Public Document Pack

CYNGOR SIR YNYS MÔN
ISLE OF ANGLESEY COUNTY COUNCIL

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

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

RHYBUDD O GYFARFOD	NOTICE OF MEETING
PWYLLGOR ARCHWILIO A LLYWODRAETHU	**AUDIT AND GOVERNANCE COMMITTEE**
DYDD MAWRTH 11 CHWEFROR, 2020 am 2:00 y. p.	**TUESDAY, 11 FEBRUARY 2020 at 2.00 pm**
YSTAFELL BWYLLGOR 1, SWYDDFEYDD Y CYNGOR, LLANGEFNI	**COMMITTEE ROOM 1, COUNCIL OFFICES, LLANGEFNI**
Swyddog Pwyllgor **Ann Holmes 01248 752518**	**Committee Officer**

AELODAU / MEMBERS
Cynghorwyr / Councillors:-

PLAID CYMRU / THE PARTY OF WALES

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

Y GRWP ANNIBYNNOL / THE INDEPENDENT GROUP

Gwilym O. Jones, Richard Griffiths

ANNIBYNNWYR MÔN / ANGLESEY INDEPENDENTS

R. Llewelyn Jones, Peter Rogers *(Cadeirydd/Chair)*

AELODAU LLEYG / LAY MEMBERS

Dilwyn Evans
Jonathan Mendoza *(Is-Gadeirydd/Vice-Chair)*

A G E N D A

1 **DECLARATION OF INTEREST**

To receive any declaration of interest by any Member or Officer in respect of any item of business.

2 **MINUTES OF THE PREVIOUS MEETING** (Pages 1 - 10)

To present the minutes of the previous meeting of the Audit and Governance Committee held on 3 December, 2019.

3 **TREASURY MANAGEMENT PRACTICES** (Pages 11 - 46)

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

4 **TREASURY MANAGEMENT STRATEGY STATEMENT 2020/21** (Pages 47 - 86)

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

5 **INTERNAL AUDIT PROGRESS UPDATE** (Pages 87 - 106)

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

6 **DRAFT INTERNAL AUDIT STRATEGY 2020/2021** (Pages 107 - 124)

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

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

To consider adoption of the following:-

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

8 **CORPORATE RISK REGISTER UPDATE** (Pages 127 - 152)

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

AUDIT AND GOVERNANCE COMMITTEE

Minutes of the meeting held on 3 December, 2019

PRESENT:	Mr Jonathan Mendoza (Lay Member & Vice-Chair) (In the Chair) Councillor Dylan Rees (Vice-Chair for this meeting) Councillors John Griffith, Richard Griffiths, G.O. Jones, Alun Roberts, Margaret M. Roberts Lay Member: Mr Dilwyn Evans
IN ATTENDANCE:	Chief Executive Director of Function (Resources) and Section 151 Officer Head of Internal Audit & Risk (MP) Principal Auditor (NRW) IT Service and Performance Management Manager (LE) (for item 4) Benefits Manager (RW) (for item 10) Committee Officer (ATH)
APOLOGIES:	Councillors R. Llewelyn Jones, Peter Rogers (Chair), Mr Alan Hughes (WAO)
ALSO PRESENT:	Councillor Robin Williams (Portfolio Member for Finance) Finance Manager (CK), Senior Auditor (JR) Senior Accountant (AC)

In the absence of the Chair, Mr Jonathan Mendoza, the Vice-Chair chaired the meeting; Councillor Dylan Rees was elected to act as Vice-Chair for this meeting only. The Chair explained that Councillor Peter Rogers, Chair of the Audit and Governance Committee was recuperating following recent knee surgery. On behalf of the Committee's members, he wished Councillor Rogers well for a full and speedy recovery.

1. DECLARATION OF INTEREST

No declaration of interest was received.

2. MINUTES OF THE 3 SEPTEMBER, 2019 MEETING

The minutes of the previous meeting of the Audit and Governance Committee held on 3rd September, 2019, were presented and were confirmed as correct.

3. ISLE OF ANGLESEY COUNCIL – ANNUAL AUDIT LETTER 2018-19

The Annual Audit Letter for the Isle of Anglesey County Council for 2018/19 was presented for the Committee's consideration. The Letter confirmed the following –

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

- The Auditor General is satisfied that the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in the use of its resources, and
- On 12 September, the Auditor General issued an unqualified audit opinion on the accounting statements confirming that they present a true and fair view of the Council's financial position and transactions. The key matters arising from the audit were reported to the Audit Committee's September 2019 meeting.

