ), to dynamically address fundamental issues of low growth, poor international uncompetitiveness and the need for overdue reforms of the economy.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.
- Geopolitical risks e.g. Syria, Iran, North Korea, which could trigger safe haven flows back into bonds.

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

- A sharp upturn in investor confidence that sustainable robust world economic growth is firmly expected, causing a surge in the flow of funds out of bonds into equities.
- A reversal of Sterling's safe-haven status on a sustainable improvement in financial stresses in the Eurozone.
- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.
- In the longer term – an earlier than currently expected reversal of QE in the UK; this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held.

Allan gan / From: CAPITA ASSET SERVICES – TREASURY SOLUTIONS

ATODIAD / APPENDIX 3

Graddfeydd Credyd Gwrthbartion buddsoddi a'r adneuon a ddelir gyda phob un ar 31 Rhagfyr 2013 *
Credit ratings of investment counterparties and deposits held with each as at 31 December 2013*

Grŵp Bancio/ Banking Group	Sefydliad/ Institution	Adneuon / Deposit £'000	Hyd (Galw tymor sefydlog) / Duration (Call / Fixed Term**)	Cyfnod (O/I)/ Period (From - To)	Graddfa Dychweliad/ Rate of Return %	Graddfa Tymor Hir Fitch Long Term Rating ****	Graddfa Tymor Byr Fitch Short Term Rating ****	Graddfa Tymor Hir Moody's Long Term Rating ****	Graddfa Tymor Byr Moody's Short Term Rating ****	Graddfa Tymor Hir Standard & Poor's (S&P) Long Term Rating ****	Graddfa Tymor Byr Standard & Poor's (S&P) Short Term Rating ****	Lliw Sector/Hyd Awgrymiedig/ Sector Colour / Suggested Duration
Lloyds Banking Group plc	Bank of Scotland plc	**3,134**	**Galw/ Call**	**n/a**	**0.40**	**A**	**F1**	**A2**	**P-1**	**A**	**A-1**	**Glas - 12 mis/ Blue - 12 months**
HSBC Holdings plc	HSBC Bank plc	**712**	**Galw/ Call**	**n/a**	**0.25**	**AA-**	**F1+**	**Aa3**	**P-1**	**AA-**	**A-1+**	**Oren – 12 mis / Orange – 12months**
Santander Group plc***	Santander UK plc	**535**	**Galw/ Call**	**n/a**	**0.40**	**A**	**F1**	**A2**	**P-1**	**A**	**A-1**	**Gwyrdd – 100 diwrnod/ Green - 100 days**
The Royal Bank of Scotland Group plc	The Royal Bank of Scotland plc	**5,000**	**Galw/ Call**	**n/a**	**0.60**	**A**	**F1**	**A3**	**P-2**	**A-**	**A-2**	**Glas - 12 mis / Blue - 12 months**
The Royal Bank of Scotland Group plc	The Royal Bank of Scotland plc	**5,000**	**Tymor Sefydlog/ Fixed Term (3 mis/months)**	**Tachwedd /November 2013 - Tachwedd/ February 2014**	**0.80**	**A**	**F1**	**A3**	**P-2**	**A-**	**A-2**	**Glas – 12 mis / Blue - 12 months**

* Ceir y Rhestr Benthyca Cymeradwyedig yn Atodiad 5 o'r Datganiad Strategaeth Rheoli Trysorlys 2013/14/Strategaeth Buddsoddi Blynyddol / The Approved Lending List can be found at Appendix 5 of the 2013/14 Treasury Management Strategy Statement / Annual Investment Strategy

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

*** Santander oedd yr unig sefydliad i beidio â chwrdd â meini prawf y Rhestr Benthyca Cymeradwyedig. Fe parhawyd i fuddsoddi yn Santander. Trafodir hyn yn Rhan 4.2 / The only institution not to meet the Approved Lending List credit criteria was Santander. Investment in Santander did continue though. This is discussed in Section 4.2.

