Public Document Pack

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ERHYBUDD O GYFARFOD		NOTICE OF MEETING
PWYLLGOR ARCHWILIO (ARBENNIG)		AUDIT COMMITTEE (EXTRAORDINARY)
DYDD LLUN, 9 CHWEFROR am 2 o'r gloch y prynhawn		MONDAY, 9 FEBRUARY 2015 at 2.00 pm
SIAMBR Y CYNGOR, SWYDDFEYDD Y CYNGOR, LLANGEFNI		COUNCIL CHAMBER, COUNCIL OFFICES, LLANGEFNI
Swyddog Pwyllgor	Ann Holmes 01248 752518	Committee Officer

AELODAU / MEMBERS
Cynghorwyr / Councillors:-

Annibynnol / Independent

Jim Evans, Dafydd Rhys Thomas and Richard Owain Jones

Plaid Cymru / The Party of Wales

T Ll Hughes (Cadeirydd/Chair), John Griffith (Is-Gadeirydd/Vice-Chair) and Alun W Mummery

Grwp Chwyldroad/Revolutionist Group

Sedd Wag/Vacant Seat

Heb Ymaelodi / Unaffiliated

R Ll 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 **TREASURY MANAGEMENT STRATEGY STATEMENT 2015/16** (Pages 1 - 32)

To present the Treasury Management Strategy Statement for 2015/16.

3 **AUDIT COMMITTEE - REVIEW OF EFFECTIVENESS 2014/15** (Pages 33 - 54)

To present the report of the Internal Audit Manager following the workshop held on 19th January, 2015.

4 **CONSULTATION ON THE PROPOSED REVISION OF THE AUDIT COMMITTEE'S TERMS OF REFERENCE** (Pages 55 - 60)

To present the report of the Internal Audit Manager.

5 **ROLE OF THE COUNTER FRAUD OFFICER** (Pages 61 - 62)

To present the report of the Corporate Counter Fraud Officer.

ISLE OF ANGLESEY COUNTY COUNCIL	
REPORT TO:	**AUDIT COMMITTEE**
DATE:	**9 FEBRUARY 2015**
SUBJECT:	**TREASURY MANAGEMENT STRATEGY STATEMENT 2015/16**
LEAD OFFICER:	**RICHARD MICKLEWRIGHT**
CONTACT OFFICER:	**GARETH ROBERTS/BEN DAVIES (TEL:2675/2610)**
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 which 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 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 does not currently have documented TMPs but it is intended that this will be resolved in 2015/16 and presented at the earliest opportunity to the relevant committees, in line with the proposed Treasury Management Scheme of Delegation for 2015/16.

3. In terms of updates to the Treasury Management Strategy Statement there is only one proposed amendment to the core principals and policies of the 2014/15 Statement, which is as follows:-

- The quarter one and quarter three Treasury Management reports will no longer be produced. This is to be reflected within the Authority's standing orders, as detailed in appendix 9 to this report.

It is intended that the potential categories of investments to be used, together with the credit rating criteria and investment limits, will be subject to review during the year with any amendments subject to prior approval in accordance with the Treasury Management Scheme of Delegation.

4. The planned exit of the HRA subsidy system on 2nd April 2015 has been taken into account in the prudential indicators (see Appendix 11) on the basis set out in Appendix 12.

5. The Council's external borrowing stood at £89.6m as at 2 February 2015, this is expected to be the position at 31 March 2015. The borrowing is made up of fixed rate and variable rate. The fixed rate borrowing stood at £89.3m with an average life of 25 years, and average interest rate of 5.70%. The variable rate borrowing stood at £0.3m with average life of 10 years and an average interest rate of 9.41%. The anticipated cost of borrowing for 2014/15 is £5.1m and the forecast underlying need to borrow at the year end is £114.8m. This means that the Council will be internally borrowed by £25.2m by the year end.

The Council's investment as at 2 February 2015 stood at £16.1m with an average rate of return of 0.4% and the average balance for the year to date is £21.1m. As internal borrowing has increased the investment balances have decreased.

6. Recommendations:

- To note the contents of this covering report;
- To endorse the Treasury Management Strategy Statement (including the Prudential and Treasury Management Indicators) [Annex A] for 2015/16; and
- To pass any recommendations and/or comments to the Executive Committee.

ANNEX A

TREASURY MANAGEMENT STRATEGY STATEMENT

ANNUAL INVESTMENT STRATEGY, MINIMUM REVENUE PROVISION POLICY STATEMENT AND TREASURY MANAGEMENT POLICY STATEMENT 2015/16

1. Introduction

1.1 Background

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

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

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

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

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

1.2 Reporting Requirements

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

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

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

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

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

1.3 Treasury Management Strategy for 2015/16

The strategy for 2015/16 covers two main areas:-

Capital Issues

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

Treasury management Issues

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

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

1.4 Training

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. In order to support the scrutiny role of the members of the Audit Committee, the committee's members received training in treasury management, delivered by the appointed treasury management consultants on 14th July 2014. Further training will be arranged as required.

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

1.5 Treasury management consultants

The Council uses Capita Asset Services, – Treasury Solutions (herein referred to as Capita)as its external treasury management advisors.

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

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

1.6 Adoption of the Code

The Council is required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The current, 2011, code of practice has already been adopted by this Council and so no update is required for 2015/16.

2. Capital Considerations

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

The Authority's capital expenditure projections for 2015/16 to 2017/18 are reflected in the Prudential Indicators (Appendix 11). The projected expenditure for 2015/16 to 2017/18 is based on the capital bids recommended for approval in accordance with the 2015/16 Capital Strategy, as separately reported. The projections for those years also include the assumption that slippage from 2014/15 with be fully spent in 2015/16. The 2015/16 expenditure forecast includes the projected HRA self-financing settlement as detailed below.

Subject to the voluntary agreement of all 11 of the Welsh housing authorities the Council will be required to make a one off payment to the Welsh Government to remove the HRA from the current housing subsidy system. The payment is expected to be in the region of £21.4m although this could change. This one off payment is compensation, ensuring the HRA will no longer make future annual payments to the Welsh Government. It is expected that the overall impact will be beneficial to the Council. The final settlement amount is to be confirmed but by agreeing to the revised prudential indicators the Council is ensuring the necessary local requirements are in place well before the payment is required.

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

3. Borrowing

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

3.1 Current and Projected Borrowing Requirement and Actual Borrowing

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

ESTIMATED MOVEMENTS IN THE CAPITAL FINANCING REQUIREMENT AND REPLACEMENT BORROWING 2014/15 TO 2017/18				
	2014/15 Projected £'000	**2015/16 Estimate £'000**	**2016/17 Estimate £'000**	**2017/18 Estimate £'000**
Movement in the CFR				
New borrowing to support capital expenditure				
Supported Borrowing	*4,472*	*2,750*	*2,189*	*2,189*
Unsupported Borrowing	*6,000*	*23,400*	*4,620*	*0*
Total	**10.472**	**26,150**	**6,809**	**2,189**
Reduce by: Minimum Revenue Provision and set aside capital receipts	(4,538)	(4,287)	(4,801)	(4,908)
Net movement in the CFR	**5,934**	**21,863**	**2,008**	**(2,719)**
Potential movements in actual borrowing				
Movement in the CFR (above)	-	21,863	2,008	(2,719)
Externalisation of pre 2013/14 internal borrowing	-	25,177	**-**	**-**
Replacement Borrowing	**-**	8	9	5,509
Total potential new borrowing	**-**	**47,048**	**2,017**	**2,790**

3.2 Prospects for Interest Rates

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

Annual Average (%)	**Bank Rate (%)**	**PWLB Borrowing Rates (including certainty rate adjustment)**		
		5 year	**25 year**	**50 year**
March 2015	0.50	2.20	3.40	3.40
June 2015	0.50	2.20	3.50	3.50
September 2015	0.50	2.30	3.70	3.70
December 2015	0.75	2.50	3.80	3.80
March 2016	0.75	2.60	4.00	4.00
June 2016	1.00	2.80	4.20	4.20
September 2016	1.00	2.90	4.30	4.30
December 2016	1.25	3.00	4.40	4.40
March 2017	1.25	3.20	4.50	4.50
June 2017	1.50	3.30	4.60	4.60
September 2017	1.75	3.40	4.70	4.70
December 2017	1.75	3.50	4.70	4.70
March 2018	2.00	3.60	4.80	4.80

UK GDP growth surged during 2013 and the first half of 2014. Since then it appears to have subsided somewhat but still remains strong by UK standards and is expected to continue likewise into 2015 and 2016. There needs to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this recovery to become more firmly established. One drag on the economy has been that wage inflation has only recently started to exceed CPI inflation, so enabling disposable income and living standards to start improving. The plunge in the price of oil brought CPI inflation down to a low of 1.0% in November, the lowest rate since September 2002. Inflation is expected to stay around or below 1.0% for the best part of a year; this will help improve consumer disposable income and so underpin economic growth during 2015. However, labour productivity needs to improve substantially to enable wage rates to increase and further support consumer disposable income and economic growth. In addition, the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases, though current views on the amount of hidden slack in the labour market probably means that this is unlikely to happen early in 2015.