  With regard to the statement in the Audit Letter about the Auditor General wishing to highlight that he is currently undertaking a review of the Council's financial sustainability, the Director of Function (Resources)/Section 151 Officer advised that the Auditors have conducted interviews with a number of senior staff at the Council as well as relevant Elected Members as part of an exercise they are conducting to review the financial sustainability of all 22 Welsh local authorities. It was intended that the draft findings be presented to the Council by Christmas; once the resulting report has been finalised it will be presented to the next available meeting of this Committee.

  It was resolved to accept and to note the Annual Audit Letter for 2018/19 without further comment.

4. CYBER SECURITY ANNUAL REPORT 2019

The Cyber Security Annual Report for 2019 was presented for the Committee's consideration. The report summarised the cyber threats facing the Council and provided an overview of some of the mitigations the Council has in place to counter these threats.

The IT Service and Performance Management Manager reported that as with other organisations which hold large volumes of information including sensitive, personal and financial information, cyber security is a significant risk to the Council. Reports of cyber-attacks have become common place in the news with high profile attacks on a weekly or even daily basis. Cyber-attacks vary in their approach and complexity but are consistent in their intent to disrupt, damage or steal. The risk of cyber-attack is recognised by the Council and is recorded as such within the Corporate Risk Register which is monitored by the Senior Leadership Team.

The Officer referred to the various types of cyber attackers and their motivations and the various forms which cyber-attacks can take and outlined in general terms the mitigations the Council has in place to reduce and manage the risk including the following –

- *Malware* – malicious programmes or codes that seek to damage or disable computers, servers, networks and other computing devices. All Council computers and servers operate anti-malware software which scans for signatures of known malicious codes and block access if found.
- *Software vulnerabilities* – bugs or loopholes in software code which if exploited by an attacker can cause the software to behave in an unexpected and undesirable manner. Where software is current and still supported by the supplier, corrected code packages known as updates or patches are made available to address software bugs and close the potential security loophole. The Council was an early Windows 10 adopter following which it also moved away from installing application software on each and every computer (which was a significant burden in terms of managing security updates) to application virtualisation meaning that for each application there is a master copy which runs on a central server and is accessed by all computers or laptops – there is therefore only one copy to keep up to date and manage. The Council further arranges for third party ethical hackers to carry out vulnerability assessments on the Council's networks.

- *Insider threats* – accidental staff actions, malicious staff actions or the actions of contractors. The Council has played a leading role in the procurement of a bilingual, all-Wales E-Learning package on cyber awareness; it operates Baseline Personnel Security Standard (BPSS) process requiring all staff who have access to official sensitive data which is derived from the cabinet office to produce proof of identity, nationality and undergo a DBS check. All contractors who either host IT systems or have remote access to Council IT systems are required to sign a Data Processing Agreement; the Council also has various policies in place for the safe use of IT which all IT connected staff are required to review and accept.
- *Phishing* – act of sending an email purporting to be from a legitimate source or organisation in an attempt to obtain financial or other confidential information. The Council has sophisticated filtering technology in place to block such e-mails and requires that all of its IT connected staff undertake Cyber Security Awareness training.
- *Other checks* – The Public Sector Network (PSN) is a high speed Government network used by the public sector to exchange data in a secure manner. As the PSN effectively allows connection to Cabinet Officer and DWP systems, the Council must undergo a rigorous independent assessment on an annual basis. The Council has successfully passed the annual PSN assessment every year since it become a requirement. Through a programme funded by Welsh Government and managed by the WLGA, local authorities have been testing the cyber security and information governance arrangements against the best practice. After a rigorous audit process, the Council is one of only seven authorities in Wales to have achieved Cyber Essentials Plus and full IASME accreditation. Additionally, the Council's Internal Audit Service has reviewed the Council's cyber security controls and concluded that that these are effective in terms of managing the risk and preventing and reducing the impact to services, systems and information of such attacks.