**** Yn Atodiad 4 ceir y graddfeydd credyd cyfatebol ar gyfer y 3 asiantaeth graddio y cyfeirir atynt uchod./The equivalent credit ratings for the 3 rating agencies referred to above can be found at Appendix 4.

Graddfeydd Credyd Cyfatebol/

Equivalent Credit Ratings (Fitch, Moodys, S&P)

Tymor Hir **Fitch** **Long Term**	**Tymor Hir** **Moodys** **Long Term**	**Tymor Hir** **S&P** **Long Term**
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-
A+	A1	A+
A	A2	A
A-	A3	A-
BBB+	Baa1	BBB+
BBB	Baa2	BBB
BBB-	Baa3	BBB-
Tymor Byr **Fitch** **Short Term**	**Tymor Byr** **Moodys** **Short Term**	**Tymor Byr** **S&P** **Short Term**
F1+	d/b / n/a	A-1+
F1	P-1	A-1
F2	P-2	A-2
F3	P-3	A-3

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Performance work programme update for Audit Committee 4 February 2014

Isle of Anglesey County Council

Improvement Assessment Letter 1 – Improvement planning

The review is complete and Letter issued.

Improvement Assessment Letter 2 - Testing and Audit of Council's Performance Assessment Publication

A review of how well the Council has reported on its performance in the last year. The letter will also provide a commentary of the Council's Improvement Plan. The Letter was issued on 19th December 2013.

Annual Improvement Report

The Annual Improvement Report (AIR) summarises all the work carried out by the Wales Audit Office as well as that carried out by relevant regulators, such as Estyn, CSSIW and Welsh Language Commissioner. The AIR will be produced in January/February 2014.

Corporate Assessment

The second year of the four-year cycle of corporate assessments commences in 2014. Six corporate assessments are planned for 2014-15, and Anglesey is included. The proposed period of the corporate assessment is Winter 2014-15.

Improvement study – Safeguarding

This study is planned and will focus on the robustness of councils' internal management arrangements to assure themselves that safeguarding arrangements are working effectively. The study will be conducted across all 22 authorities. The main outputs from the study will be a national report on the findings from the local work and a short summary report for each council consisting of the main findings from the fieldwork. The study will take place in early 2014.

Local Government National Study – Welfare reform

The study will focus on preparing to deal with the impact of the Welfare Reform Act 2012 and look at how well local government has planned for the introduction of welfare reform by tracing the implications on social housing. Fieldwork has commenced and PwC have sent out detailed landlord and council surveys to the main housing association providers in Wales and all 22 Welsh councils, a total of 62 separate surveys. Fieldwork is due for completion in February. Anglesey is not included as a fieldwork site.

Local Government National Study - Delivering with less – the impact on Environmental Health Services and citizens
The fieldwork should be complete by mid-February. A report will be published and the Chartered Institute of Environmental Health have agreed to launch the report conclusions at their Welsh conference on May 7th and 8th 2014.
Effectiveness of scrutiny
This is a 2012-13 study. A national report is due to be published by March 2014.
Annual Governance Statement
This is a 2012-13 study. The work is complete and local summaries finalised and distributed to councils. A national report is due to be published by March 2014.
Local Government Study - NEETS (young person who is not in education, employment, or training)
This is a 2012-13 study. The study is complete and publication of the report is due by March 2014.
Local Government Study - Managing the financial challenge
The report was published on 28th January 2014.

Work specific to Anglesey

Local review
Review of the effectiveness of relationships between councillors, and between councillors and officers following the 2013 elections. The work is planned for early 2014 and will be reported through local feedback and, in the AIR.

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Reference	688A2013
Date	19 December 2013
Pages	1 of 3

Dear Richard

Improvement Assessment

This letter summarises the key conclusions arising from my work in respect of improvement planning under the Local Government (Wales) Measure 2009 (the Measure). I am also required, under the Measure, to give an opinion on whether the Council has discharged its duties in respect of improvement reporting and met the requirements of the Measure.