The US, the biggest world economy, has generated stunning growth rates of 4.6% (annualised) in Q2 2014 and 5.0% in Q3. This is hugely promising for the outlook for strong growth going forwards and it very much looks as if the US is now firmly on the path of full recovery from the financial crisis of 2008. Consequently, it is now confidently expected that the US will be the first major western economy to start on central rate increases by mid-2015.

The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- Greece: the general election on 25 January 2015 is likely to bring a political party to power which is anti EU and anti austerity. However, if this eventually results in Greece leaving the Euro, it is unlikely that this will directly destabilise the Eurozone as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece. However, the indirect effects of the likely strenthening of anti EU and anti austerity political parties throughout the EU is much more difficult to quantify;

- As for the Eurozone in general, concerns in respect of a major crisis subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, and worries over the Ukraine situation, Middle East and Ebola, have led to a resurgence of those concerns as risks increase that it could be heading into deflation and prolonged very weak growth. Sovereign debt difficulties have not gone away and major concerns could return in respect of individual countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;

- Investment returns are likely to remain relatively low during 2015/16 and beyond;

- Borrowing interest rates have been volatile during 2014 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. The closing weeks of 2014 saw gilt yields dip to historically remarkably low levels after inflation plunged, a flight to quality from equities (especially in the oil sector), and from the debt and equities of oil producing emerging market countries, and an increase in the likelihood that the ECB will commence quantitative easing (purchase of EZ government debt) in early 2015. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt; and

- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

3.3 Borrowing Strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This approach is prudent as investment returns are low and counterparty risk is high, and will continue to be followed where appropriate (see 3.3.1 below for a more detailed consideration of internal and external borrowing).

Against this background and the risks within the economic forecast, caution will be adopted with the 2015/16 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 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 a faster than currently anticipated unwinding of quantitative easing in the US, or an unexpected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

HRA reform in Wales

The requirement for the HRA reform settlement to be made to the Welsh Government on 2 April 2015 will require a separate consideration of a borrowing strategy. The Council will need to have the cash settlement amount available on the 2 April 2015, and this must be funded by way of borrowing from the Public Works Loans Board (PWLB) loans and so separate borrowing solely for this purpose will be incurred. The exact structure of loans to be drawn is currently being considered by officers to ensure it meets the requirements of the HRA business plan and the overall requirements of the Council.

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

3.3.1 External v. internal borrowing

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

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

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

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

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

However, short term savings by avoiding new long term external borrowing in 2014/15 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.

The HRA subsidy system exit could provide an opportunity to take up long dated PWLB loans at historically low levels to benefit the Council as a whole over the long term. Any such strategy will be subject to review in the weeks leading up to the anticipated exit (see Section 3.4).

Against this background, caution will be adopted with the 2015/16 treasury operations. The S151 Officer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the appropriate decision making body at the earliest opportunity.

3.4 Policy on borrowing in advance of need

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

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

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

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

3.5 Debt Rescheduling

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

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

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

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

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

4. Annual Investment Strategy

4.1 Investment Policy

The Council's investment policy has regard to the Welsh Government's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice for Local Authorities and Cross-Sectorial Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, and then return.

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

Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to institutions. This will result in the key ratings used to monitor counterparties being the Short Term and Long Term ratings only. Viability, Financial Strength and Support Ratings previously applied will effectively become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.

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

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

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

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

4.2 Creditworthiness policy

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

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

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

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

The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution (using the Fitch, Moody's and Standard & Poor's credit rating agencies). For instance, if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution, on the basis of credit rating, will fall outside the lending criteria. Credit rating information is supplied by Capita Assets Services on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria could be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.

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

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

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

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

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

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

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

4.3 Country limits

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

4.4 Investment Strategy

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

Investment returns expectations: Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 4 of 2015. Bank Rate forecasts for financial year ends (March) are:-

- 2015/16 0.75%
- 2016/17 1.25%
- 2017/18 2.00%

There are downside risks to these forecasts (i.e. start of increases in Bank Rate occurs later) if economic growth weakens. However, should the pace of growth quicken, there could be an upside risk.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next eight years are as follows:-

2015/16 0.60%
2016/17 1.25%
2017/18 1.75%
2018/19 2.25%
2019/20 2.75%
2020/21 3.00%
2021/22 3.25%
2022/23 3.25%
Later years 3.50%

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

4.5 End of year investment report

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

4.6 External fund managers

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

4.7 Policy on the use of external service providers

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

Final responsibility for treasury management decisions remains with the Council.

4.8 Delegation

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

APPENDICES

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

DADANSODDIAD BENTHYCIADAU YN AEDDFEDU 2014/15 YMLAEN/ LOANS MATURITY ANALYSIS 2014/15 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 %
2014/15	0	1	0	0	1	0.0
2015/16	0	8	0	0	8	0.0
2016/17	0	9	0	0	9	0.0
2017/18	5,500	9	0	0	5,509	6.2
2018/19	5,000	10	0	0	5,010	5.6
2019/20	5,000	11	0	0	5,011	5.6
2020/21	4,500	12	0	0	4,512	5.0
2021/22	0	14	0	0	14	0.0
2022/23	2,285	15	0	0	2,300	2.6
2023/24	1,854	16	0	0	1,870	2.1
2024/25	0	18	0	0	18	0.0
2025/26	0	20	0	0	20	0.0
2026/27	854	22	0	0	876	1.0
2027/28	1,674	24	0	0	1,698	1.9
2028/29	0	26	0	0	26	0.0
2029/30	854	21	0	0	875	1.0
2030/31	0	15	0	0	15	0.0
2031/32	1,281	9	0	0	1,290	1.4
2032/33	0	8	0	0	8	0.0
2033/34	0	0	0	0	0	0.0
2034/35	0	0	0	0	0	0.0
2035/36	0	0	0	0	0	0.0
2037/38	0	0	0	0	0	0.0
2039/40	5,000	0	0	0	5,000	5.6
2040/41	3,500	0	0	0	3,500	3.9
2045/46	0	0	0	0	0	0.0
2047/48	0	0	0	0	0	0.0
2050/51	2,000	0	0	0	2,000	2.2
2052/53	28,238	0	0	0	28,238	31.5
2054/55	3,000	0	0	0	3,000	3.3
2055/56	3,500	0	0	0	3,500	3.9
2056/57	5,000	0	0	0	5,000	5.6
2057/58	8,513	0	0	0	8,513	9.6
2059/60	1,763	0	0	0	1,763	2.0
2060/61	0	0	0	0	0	0
	89,316	**268**	**0**	**0**	**89,585**	**100.0**
Cyfartaledd bywyd (blynyddoedd)/ Average life(years)	25.43	10.41	0.00	0.00	25.38	
Cyfartaledd graddfa (%)/ Average rate (%)	5.70	9.41	0.00	0.00	5.72	

Minimum Revenue Provision Policy Statement 2015/16

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

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

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

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

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

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

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

Rhagolygon Graddfeydd Llog 2015/2018/
Interest Rate Forecasts 2015/2018/

Capita Asset Services Interest Rate View													
	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank Rate View	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	1.75%	2.00%
3 Month LIBID	0.50%	0.50%	0.60%	0.80%	0.90%	1.10%	1.10%	1.30%	1.40%	1.50%	1.80%	1.90%	2.10%
6 Month LIBID	0.70%	0.70%	0.80%	1.00%	1.10%	1.20%	1.30%	1.50%	1.60%	1.70%	2.00%	2.10%	2.30%
12 Month LIBID	0.90%	1.00%	1.10%	1.30%	1.40%	1.50%	1.60%	1.80%	1.90%	2.00%	2.30%	2.40%	2.60%
5yr PWLB Rate	2.20%	2.20%	2.30%	2.50%	2.60%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.60%
10yr PWLB Rate	2.80%	2.80%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB Rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
50yr PWLB Rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Bank Rate													
Capita Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	1.75%	2.00%
Capital Economics	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	-	-	-	-	-
5yr PWLB Rate													
Capita Asset Services	2.20%	2.20%	2.30%	2.50%	2.60%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.60%
Capital Economics	2.20%	2.50%	2.70%	3.00%	3.10%	3.20%	3.30%	3.40%	-	-	-	-	-
10yr PWLB Rate													
Capita Asset Services	2.80%	2.80%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
Capital Economics	2.80%	3.05%	3.30%	3.55%	3.60%	3.65%	3.70%	3.80%	-	-	-	-	-
25yr PWLB Rate													
Capita Asset Services	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Capital Economics	3.25%	3.45%	3.65%	3.85%	3.95%	4.05%	4.15%	4.25%	-	-	-	-	-
50yr PWLB Rate													
Capita Asset Services	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Capital Economics	3.30%	3.50%	3.70%	3.90%	4.00%	4.10%	4.20%	4.30%	-	-	-	-	-