  The Committee welcomed the report as instructive and in discussing the information, sought further assurance with regard to the following matters –

  - That with partnership and collaborative working with other councils and organisations increasing in scope, whether the Council's internal controls extend to mitigating the cyber security risks potentially arising from partnerships? The IT Service and Performance Management Manager advised that all local authorities have to achieve the Cabinet Office PSN Accreditation – failure to achieve the required Cyber Security standard results in disconnection and effectively excludes a council from collaborative working. Accreditation signals that an organisation is trustworthy and is working to the same standards and policies.
  - Whether the Council has an IT induction programme for new employees and how long does it take a new employee to achieve a satisfactory level of IT security awareness? The IT Service and Performance Management Manager confirmed that through the Managers' Induction Process, managers are required to make all new starters aware of all the policies held by the Policy Portal - the Council's policy management system, including the Acceptable Usage and IT Security Policy and they will sign off that this has been done. Policy review and acceptance is supplemented by the mandatory e-learning programme on cyber awareness. However, there is always a risk that an employee new to the organisation may be captured by a scam on the first day of employment; ongoing support and checks in the form of follow-ups to ensure that employees have read and understood the ICT security policies as well as regular reminders provide mitigation.
  - The degree to which the Council is vulnerable to financial theft and whether there are controls in place to ensure public money is not lost through fraudulent activity or scams? The Committee was advised that that there are controls in each service with regard to the segregation of duties i.e. assigning different people responsibilities for

authorising transactions etc. The Council is also aware of and alert to a number of scams that seek to give the perpetrator(s) access to the Council's financial systems and obtain money be deception e.g. a scammer posing as a Council contractor attempting to change bank account details. Internal Audit routinely shares intelligence on actual or potential frauds thereby improving staff awareness and enabling services to review and strengthen their controls accordingly.

Having considered the information presented along with the additional clarifications provided by the Officers, the Committee resolved to accept and to note the assurance provided by the 2019 Cyber Security Annual Report.

THERE WERE NO PROPOSALS FOR ADDITIONAL ACTION

5. TREASURY MANAGEMENT MID YEAR REVIEW 2019-20

The report of the Director of Function (Resources)/Section 151 Officer on the treasury management position and activity midway through the 2019-20 financial year was presented for the Committee's consideration.

The Director of Function (Resources)/Section 151 Officer highlighted the following –

- That there are no policy changes to the Treasury Management Strategy Statement which was approved by the Full Council on 27 February, 2019. The report updates the position in light of the updated economic position and budgetary changes already approved.
- That with regard to its investment portfolio, the Council held £18.551m of investments as at 30 September, 2019 (£14.333m at March, 2019) and the investment portfolio yield for the first six months of the year was 0.62%. A full list of investments as at 30 September, 2019 was provided in Appendix 3 along with a summary of investments and rates in Appendix 4. The approved limits within the Annual Investment Strategy were not breached during the first six months of 2019/20.
- That the Council's budgeted investment return for the whole of 2019/20 is £0.031m and performance for the year to date exceeds the budget with £0.041m received to the end of Quarter 2 this being due to investing surplus cash with other local authorities creating a better investment return than a bank call account. The table as at 5.7 shows a list of investments made with other local authorities during the first half of the 2019/20 financial year. Given that security of funds is the key indicator of this Council other local authorities are seen as the most secure way of investing funds giving a greater return than most bank call accounts.
- That in terms of borrowing, the Council has projected year end borrowings of £127.6m and will have used £12.6m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate but will be subject to ongoing monitoring. No borrowing was undertaken during the first half of this financial year and it is not anticipated that any additional external borrowing will need to be undertaken during the second half of the financial year. There will be a borrowing requirement to fund a part of the 2019/20 capital programme, but this will be through internal borrowing.
- That on 9 October, 2019 the Treasury and Public Works Loans Board (PWLB) announced an increase in the borrowing rate by 100 basis points or 1%. This was done without prior warning meaning that every local authority has to fundamentally reassess how to finance their external borrowing needs and the financial viability of capital projects in their capital programme due to the unexpected increase in the cost of borrowing. Whereas this Authority has previously relied on PWLB as its main source of funding, it now has to fundamentally reconsider alternative cheaper sources of borrowing.
- That debt rescheduling opportunities have been very limited in the current economic climate and none has taken place to date in the current financial year.