In my letter of 13 September 2013, I was unable to give my opinion on whether Isle of Anglesey County Council (the Council) had discharged its statutory duties in respect of improvement planning. The Council had delayed the publication of its Improvement Plan to give the newly elected members sufficient time to review the Council's Improvement Objectives and align these with the improvement programme and Medium-Term Financial Plan. Additionally, a six-week public consultation, entitled 'Making a Difference', fed into the Improvement Plan. The Council subsequently published its Improvement Plan in November 2013.

Improvement Planning

The Council has discharged its improvement planning duties under the Measure and has acted in accordance with Welsh Government guidance

I have reached this conclusion because:

- the Improvement Plan 2013-14 (the Plan) sets out the Council's improvement objectives, which comply with Welsh Government guidance;
- the results of engagement and consultation activities with the public and stakeholders have informed the development of the improvement objectives;
- improvement areas highlighted by external regulators and the former Commissioners have informed the development of the improvement objectives;
- the Plan is influenced by the analysis of the outcomes and weaknesses from last year's Performance Review of 2011-12 and the Council's first ever self-assessment, carried out in April 2013; and

- the Council has chosen a reasonable range of indicators against which to judge its performance.

The Plan describes the Council's priorities succinctly and clearly and explains how the priorities reflect the views of the public as well as those of the Council and other partners. The Plan was published following the analysis of the public-facing engagement process and further discussions at Council, Scrutiny and Executive meetings in October and early November 2013.

The Council has defined 56 Improvement Objectives, but these are helpfully grouped together under 19 Development Priorities. These, in turn, cover three major service areas including Education, Adult Services and Children's Services. The Council has encapsulated what it is trying to achieve in each service area using bold and outcome-based phrases such as, 'Transforming our Adults provision to empower older people on Anglesey by giving them as much independence, choice and control as possible in their future care' and 'Improve our Education provision to enable the Island's children, wherever they are, irrespective of background and circumstance to achieve their full potential'. These aims are ambitious in their breadth, especially as many require partnership working.

The Council has helped to define its ambition for the year ahead by choosing a number of outcome indicators for most of its Improvement Objectives. Each set of indicators encapsulates the improvements that the Council hopes that citizens will experience during 2013-14. In setting its targets for these indicators, the Council has carefully considered current and past performance.

These objectives are the Council's priorities for 2013-14, but the Council also acknowledges in its Plan the need to progress outstanding areas of work originating from its Corporate Business Plan 2012-2015. These areas will also be reviewed and reported regularly through the Council's revised performance management framework.

Each service area in the Plan contains a useful section entitled 'What do our citizens tell us', which identifies learning points from previous consultations and emphasises the Council's commitment to feedback and engagement.

Improvement Reporting

In my opinion, and based on audit work undertaken to date, the Council has discharged its improvement reporting duties under the Measure and has acted in accordance with Welsh Government guidance

I have reached this conclusion because:

- the Council published its Performance Report, a self-assessment and year-end review (the Review) of its performance during 2012-13, by 31 October 2013;
- the Review provides an assessment of the Council's performance in the preceding financial year (2012-13) and sets out how the Council has sought to discharge its duties under the Measure;
- the Review includes a clear evaluation of whether or not the Council believes it achieved its Improvement Objectives;
- the Review includes details of the Council's performance and compares it against the national statutory performance indicators; and
- the Review includes sections on how the Council has sought to collaborate.

Further proposals for improvement/recommendations

No new proposals for improvement are being suggested in this letter. We will continue to monitor and report on the progress made by the Council in implementing the proposals set out in my previous reports and letters. I will undertake more detailed work on the arrangements that support the Council's performance management and reporting over the following months and report this, as well as summarising all of my work and that of relevant regulators during 2013-14, in an Annual Improvement Report for the Council that I will aim to issue by the end of March 2014.

Yours sincerely

HUW VAUGHAN THOMAS

Auditor General for Wales

CC: Lesley Griffiths, Minister for Local Government and Government Business

Huw Lloyd Jones – Manager

Andy Bruce – Performance Audit Lead

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