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

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

Economic Background

THE UK ECONOMY

Economic growth, After strong UK GDP growth in 2013 at an annual rate of 2.7%, and then in 2014 0.7% in Q1, 0.9% in Q2 2014 (annual rate 3.2% in Q2), Q3 has seen growth fall back to 0.7% in the quarter and to an annual rate of 2.6%. It therefore appears that growth has eased since the surge in the first half of 2014 leading to a downward revision of forecasts for 2015 and 2016, albeit that growth will still remain strong by UK standards. For this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance. This overall strong growth has resulted in unemployment falling much faster than expected. The MPC is now focusing on how quickly slack in the economy is being used up. It is also particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back significantly above the level of inflation in order to ensure that the recovery will be sustainable. There also needs to be a major improvement in labour productivity, which has languished at dismal levels since 2008, to support increases in pay rates. Unemployment is expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in wage growth at some point during the next three years. However, just how much those future increases in pay rates will counteract the depressive effect of increases in Bank Rate on consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review.

Also encouraging has been the sharp fall in inflation (CPI), reaching 1.0% in November 2014, the lowest rate since September 2002. Forward indications are that inflation is likely to remain around or under 1% for the best part of a year. The return to strong growth has helped lower forecasts for the increase in Government debt over the last year but monthly public sector deficit figures during 2014 have disappointed until November. The autumn statement, therefore, had to revise the speed with which the deficit is forecast to be eliminated.

THE GLOBAL ECONOMY

Eurozone (EZ): The Eurozone is facing an increasing threat from weak or negative growth and from deflation. In November 2014, the inflation rate fell further, to reach a low of 0.3%. However, this is an average for all EZ countries and includes some countries with negative rates of inflation. Accordingly, the ECB took some rather limited action in June and September 2014 to loosen monetary policy in order to promote growth. It now appears likely that the ECB will embark on full quantitative easing (purchase of EZ country sovereign debt) in early 2015.

Concern in financial markets for the Eurozone subsided considerably after the prolonged crisis during 2011/2013. However, sovereign debt difficulties have not gone away and major issues could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy, (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise for some countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. The ECB's pledge in 2012 to buy unlimited amounts of bonds of countries which ask for a bailout 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 (2013 figures) of Greece 180%, Italy 133%, Portugal 129%, Ireland 124% and Cyprus 112%, remain a cause of concern, especially as some 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 likely to continue 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: the general election due to take place on 25 January 2015 is likely to bring a political party to power which is anti EU and anti austerity. However, if this eventually results in Greece leaving the Euro, it is unlikely that this will directly destabilise the Eurozone as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece. However, the indirect effects of the likely strenthening of anti EU and anti austerity political parties throughout the EU is much more difficult to quantify. 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 which have high unemployment rates. There are also major concerns as to whether the governments of France and Italy will effectively implement austerity programmes and undertake overdue reforms to improve national competitiveness. These countries already have political parties with major electoral support for anti EU and anti austerity policies. Any loss of market confidence in either of the two largest Eurozone economies after Germany would present a huge challenge to the resources of the ECB to defend their debt.

USA: The U.S. Federal Reserve ended its monthly asset purchases in October 2014. GDP growth rates (annualised) for Q2 and Q3 of 4.6% and 5.0% have been stunning and hold great promise for strong growth going forward. It is therefore confidently forecast that the first increase in the Fed. rate will occur by the middle of 2015.

China: Government action in 2014 to stimulate the economy appeared to be putting the target of 7.5% growth within achievable reach but recent data has indicated a marginally lower outturn for 2014, which would be the lowest rate of growth for many years. There are also concerns that the Chinese leadership has only started to address an unbalanced economy which is heavily over 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: Japan is causing considerable concern as the increase in sales tax in April 2014 has suppressed consumer expenditure and growth to the extent that it has slipped back into recession in Q2 and Q3. The Japanese government already has the highest debt to GDP ratio in the world.

Capital Asset Services forward view:

Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data transpires over 2015. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds.

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

The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current 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. There is an increased risk that Greece could end up leaving the Euro but if this happens, the EZ now has sufficient fire walls in place that a Greek exit would have little immediate direct impact on the rest of the EZ and the Euro. It is therefore expected that there will be an overall managed, albeit painful and tortuous, resolution of any EZ debt crisis that may occur 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 weak at best for the next couple of years with some EZ countries experiencing low or negative growth, which will, over that time period, see an 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, especially if growth disappoints and / or efforts to reduce government deficits fail to deliver the necessary reductions. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a sharp 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 larger 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 to current forecasts for UK gilt yields and PWLB rates currently include:-

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK strong economic growth is weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU, US and China.
- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Monetary policy action failing to stimulate sustainable growth and to combat the threat of deflation in western economies, especially the Eurozone and Japan.

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

- An adverse reaction by financial markets to the result of the UK general election in May 2015 and the economic and debt management policies adopted by the new government
- ECB either failing to carry through on recent statements that it will soon start quantitative easing (purchase of government debt) or severely disappointing financial markets with embarking on only a token programme of minimal purchases which are unlikely to have much impact, if any, on stimulating growth in the EZ.
- The commencement by the US Federal Reserve of increases in the central rate in 2015 causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities, leading to a sudden flight from bonds to equities.
- A surge in investor confidence that a return to robust world economic growth is imminent, causing a flow of funds out of bonds into equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

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

APPENDIX 5

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 2015/16 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 2015/16 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
Banks 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

* *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 27 January 2015]

Based upon lowest available sovereign credit rating

AAA

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

AA+

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

AA

- Abu Dhabi (UAE)
- France
- Qatar

AA-

- Belgium
- Saudi Arabia

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

(iii) Audit Committee

- Scrutiny of Treasury Management matters as required by CIPFA's Cod 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 S151 (responsible) officer's role includes:-

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

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

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

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

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

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

The Code then goes on to say that:

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

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

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

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

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

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

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

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

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

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

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

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

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

Treasury Management Policy Statement

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

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

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

PRUDENTIAL & TREASURY INDICATORS **Appendix 11**
BUDGET SETTING 2015/16

No.	Indicator	2013/14 out-turn	2014/15 estimate	2015/16 proposal	2016/17 proposal	2017/18 proposal
Affordability						
1,2	Estimates of [or actual] ratio of financing costs to net revenue stream:					
	Council Fund	5.54%	5.90%	6.53%	6.64%	6.34%
	Housing Revenue Account (inclusive of settlement)	16.40%	13.32%	21.09%	23.76%	22.27%
	Total	6.55%	6.62%	8.06%	8.59%	8.30%
3	Estimates of incremental impact of capital investment decisions on the Council Tax			£2.95	£16.31	£22.11
	for the Band D Council Tax					
4	Estimates of incremental impact of capital investment decisions on housing rents			£29.17	£43.63	£25.20
	on average weekly rent levels					
Prudence						
5	Gross debt and the Capital Financing Requirement (CFR)	✓	✓	✓	✓	✓
	Is the gross external debt < the CFR for the preceding year plus the estimates of any additional CFR for the current and the next two financial years?					
Capital Expenditure		**£000**	**£000**	**£000**	**£000**	**£000**
6,7	Estimates of [or actual] capital expenditure					
	Council Fund	19,571	20,410	15,520	6,500	4,600
	Housing Revenue Account	3,169	6,000	8,590	11,900	7,700
	Total	22,740	26,410	24,110	18,400	12,300
8,9	Estimates of [or actual] Capital Financing Requirement					
	Council Fund	84,923	91,866	92,787	93,000	91,200
	Housing Revenue Account	23,903	22,894	43,836	45,600	45,700
	Total	108,825	114,760	136,623	138,600	136,900
External Debt		**£000**	**£000**	**£000**	**£000**	**£000**
10	Authorised Limit					
	: General Borrowing	123,000	125,000	126,000	128,000	126,000
	: HRA Settlement	0	0	36,000	36,000	36,000
	: Other long term liabilities	2,000	2,000	3,000	3,000	3,000
	: Total	125,000	127,000	165,000	167,000	165,000