- That section 7 of the report sets out the progress of the Council's capital position and confirms that the Council has not breached any of its prudential indicators in the first six months of the financial year. There are some changes to the financing of the capital programme due to a significant underspend on three capital schemes in 2019/20 (paragraph 7.2.1 refers).The Council is also slightly below the original forecast Capital Financing Requirement (the Council's borrowing need) as a result of the forecast underspend in borrowing mainly down to the 21st Century Schools Programme.

In relation to the Council's investment activities, the Director of Function (Resources) referred to a news article about the sum of £5m which the Authority had invested with Cheltenham Borough Council (being one of a number of authorities which had similarly invested funds with Cheltenham Council); the article headlined the story in such a way as to make the investment appear inappropriate creating the impression that the funds were being invested in a business park being developed by Cheltenham Borough Council. On the basis of the article the public had come to misleading and critical conclusions about how the Council uses and manages public money as evidenced by e-mails from Anglesey ratepayers to the Council Leader and Section 151 Officer extracts from which the Director of Function (Resources)/ Section 151 Officer read out. The Director of Function (Resources)/Section 151 Officer emphasised that the Council had not invested any public money in the development in Cheltenham and clarified that inter-authority lending is standard practice and has the advantages of providing a secure source of investment, better returns than were the money invested with a bank and provides the borrowing authority (in this case Cheltenham Borough Council) with a cheaper loan. The investment made by Anglesey Council with Cheltenham Borough Council was short-term for a period of 65 days and generated a return of £5,800 when paid back compared to £3,500 that investing the sum with one of Council's banks at 0.4% would have produced.

The Committee agreed that it was important to ensure that the correct information is disseminated so that the public can be clear about the Council's investment decisions and why it makes them, thereby providing assurance about the way it manages public money.

It was resolved to accept and to note the Treasury Management Mid-Year Review Report 2019/20 without further comment.

THERE WERE NO PROPOSALS FOR ADDITIONAL ACTION

6. INTERNAL AUDIT UPDATE

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

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

- That five reports were finalised during the period which were all grant certification audits – Pupil Development Grant (Looked After Children); Teachers Pay Awards and Cost Pressures; Pupil Development Grant (Access); Ethnic Minority & Gypsy Roma Traveller Learners Grant and Additional Free School Meals Costs due to rollout of Universal Credit (Copies were provided to the Committee's members). The first four reviews produced a Substantial Assurance opinion whilst the fifth resulted in a Reasonable Assurance opinion. Internal Audit did not identify any risks for management attention for any of the five reviews.
- A second follow-up review of Sundry Debtors (the original review and first follow-up having resulted in a Limited Assurance opinion) concluded that Management have undertaken much work to address the issues/risk outstanding after the first follow-up

thereby enabling Internal Audit to increase the assurance provided to Reasonable. However, in light of the fact that 8 issues/risks remain outstanding (which are in progress of being addressed) and the potential impact these would have in those areas, Internal Audit will follow-up the action plan again in May, 2020.

- That there are two follow-ups of reports with a Limited Assurance rating currently in progress – Primary Schools Income Collection and Direct Payment. There is also a follow-up of a Schools Information Governance Health Check conducted by an external consultant for which an assurance rating was not provided. Two follow-ups are scheduled for the next six months – System Controls: Logical Access and Segregation of Duties, and Sundry Debtors. These may be added to dependent on the assurance provided for reviews conducted throughout the year.
- That management performance in addressing issues/risks and implementing actions continues to improve. There are no High or Red issues/risks currently outstanding and performance in addressing Amber rated issues/risks has improved since the last update to Committee on 3 September with the overall implementation percentage for High/Red/Amber issues/risks at 94%.There has also been an improvement in performance in addressing outstanding Medium/Yellow risks. However progress with implementing the new and upgraded version of the action tracking system has been hampered by an IT compatibility issue which has only recently been resolved.
- That work is currently in progress on six audits form the Operational Plan for 2019/20 as listed in Paragraph 37 of the report.
- That the resource available to the Internal Audit Service has increased by 120 days (which after training and annual leave have been factored in allows for 70 days which can be used on outstanding projects) with the addition on a temporary basis of an accountant from the Accountancy Service, the objective being to provide the employee with a development opportunity in audit services as well as providing Internal Audit with extra support.