11	HRA Limit on Indebtedness;					
	HRA Limit on Indebtedness	n/a	n/a	58,780	58,780	58,780
	HRA CFR	n/a	n/a	43,836	45,600	45,700
	HRA headroom	n/a	n/a	14,944	13,180	13,080
12	Operational Boundary					
	: General Borrowing	118,000	120,000	121,000	123,000	121,000
	: HRA Settlement	0	0	36,000	36,000	36,000
	: Other long term liabilities	2,000	2,000	3,000	3,000	3,000
	: Total	120,000	122,000	160,000	162,000	160,000
13	Actual External Debt	89,585				
Treasury Management		**2013/14 out-turn**	**2014/15 estimate**	**2015/16 proposal**	**2016/17 proposal**	**2017/18 proposal**
14	The Local Authority has adopted the CIPFA Code of Practice for Treasury Management in the Public Services	✓	✓	✓	✓	✓
		£000	**£000**	**£000**	**£000**	**£000**
15	Gross and net debt	100%	100%	100%	100%	100%
	The upper limit on the net debt as a proportion of gross debt					
16	The upper limit on fixed rate exposures:	105,000	125,000	162,000	164,000	162,000
	(net principal outstanding)					
17	The upper limit on variable rate exposures:	20,000	20,000	20,000	20,000	20,000
	(net principal outstanding)					
18	The limit for total principal sums invested for periods longer than 364 days	15,000	15,000	15,000	15,000	15,000
	(any long term investments carried forward from previous years will be included in each year's limit)					
			2014/15 upper limit		**2014/15 lower limit**	
19	The upper and lower limits for the maturity structure of fixed rate borrowing					
	• under 12 months		20%		0%	
	• 12 months and within 24 months		20%		0%	
	• 24 months and within 5 years		50%		0%	
	• 5 years and within 10 years		75%		0%	
	• 10 years and above		100%		0%	
			no change		no change	

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

<u>Prudential Indicators</u>

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.

The HRA indicators (reference 2) reflect the forecast HRA self-financing settlement; this forecast settlement is based upon the figures provided by the Welsh Government during consultations (the figure being £21.4m borrow at 4.2%). As reported, this figure could change.

3. Incremental impact of capital investment decisions on council tax

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

4. Estimates of the incremental impact of capital investment decisions on housing rent levels

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

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

It should be noted that this indicator does not reflect the forecast HRA self-financing settlement.

B) Prudence

5. Gross Debt and the CFR

The Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2015/16 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

7. Estimates of Capital Expenditure (HRA)

The HRA indicators (reference 7) reflect the forecast HRA self-financing settlement; this forecast settlement is based upon the figures provided by the Welsh Government during consultations (the figure being £21.4m borrow at 4.2%). As reported, this figure could change.

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

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

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

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

The HRA indicators (reference 9) reflect the forecast HRA self-financing settlement; this forecast settlement is based upon the figures provided by the Welsh Government during consultations (the figure being £21.4m borrow at 4.2%). As reported, this figure could change.

CH) External Debt

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

This indicator reflects the potential upper limit on the HRA self-financing settlement value (£35.8m); the potential upper limit for the HRA settlement is what is considered to be the breakeven point for the HRA self-financing reform to be financially advantageous.

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

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

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

This indicator reflects the potential HRA self-financing settlement value on the same basis as for the Authorised Limit indicator.

<u>Treasury Management Indicators</u>

Treasury management limits on activity

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

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

ISLE OF ANGLESEY COUNTY COUNCIL	
COMMITTEE:	**AUDIT COMMITTEE**
DATE:	**09 FEBRUARY 2015**
TITLE OF REPORT:	**AUDIT COMMITTEE – REVIEW OF EFFECTIVENESS REPORT 2014/15**
PURPOSE OF REPORT:	**FOR INFORMATION**
REPORT BY:	**AUDIT MANAGER**
ACTION:	**NONE**

1. INTRODUCTION

1.1 The terms of reference of the Audit Committee are set out in the Council's Constitution. The Committee's terms of reference include at 3.4.8.1.1 (ix) a requirement 'to prepare a report for the annual meeting of the Council on its activities for the year.'

1.2 The CIPFA Practical Guidance for Local Authorities and Police 2013 Edition provides best practice in terms of the core functions of an Audit Committee and included in that guidance is a reference to the benefits of undertaking a regular self-assessment of the effectiveness of the Committee. The guidance suggests that such self-assessment should be used to support the planning of the committee work programme and training plans and also to inform the Committee's annual report to the Council

1.3 The Audit Committee has therefore over the past few years set up an Annual Workshop which includes the review of its effectiveness during the current year with a view to including the results in its annual report to the Council. These Workshops are based around best practice guidance and specifically upon the CIPFA - Self-Assessment of Good Practice and the Evaluating the Effectiveness of the Audit Committee Checklists contained within the CIPFA Practical Guidance for Local Authorities and Police 2013 Edition.

1.4 The review of Audit Committee effectiveness 2014-15 took place on 19 January 2015 in Committee Room 1 at the Council's offices in Llangefni.

The workshop was attended by six Members of the Audit Committee including the Chair of the Committee. The Chair of Scrutiny, Leader of the Council and the Deputy Chief Executive had also been invited in order raise the profile of the Committee's work but neither was able to attend on this occasion.

2. EFFECTIVENESS OF THE AUDIT COMMITTEE

2.1 <u>CIPFA - Self-Assessment of Good Practice:</u> The results of the Workshops self-assessment of Audit Committee Good Practice are contained at Appendix A in the form of the completed CIPFA - Self-Assessment of Good Practice checklist.

2.2 Overall the Audit Committee self assessment of its performance against best practice was positive with only 1 out of 20 of the specified best practice being considered not to be undertaken by the Committee and a further 4 out of 20 where it was felt that improvements could be made. The main identified areas of weakness related to:

- <u>Audit Committee purpose and governance</u> –

Overall the Workshop concluded that it was meeting 3/6 of the requirements in this area and partly meeting the remaining 3/6.

The workshop agreed that the proposed revision and update of the Committees terms of reference will include the documentation of the purpose of the Committee in line with the CIPFA Position Statement.

Members felt that more reporting directly to the Council would be beneficial – perhaps in the form of a Highlight report of key issues / risks raised at Audit Committee as and when appropriate. Members also felt that increased direct report to the Chief Executive should also be considered in relation to the Committee's activities and significant concerns.

Members considered that the profile of the Audit Committee is in need of being raised. The Committee already invites the Leader and the Chair of Scrutiny to training sessions and effectiveness workshops. It was felt that the increase in direct report t Council and Chief Executive would assist in raising the Committee's profile.

The Workshop believed that there was a need to consider how the Committee can liaise more effectively with other Committees (Scrutiny, Standards) and with Council. It was suggested that the sharing of forward work programmes and mutual recommending of items for Committee attention would assist in this process.

The workshop concluded that there are currently no formal arrangements for holding the Committee to account for its performance and to provide assurance that it is operating satisfactorily. This was in effect why the self-assessment process was important. The workshop believed that believed that the WAO had a role to play here and should be asked to provide feedback on its performance as a Committee on a regular basis. It was also recommended that other regular attendees of the Committee; Portfolio Holder, Deputy Chief Executive; S151 Officer, Chief Audit Executive could also be formally requested for their opinion of the Committee's performance.

- <u>Functions of the Audit Committee</u>

  The Workshop agreed that when the revised TOR are issued an exercise be undertaken to go through each of the terms and to set out how the Committee is to comply with each and what assurance is available upon which the Committee can place reliance. This would produce an assurance framework for the Committee.

  The workshop believed that the proposed revision and update of the Committee's terms of reference should specifically include reference to reviewing the obtaining of value for money and best value within the Council.

  The workshop also believed that the terms of reference should be strengthened in terms of providing assurance over the assurance framework as a whole.

  The workshop felt that in the time available at meetings it was not possible to ensure that it fulfilled all of its functions and roles as set out in the terms of reference especially in terms of the core function areas. The Chair is in the process of reviewing the Committee calendar of work and increasing the number of meetings held. Members requested that the agendas for any additional meetings concentrated on the key concerns of the Committee to allow adequate time to discuss the issues involved. The Workshop also considered the use of work groups and pre briefing sessions to provide additional detail on key issues and concerns.

- <u>Membership and Support</u>

  The Workshop acknowledged that no formal assessment against the core knowledge and skills framework for Members set out in the 2013 CIPFA

Guidance has taken place to date. Such assessment will take place in 2-15 to identify any gaps and any training needs.

2.3 Evaluating the Effectiveness of the Audit Committee: - The Committee did not have time to fully consider and discuss the Evaluating the Effectiveness of the Audit Committee checklist at the workshop. The checklist had been previously circulated with the workshop agenda to all Members of the Audit Committee and workshop invitees.

2.4 The Audit Manager had completed a copy of the checklist to identify those areas which, in his opinion, the Committee had strengths and those areas which could be improved upon. The checklist as completed by the Audit Manager is at Appendix B of this report.

2.5 The results of the Audit Manager's assessment of the Committee's effectiveness identified the following significant areas where the Committee may consider improvements could be made in 2015-16:

- Supporting Risk Management Arrangements
  Although the Audit Committee has supported the establishment of a robust Risk Management framework fully embedded within the authority that support has yet to be effective in producing the desired outcome.

- Adequacy of the Assurance Framework
  The Committee needs to continue to support the development of the documentation of its assurance framework. The Workshop has requested that an assurance framework for meeting its obligations under a revised TOR be developed.

- Supporting Value for Money Arrangements
  As identified above in this report the review of the effectiveness of the Council's arrangements for obtaining Value for Money and best value are not currently included in the Committee's terms of reference. Internal Audit is to include a review of VFM arrangements within Services early in 2015/16 and present the findings back to the Audit Committee. The results could form the basis of an initial work group of the Committee involving relevant Heads of Service.

- Helping the authority to implement effective arrangements for countering fraud and corruption risks.
  The arrangements for countering fraud within the Council have been identified by the Committee as an area for further development in 2015-16. The appointment of the Counter Fraud Officer and the undertaking of an initial fraud and error risk assessment of the Council's activities are positive steps in improving arrangements in this area.

- Promoting Effective Public Reporting to the Council's Stakeholders.
  The Committee does not currently have a role in promoting effective public reporting to the authority's stakeholders beyond the publication of its agendas and minutes on the Council's website. This would include Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encouraging greater transparency.

3. EFFECTIVENESS ACTION PLAN

3.1 The work carried out at and surrounding the workshop has identified areas for improvement in terms of both meeting best practice and in the Committee continuing to develop its effectiveness.

3.2 The Committee is asked to consider the weaknesses identified and to endorse the development of an Action Plan detailing how the weaknesses are to be addressed in 2015/16, by whom and by when. Performance against the Action Plan will then be reported regularly to the Audit Committee at its meetings.

AUDIT MANAGER
09 February 2015

CIPFA - Audit Committees / Practical Guidance for Local Authorities 2013

Self-Assessment of Good Practice – As Completed at Workshop held on 19-01-15

	Good Practice Questions	Yes	Partly	No	Comments
Audit Committee purpose and governance					
1	Does the authority have a dedicated audit committee?	YES			See Constitution – TORs at 3.4.8. The Audit Committee is currently in the process up updating and revising its TOR.
2	Does the audit committee report directly to the full council? (applicable to local government only)	YES			There is some direct report / recommendation to Council such as the TM Strategy, Annual Report of AC etc. AC TOR 3.4.8.1.8 allows auditors to bring forward matters to the AC that they believe should be notified to the Council. **Workshop Comments:** Members felt that more reporting to the Council would be beneficial – perhaps in the form of a Highlight report of key issues / risks raised at Audit Committee as and when appropriate. Members discussed reviewing and agreeing key risk areas at beginning of year and looking at each in more details during the year. Increased direct report to the Chief Executive was also considered in relation to increased reporting of the Committee's activities and concerns.
3	Do the terms and reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?		PARTLY		Current TORs do not specifically mention purpose – The Audit Committee is currently in the process up updating and revising its TOR and these are to include the purpose of the Committee in line with CIPFA Guidelines.
4	Is the role and purpose of the audit committee understood and accepted across the authority?		PARTLY		TOR included in Constitution – attendance of CE, DCE, Section 151 and Monitoring Officer reflects understanding. However, Members considered that the profile of the Audit Committee is in need of being raised. The Committee does already invite the Leader and the Chair of Scrutiny to training sessions and effectiveness workshops. **Workshop Comments:** Need to consider how the Committee can liaise more with

					other Committees (Scrutiny, Standards) and with Council. Suggestion that the sharing of forward work programmes and mutual recommending of items for Committee attention would assist in this process. Approaching the other NW authorities Audit Committees and asking them how they achieve this would also assist.
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	YES			Members believed that such support was difficult to quantify but that the Committee had provided a good level of support in the past as was shown by the work it had carried out and is recorded in the Committee's issues log. A log of issues raised had been initiated by the Committee which included the issues raised, when action was due by and by whom. However this had lapsed. Members requested that the log be brought up to date and continued. **Workshop Comments:** Examples of support of good governance include receiving internal and external audit reports; reviewing the Annual Governance Statement; receiving risk management reports; and the ongoing review of the internal control framework etc.
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?		PARTLY		There are no specific arrangements for this for the Audit Committee. However following the last review of the Committee's effectiveness the WAO (represented at each meeting) was asked for its opinion on the Committee's performance Members undertake an annual Workshop to review its effectiveness and performance and an Annual Report to the Council on its work during the year is also made. **Workshop Comments:** Members requested that the WAO again be approached to provide an independent view of the Committee's performance. Members also believed that other regular attendees of the Committee; Portfolio Holder, Deputy Chief Executive; S151 Officer, Chief Audit Executive

					could also be requested for their opinion of the Committee's performance.
Functions of the Audit Committee					
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?				**Workshop Comment** Members agreed that when the revised TOR are issued an exercise be undertaken to go through each of the terms and to set out how the Committee is to comply with each and what assurance is available upon which the Committee can place reliance. This would produce an assurance framework for the Committee.
a	•Good governance	YES			AC – TOR – 3.4.8.1.9 and generally
b	•Assurance framework		PARTLY		The Assurance Framework is not specifically included in current AC TOR – The AGS is included though and in general the work of the AC has covered areas of framework. Will be included in revised version of TOR.
c	•Internal audit	YES			AC TOR – 3.4.8.1.1
d	•External audit	YES			AC TOR – 3.4.8.1.1
e	•Financial reporting	YES			AC TOR – 3.4.8.1.2
f	•Risk management	YES			AC – TOR – 3.4.8.1.9
g	•Value for money or best value			NO	Not specifically in AC TOR but will be in proposed review and update. Internal Audit to carry out review of VFM arrangements within services and to present this to the AC early in 2015/16. **Workshop Comments:** Reports should include reference to the fact that VFM has been taken into account and how this has been done. Consideration to be given to procurement and subsequent contract management.
h	•Counter fraud and corruption	YES			AC TOR – 3.4.8.1.3
8	Is the annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given in core areas?	YES			The annual self assessment covers the inclusion of the core areas in the work of the Committee. The revised TORs will include all areas specified as core in the CIPFA 2013 Guidance. **Workshop Comments:** Members commented on the lack of time available to the Committee to deal with all the issues in the TOR fully. The

					Chair is in the process of reviewing the Committee calendar of work and increasing the number of meetings held. Members requested that the agendas for any additional meetings concentrated on the key concerns of the Committee to allow adequate time to discuss the issues involved.
9	Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?	**YES**			The Committee currently receives and considers reports on TM arrangements; oversight of Annual Improvement Report and other public reports; along with the annual Health & Safety report. **Workshop Comments:** Members considered whether such wider areas should include working with the Standards Committee to support ethics but did not believe that such liaison was needed.
10	Where coverage of core areas has been found to be limited, are plans in place to address this?	**YES**			An Action Plan is derived from the Committee's annual Workshop and would include any core areas not considered to have been adequately covered in the relevant period.
11	Has the committee maintained its non-advisory role by not taking any decision-making powers that are not in line with its core purpose?	**YES**			Decision making is in line with TOR
Membership and support					
12	Has an effective audit committee structure and composition of the committee been selected? This should include:				
a	•Separation from the executive	**YES**			AC TOR – 3.4.8.3.2 – Executive Members not eligible to be members of AC. 3.4.8.3.5 - Chairperson not to be a Member of group on Executive.
b	•An appropriate mix of knowledge and skill among the membership	**YES**			The Committee is made up of members from many backgrounds and includes two lay members who provide a non-local authority based input into the work of the Committee. The Committee members are provided with induction training along with specific related training on areas of their work such as the Statement of Accounts; Treasury Management, Risk Management etc. as well as with an update and review of the Committee's role and latest regulation and guidance at its annual workshops.

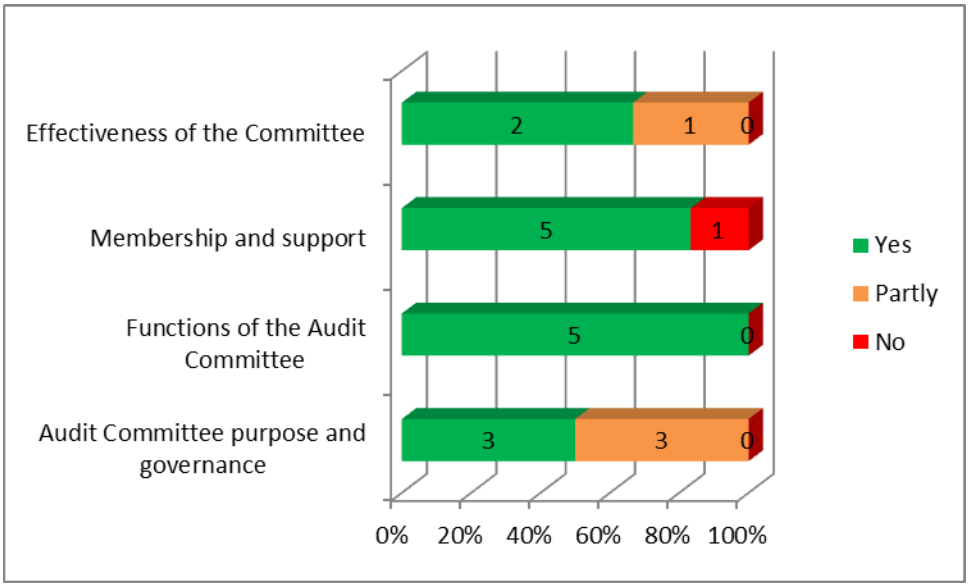
					Workshop Comments: Members were supportive of arrangements to make available the skills sets of members so that determination of appropriate skills mix can be evaluated. This information is not available at present. **(Please see 15 re assessment of core skills against those set out in CIPFA Guidance 2013)**
c	•A size of committee that is not unwieldy	**YES**			AC TOR – 3.4.8.3 Membership – eight Council Members plus two co-opted Members. **Workshop Comments:** The size of the Committee was considered to be appropriate. Members supported the Chair in proposing a review of the number of Committee meetings to be held in 2015/16 and the calendar of work to be adopted for the year ahead.
d	•Where independent members are used, that they have been appointed using an appropriate process.	**YES**			Originally by selection Sub Committee of AC – extended by vote in AC December 2013. Options for the process to be adopted for the selection of co-opted members for 2015/16 onwards will be presented the next Audit Committee in February 2015.
13	Does the chair of the committee have appropriate knowledge and skills?	**YES**			The knowledge and skills of the Chair have not been formally assessed against the core knowledge and skills set out in the CIPFA Guidance. The current Chair is an experienced Chair of the AC and has attended a number of training sessions on key areas of the Committee's work. Members agreed that this criterion is met by the current Chair. **(Please see 15 re assessment of core skills against those set out in CIPFA Guidance 2013)**
14	Are arrangements in place to support the committee with briefings and training?	**YES**			This Committee has had induction training along with Specific training on TM and RM is on the Members Training programme administered by HR. The Committee also has an annual self-assessment of its effectiveness which includes an update on the Committee's role and latest regulation and guidance for Audit Committees.

					Workshop Comments: Members considered that training arrangements were adequate. However, members believed that more briefing sessions on specific concerns and issues would be of benefit rather than such information being provided as part of normal meetings.
15	Has the membership of the committee of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?			NO	No formal assessment against the core knowledge and skills framework set out in the 2013 CIPFA Guidance has taken place to date. **Workshop Comments:** Formal self assessment against core knowledge and skills to be undertaken by Members ion 2015 to determine any skills gaps and training needs.
16	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	YES			All attend each Audit Committee along with regular attendance from the portfolio holder and Deputy Chief Executive. **Workshop Comments:** Members believed that relations with supporting officers were satisfactory.
17	Is adequate secretariat and administrative support to the committee provided?	YES			Committee Clerks send out agenda and take minutes. Translation Unit attend each meeting. Agendas are sent out in advance of meetings. **Workshop Comments:** Members believed support to be satisfactory.
Effectiveness of the Committee					
18	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?			NO	The Committee did have some feedback from the WAO following the previous Workshop. There is currently no formal process in place for the regular review and provision of feedback from other regular attendees of the Audit Committee or from those relying on its work. **Workshop Comments:** Members requested that a process be out in place for the annual obtaining of feedback from regular attendees and those relying on its work.

19	Has the committee evaluated whether and how it is adding value to the organisation?	YES			Such evaluation is undertaken as part of the annual Workshop review of the Committee's effectiveness. The Committee Chair also considers how the Committee adds value as part of his annual report to the Council. **Workshop Comments:** Members considered that one method of determining if the Committee was adding value would be for the Committee to review its log of issues raised and evaluate the outcome of each following the Committee's input.
20	Does the committee have an action plan to improve any areas of weakness?	YES			An action plan is produced after each Workshop and included in a report on the workshop and outcomes to the next full Audit Committee. **Workshop Comments:** Action plan to be produced from the outcome of the Workshop held on 19-01-15.

Summary of Results by Area

Area Considered	**Yes**	**Partly**	**No**	**Total**
Audit Committee purpose and governance	3	3	0	6
Functions of the Audit Committee	5	0	0	5
Membership and support	5	0	1	6
Effectiveness of the Committee	2	1	0	3
	15	**4**	**1**	**20**



CIPFA - Audit Committees / Practical Guidance for Local Authorities 2013

Evaluating the Effectiveness of the Audit Committee

CIPFA - Audit Committees / Practical Guidance for Local Authorities 2013

Evaluating the Effectiveness of the Audit Committee – Updated Following Presentation to the Audit Committee Workshop held on 19-01-15

	Areas where the Audit Committee can add value by supporting improvement	Examples of how the Audit Committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5-1
1	Promoting the principles of good governance and their application to decision making.	Providing robust review of the AGS and the assurances underpinning it. Working with key members/governors to improve their understanding of the AGS and their contribution to it. Supporting reviews/audits of governance arrangements. Participating in self-assessments of governance arrangements. Working with partner adult committees to review governance arrangements in partnerships.	•Review of AGS; •Support for governance reviews throughout year from IA and WAO etc. •Involved in review of AGS – becoming involved in supporting the development of a governance assurance framework; •Self assessment workshops including governance. **Suggested Areas for Improvement:** •Member suggested that the following the proposed revision and update of the Committee's TOR that for each term an explanation of how the Committee can meet the requirements of the term and what assurance is available to them for each should be produced. This will assist in the development of an Assurance Framework for the Committee and help in developing its calendar of work. •Members requested that the log of matters raised and discussed at Committee be maintained to support	4

			its role on promoting good governance.	
2	Contributing to the development of an effective control environment	Monitoring the implementation of recommendations from auditors. Encouraging ownership of the internal control framework by appropriate managers. Raising sufficient concerns over controls with appropriate senior managers.	•Monitor implementation rate of IA reviews in Audit Manager's Progress Report; •Call in Managers to explain control weaknesses in Red reports; **Suggested Areas for Improvement:** •Extend recommendation tracking to all reports – need to support a central register of recommendations, actions and implementation. • Members have put forward the adoption of the establishment of work groups which would meet in the interim between formal meetings of the Audit Committee and which would focus on specific areas in greater detail and depth than a committee setting will allow. Such work groups to involve relevant senior managers and relevant non Audit Committee Members.	4
3	Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risk.	Reviewing risk management arrangements and their effectiveness, e.g. risk management benchmarking. Monitoring improvements. Holding risk owners to account for major/strategic risks.	•The Audit Committee has continued to challenge the time taken to fully implement risk management into the Council. •The Committee has supported the establishment – But that support has not been effective in producing the desired result. **Suggested Areas for Improvement:** •The Committee should continue to challenge officers as to why this process has not been fully embedded. •A report on progress is scheduled for the April 2015 meeting of the Audit Committee.	2

4	Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.	Specifying its assurance needs, identifying gaps or overlaps in assurance. Seeking to streamline assurance gathering and reporting. Review the effectiveness of assurance providers, e.g. internal audit, risk management, external audit.	•The Committee had begun to include the review of the governance assurance framework on its calendar for 2014 but this has not occurred for some time. Development of a documented Assurance Framework seems to have halted. •Members have requested that an Assurance Framework be provided for the revised TOR of the Committee which would be welcomed as restarting the development of a corporate Assurance Framework. **Suggested Areas for Improvement:** •Request that senior management recommence the development of corporate Assurance Framework linked to the work undertaken to produce the Annual Governance Statement. •Members believe that the Audit Committee needs to be more pro active in communicating areas of concern to the Council and to SLT and HofS.	3
5	Support the quality of the internal audit activity, particularly by underpinning its organisational independence.	Reviewing the audit charter and functional reporting arrangements. Assessing the effectiveness of internal audit arrangements and supporting improvements.	•The Committee reviews the Internal Audit Charter and Protocol which includes its independence; •Receive progress report from IA on a regular basis; •Approve the IA Plan each year including a review of the resources necessary to implement the Operational Internal Audit Plan. **Suggested Areas for Improvement:** •As above – could consider ways in which the effectiveness of internal audit, risk can be reviewed and measured. Requirement for IA to do so every five years in PSIAS.	4

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6	Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, and control and assurance arrangements.	Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place. Reviewing the effectiveness of performance management arrangements.	•The Committee does aid in these respects by its work and support during the year. •The Audit Committee Matters Raised Log supports the Committee's supporting these areas. **Suggested Areas for Improvement:** •The Committee does not review major projects and programmes; •The Committee does not review performance arrangements.	3
7	Supporting the development of robust arrangements for ensuring value for money.	Ensuring that assurance on the value for money arrangement is included in the assurances receiving by the audit committee. Considering how performance in value for money is evaluated as part of the AGS.	**Suggested Areas for Improvement:** •The VFM conclusion covers a number of elements of efficiency, effectiveness and economy and is much more far reaching than VFM issues. •VFM is to be included in the proposed revision of the Committee's TOR. •The specific criteria for the conclusion on VFM are: •Securing financial resilience (AC review of MTFP); •Challenging how it secures economy, efficiency and effectiveness. •Internal Audit is to include a review of VFM arrangements within Services early in 2015/16 and present the findings back to the Audit Committee. The results could form the basis of an initial work group of the Committee involving relevant Heads of Service. (Please see suggested improvements at 2 above).	1
8	Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption	Reviewing arrangements against the standard set out in CIPFA's *Managing the Risk of Fraud* (Red Book 2). Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks.	•The Committee receives an Annual Fraud Report detailing the results of the work undertaken during the year. •The newly appointed Counter Fraud Officer is undertaking the Council's	2

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	risks.	Assessing the effectiveness of the ethical governance arrangements for both staff and governors.	first formal fraud and error risk assessment and will be reporting the results to the Committee early in 2015/16. **Suggested Areas for Improvement:** •Fraud risks and mitigation are not currently reported to the Committee; (but see above re report in 2015/16) •The Committee does not review the Council's ethical governance arrangements for both staff and Members.	
9	Promoting effective public reporting to the authority's stakeholders and local community and measures to provide transparency and accountability.	Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English. Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encouraging greater transparency.	The agendas and minutes of Audit Committee meetings are publicised on the Council's web site. **Suggested Areas for Improvement:** • The Committee does not currently have a role in promoting effective public reporting to the authority's stakeholders.	1

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CIPFA - Audit Committees / Practical Guidance for Local Authorities 2013 - Evaluating the Effectiveness of the Audit Committee

	Assessment Key
5	Clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable.
4	Clear evidence from some sources that the committee is actively and effectively supporting improvement across some aspects of this area.
3	The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps.
2	There is some evidence that the committee has supported improvements, but the impact of this support is limited.
1	No evidence can be found that the audit committee has supported improvements in this area.

Audit Committee - Proposed Action Plan for Improvements

Guidance Reference	Area for Improvement	Action Required	Responsible Officer	Implementation Date
CIPFA Good Practice 2013 – section 1	**Terms of Reference**	Terms of Reference of the Audit Committee to be revised and updated in line with CIPFA Guidance and Position Statement.	**Section 151 Officer**	**30 April 2015**
CIPFA Good Practice 2013 – section 7	**Assurance Framework – Audit Committee**	Members agreed that when the revised TOR are issued an exercise be undertaken to go through each of the terms and to set out how the Committee is to comply with each and what assurance is available upon which the Committee can place reliance. This would produce an assurance framework for the Committee.	**Section 151 Officer**	**30 April 2015**
CIPFA Good Practice 2013 – section 2	**Purpose and Governance –** Raising the profile of the Committee and ensuring concerns are being considered at highest level of the Council.	More reporting to the Council and the Chief Executive – perhaps in the form of a Highlight report of key issues / risks identified at Audit Committee as and when appropriate.	**Audit Chair / S151 Officer**	**30 April 2015**
CIPFA Good Practice 2013 – section 4	As above	Need to consider how the Committee can liaise more with other Committees (Scrutiny, Standards) and with Council. Suggestion that the sharing of forward work programmes and mutual recommending of items for Committee attention would assist in this process. Approaching the other NW authorities Audit Committees and asking them how they achieve this would also assist.	**Audit Chair / S151 Officer**	**30 April 2015**
CIPFA Good Practice 2013 – section 2	Ensuring significant issues from core role are met.	The annual review (and thereafter ongoing review) by Members of the key risk areas at the beginning of each year and ensuring that each are dealt with in detail during the year.	**Chair / Committee Members**	**30 April 2015**
CIPFA Good Practice 2013 – section 6 & 18	External evaluation of effectiveness	Members requested that the WAO be approached to provide an independent view of the Committee's performance. Members also believed that other regular attendees of the Committee; e.g. Portfolio Holder, Deputy Chief Executive; S151 Officer, Chief Audit Executive; PWC could also be requested for their opinion of the Committee's performance.	**Chair / Chief Audit Executive**	**30 May 2015**
CIPFA Good	**Functions of the Audit**	Internal Audit to carry out review of VFM arrangements within	**Chief Audit**	**30 May 2015**

Practice 2013 – section 7	**Committee** – Value for Money	services and to present this to the AC early in 2015/16.	**Executive**	
CIPFA Good Practice 2013 – section 8	**Functions of the Audit Committee** – Calendar and frequency of meetings	The Chair to continue to review the Committee calendar of work and the number of meetings held. Members requested that the agendas for any additional meetings concentrated on the key concerns of the Committee to allow adequate time to discuss the issues involved.	**Chair of the Audit Committee**	**31 March 2015**
CIPFA Good Practice 2013 – section 14	**Membership and Support** – Training arrangements	Members requested more briefing sessions on specific concerns and issues would be of benefit rather than such information being provided as part of formal training sessions and meetings.	**Chair / Chief Audit Executive**	**30 May 2015**
CIPFA Good Practice 2013 – section 15	**Membership and Support** – Knowledge and skills	Formal self assessment against core knowledge and skills to be undertaken by Members ion 2015 to determine any skills gaps and training needs.	**Membership Training Officer**	**30 June 2015**
CIPFA – Effectiveness 2013 – Section 1	**Promoting good governance**	Members requested that the log of matters raised and discussed at Committee be maintained to support its role on promoting good governance.	**Chief Audit Executive**	**Ongoing**
CIPFA – Effectiveness 2013 – Section 2	**Developing an effective control environment**	Extend recommendation tracking to all reports – need to support a central register of recommendations, actions and implementation. An Internal Audit report recommending this was made in 2011/12 and remains outstanding.	**S151 to liaise with SLT**	**30 April 2015**
CIPFA – Effectiveness 2013 – Section 2	As above	The establishment of work groups which would meet in the interim between formal meetings of the Audit Committee and which would focus on specific areas in greater detail and depth than a committee setting will allow. Such work groups to involve relevant senior managers and relevant non Audit Committee Members.	**Chair / Committee Members**	**30 April 2015**
CIPFA – Effectiveness 2013 – Section 5	**Performance of Internal Audit**	Consider ways in which the effectiveness of internal audit and risk can be reviewed and measured. Requirement for IA to do so every five years in PSIAS.	**Chief Audit Executive**	**30 April 2015**
CIPFA – Effectiveness 2013 – Section 6	**Aiding achievement of the authority's goals.**	Consider whether the Audit Committee should add reviews of major projects and the Council's performance arrangements to its current work programme.	**Chair / Committee Members**	**30 April 2015**

CIPFA – Effectiveness 2013 – Section 7	**Promoting effective public reporting**	Contact other Welsh authorities to ascertain and evaluate how they comply with this best practice guidance and make report to the Audit Committee.	**Chief Audit Executive**	**30 April 2015**

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ISLE OF ANGLESEY COUNTY COUNCIL	
COMMITTEE:	**AUDIT COMMITTEE – EXTRAORDINARY MEETING**
DATE:	**09 FEBRUARY 2015**
TITLE OF REPORT:	**CONSULTATION ON THE PROPOSED REVISON OF THE TERMS OF REFERENCE OF THE AUDIT COMMITTEE**
PURPOSE OF REPORT:	**FOR INFORMATION AND COMMENT**
REPORT BY:	**AUDIT MANAGER**
ACTION:	**NONE**

1. INTRODUCTION

1.1 There have been some changes to the regulatory framework relating to Audit Committees in the last few years (PSIAS – 2013 – LG Measure 2011 – Audit and Accounts Regulations – 2010 – and revised 2015) and in the guidance provided to local authorities in terms of the role and responsibilities of their Audit Committees (CIPFA Position Statement on Audit Committees - 2013).

1.2 What is clear from the collation of relevant regulation and guidance is that there has developed a greater role for the Audit Committee in all aspects of assurance and not concentrating mostly on financial arrangements and controls. The CIPFA Guidance states as its first core function that an Audit Committee should:

> *Be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievements of the authority's objectives.*

1.3 At its meeting held on 10th December 2014 this Audit Committee agreed to recommend to the Council a change of name for the Committee to the Audit and Governance Committee to make more transparent the enhanced role of the Committee in terms of overall governance and assurance

1.4 To emphasise the development further the terms of reference of the Committee are being reviewed and updated and a draft proposed set of terms has been produced and was forwarded to members prior to their Workshop held on 19 January 2015 and are attached as Appendix A of this document for forwarding to members in advance of their extraordinary meeting of 09 February 2015.

1.5 The Committee is asked to consider the draft terms of reference and to make any comments they may have to the Monitoring Officer prior to the revised terms being recommended by the Executive on 20 April 2015 for adoption by the Council at its meeting to be held on 14 May 2015.

Appendix A

Isle of Anglesey County Council

Audit & Governance Committee –PROPOSED DRAFT Terms of Reference

Purpose

The Audit and Governance Committee is a key component of the authority's governance framework providing independent and high level resource to support good governance and strong public financial management.

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

The terms of reference of the Audit and Governance Committee are set out below.

Corporate Governance

Review the Councils arrangements for corporate governance and agree actions to ensure compliance with best practice.

Monitor the Councils' compliance with its own and other published standards and controls including compliance with statutory requirements including Health and Safety.

Ensure that the authority has a sound system of internal control which facilitates the effective exercise of functions and which includes arrangements for the management of risk and adequate and effective financial management.

Monitor the effectiveness of the control environment, including arrangements for ensuring value for money.

Review the effectiveness of internal control at least once a year and oversee the production and recommend the adoption of the Annual Governance Statement at the time the draft annual accounts are signed and dated by the relevant financial officer at the latest.

Provide an annual report to the Council on the Committee's performance and effectiveness.

Keep under review the governance arrangements relating to significant partnerships to which the Council is a party and the effectiveness of the Council's arrangements for dealing with partnership working.

Risk Management

Keep under review the Risk Management Strategy for the Council.

Review the development, operation and embedding of risk management within the Council including making reports and recommendations to the Council on the adequacy of those arrangements.

Review the Corporate Risk Register and, where appropriate, request a response from management on actions to manage risks.

Review the risk profile of the organisation and assurances that action is being taken on risk related issues, including those relating to significant partnerships.

Financial Accounts

Review and scrutinise the authority's statement of accounts prior to its adoption by the full Council ensuring that proper accounting policies have been followed and that all concerns arising from the financial statement or the audit are brought to the attention of the Council through appropriate reports and recommendations.

Scrutinise the Council's Treasury Management Strategy and the Annual Report on Treasury Activities prior to approval by the Council.

Receive six monthly reports on Treasury Management in order to monitor developments and trends.

Review the Council's risk exposure and its ability to manage risk in relation to its Treasury Management activities.

Internal and External Audit

Approve the Internal Audit Charter and ensure that the Charter provides the required level of organisational independence and authority for Internal Audit to carry out their work effectively.

Approve decisions regarding the appointment and removal of the chief audit executive and the remuneration of the chief audit executive.

Consider the audit planning strategies of the internal and external auditors including the external audit fee.

Approve the risk based Internal Audit plan and ensure that adequate Internal Audit budget and resources are available to complete.

Consider the annual reports and opinions of the internal and external auditors including consideration of the external auditor's Annual Letter.

Consider individual Internal Audit and external regulator reports including from the Wales Audit Office.

Review progress in delivering the Internal Audit Operational Plan and Internal Audit Strategy through the receipt and consideration of quarterly progress reports from the chief audit executive.

Consider management's response to issues raised by the internal auditor and external regulators and where appropriate request a response from management.

Review the performance of the internal and external auditors on an annual basis.

The external and internal auditors of the Council shall have the right to request the Chair of the Audit and Governance Committee to consider any matter which the auditors believe should be brought to the attention of the Council.

Countering Fraud and Corruption

Review Council policies and procedural arrangements for officers and members to raise concerns in confidence about possible wrongdoing in financial reporting and other matters, including appropriate follow up action.

Review the Council's policy and procedures for preventing, detecting, investigating and prosecuting fraud and corruption.

Review the Council's systems and controls for the prevention of bribery and receive reports on non-compliance.

Receive an annual report on all suspected irregularities including any instances of fraud and corruption, from the Corporate Fraud Officer.

Advisory Resources

The Committee shall be advised by the designated Section 151 Officer as the officer with responsibility for financial administration, and by both the external and internal auditors. They may additionally, within an approved budget, seek independent advice from outside the authority.

Frequency

Minimum 4 meetings per year.

The committee must meet if the authority as a whole resolves that it should or if at least one-third of the members of the committee requisition a meeting in writing to the Chairman of the committee.

Membership

Eight members of the Council, to be politically balanced, plus a maximum of two lay co-opted members to be appointed by the Committee.

Members of the Executive will not be eligible to be members of this Committee. The Portfolio Holder for Finance is required, as far as is possible, to attend each Audit and Governance Committee meeting.

The co-opted members, not being members of the Council, to be recruited for skills appropriate to the Audit and Governance Committee's work, and who shall be appointed by the Councillor members of the Audit and Governance Committee for a fixed term to be determined by them when the appointment is made.

All members of the committee shall have a vote.

The Audit and Governance Committee will appoint its Chairperson who will not be a member of any of the groups represented on the Executive except when all groups are represented on the Executive (and could be a co-opted member).

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ISLE OF ANGLESEY COUNTY COUNCIL	
COMMITTEE:	**AUDIT COMMITTEE – EXTRAORDINARY MEETING**
DATE:	**09 FEBRUARY 2015**
TITLE OF REPORT:	**ROLE OF THE COUNTER FRAUD OFFICER**
PURPOSE OF REPORT:	**FOR INFORMATION**
REPORT BY:	**CORPORATE FRAUD OFFICER**
ACTION:	**NONE**

1. BACKGROUND

1.1 The role of Corporate Counter Fraud Officer (CCFO) was created in response to the transfer of the responsibilities for investigating Housing Benefit (HB) fraud to the Department for Work and Pensions (DWP) following the creation of the Single Fraud Investigation Service (SFIS). The two Housing Benefit investigators within the authority were scheduled to transfer to SFIS on the 1st November 2014. The result of these transfers would have been that there would have been no experienced counter fraud investigators within the authority from that date.

1.2 The DWP SFIS had decided that their investigators would not investigate fraud offences carried out against the Council Tax Reduction Scheme (CTRS), the new version of the Council Tax Benefit, as the Government did not regard CTRS to be a benefit. This decision meant that there would be no one left within the authority to investigate CTRS fraud and as the vast majority of HB claimants also receive CTRS this could have resulted in a significant loss to the authority.

1.3 Further examination of potential fraud risks revealed that there was a potential to investigate other Council Tax fraud such as single occupiers discount and non-domestic rates fraud. In addition the Government has identified Social Housing tenancy fraud to be a high risk area and it was felt that this was another area where an experienced counter fraud investigator could be utilised.

2. ROLE OF THE CORPORATE COUNTER FRAUD OFFICER

2.1 Having regard to the above it was decided that the authority would create the CCFO post and on the 1st November 2014, Mr Hywel Ellis was appointed as the CCFO. The post has been located within the Internal Audit section and the role has been expanded from being purely reactive investigation to include a proactive role in preventing fraud occurring in the first place, promoting a better counter fraud culture within the authority. As the first stage in this process the CCFO has been meeting with the various Heads of Service within the authority to ascertain what fraud risk assessments have been carried out within their respective services, what policies have been put in place to counter any perceived risks and how these polices are implemented and brought to the attention of their staff. It is hoped that a full report and recommendations will be completed in the near future.

The Corporate Counter Fraud Officer attended the Heads of Service meeting held on 13 January 2015 to introduce himself to the Heads of Service and to outline his role in supporting them and the Council in developing a robust counter fraud culture.

2.2 To promote and improve the corporate anti-fraud culture within the authority it is envisaged that, with the cooperation of HR training, counter fraud courses may be arranged with external providers, such an exercise was carried out for Revenues and Benefits staff and Housing staff in 2013. The CCFO will always be available to advise and assist any service in the promotion of a counter fraud culture.

2.3 With regard to investigations, the CCFO is actively pursuing CTRS fraud referrals received from the benefits section, he liaises with the benefit staff and managers on a regular basis and procedures for referring and investigating such matters have been put in place. The CCFO is consulting with the housing department with regards to combating tenancy fraud within the authority, however this is an ongoing project as it is possible non L.A social housing associations may wish to get involved, as non LA social housing authorities may investigate tenancy fraud, under the Prevention of Social Housing Fraud Act 2013 (POSH) only L.A's may prosecute such cases to the courts.

2.4 The CCFO will also take on the responsibility of investigating any other possible offences that may be referred to him from any service within the authority that is, he may take on any investigation that was previously investigated by the Internal Audit team, e.g. missing school meals monies, irregularities in expenses claims etc.