The Committee discussed the report and sought further clarification with regard to the following matters –

- The reasons why the Grant Certification audit in relation to Additional Free School Meals due to rollout of Universal Credit was given a Reasonable assurance rating even though no risks for management action were identified when all the other grant certification audits referred to were rated Substantial assurance. Also, given that the Operational Programme is risk based why were the grant audits prioritised when the assurance rating for all five indicate that they were low risk?

  The Head of Audit and Risk clarified that Welsh Government requires that the specific grants referred to be certified as having been audited. Not all grants are subject to the same requirement. Also, as one-off projects the Teachers Pay Award and Cost Pressures Grant and the Additional Free School Meals Costs due to Rolling of Universal Credit grant are viewed as slightly higher risk.

  With reference to the assurance rating given the Additional Free School Meals Costs due to Rollout of Universal Credit grant audit, the Director of Function (Resources)/Section 151 Officer set out the background to the matter explaining that the purpose of this additional funding was to reimburse the Council for costs incurred in funding additional free school meals in the 2018/19 financial year because of the rollout of Universal Credit. However, due to the late rollout of Universal Credit on Anglesey in December 2018 the Council had limited direct costs associated. A spending plan to support free school meal pupils was proposed and was accepted by Welsh Government (details of which were given in the final report provided). The amounts in the plan were estimates of how the Council would spend the money but it did not spend the estimated amounts in full. Welsh

Government agreed that the unspent funding could be used to write off 2018/19 debt in relation to free school meals but the grant would only support costs incurred during the 2018/19 financial year. Internal Audit was unable to verify the amount claimed to be written off in relation to free school meals, as it has not yet occurred i.e. Internal Audit has not seen evidence of the write off and cannot verify if the debt is specifically in relation to free school meals hence the Reasonable rather than Substantial Assurance opinion.

- The reasons why the third follow-up of Sundry Debtors has been scheduled for May, 2020 when the expectation might be that the outstanding issues/risks would have been resolved in a shorter timeframe?

  The Director of Function (Resources)/Section 151 Officer clarified that many of the issues in relation to Sundry Debtors stem from the capacity of the team to deal with the historic volume of work. During the last four years the team has undergone restructure with work also ongoing on modernising the service's operating systems with the objective of moving towards increasingly digital payments processes thereby reducing the number of invoices raised. It is also intended to appoint to a new post of Systems Administrator which will also encompass developing the service's cash income collection systems. Steps to rationalise the volume of work are therefore being taken which are expected to address many of the issues outstanding from the audit. Additionally, the time taken to approve new debtors and raise new invoices has significantly improved. Developing new IT systems and ensuring they are properly integrated with associated systems takes time; it is however expected that by May 2020 with the support of the extra resource further improvements will have been made notwithstanding the development work is additional to staff's day to day work.

  In response to a query by the Committee regarding the merits of bringing in external expertise to undertake the systems development work the Officer said that the Council's financial situation means that it has to maintain a balance between investing in back office functions and frontline services. Whilst back office costs have been reduced over time as part of efficiency measures to balance the Council's budget, further reductions are not feasible. However, should the Council's financial prospects improve it may be possible to reconsider re-investing in back office functions which would generate savings and improvements in efficiency.

- The recurrence in reports of IT compatibility issues as hampering progress and whether these issues are due to the quality of the technical specification given to providers in terms of what the product/software is expected to do and how the process is then managed to ensure that the product is delivered accordingly?

  The Director of Function (Resources)/Section 151 Officer explained that with regard to local government operating systems the number and choice of providers is limited with these few providers serving a large number of local authorities. As a smaller sized authority Anglesey is disadvantaged in terms of the influence it can bring to bear on providers compared with a large authority with a proportionally larger budget. Additionally, applications have to meet the Council's bilingual requirements which can sometimes create difficulties leading to delay in implementation and unforeseen issues can also arise after the specification has been written. The differences in the way other councils in Wales apply the Welsh Language Standards and variations in operating systems also make collaborating on IT matters problematic.

- In response to a question about productivity, the Head of Audit and Risk clarified that conversations with colleagues in other local authorities and with Welsh Government have shown that they do not include annual leave and maternity leave in their statistics. Therefore for the next year the Internal Audit Service will measure productivity differently. The Officer also confirmed that the Operational Plan does not specify a delivery date for individual audits because the Plan is a live document and changes as the risk register changes. Internal Audit seeks to ensure that the Plan remains flexible so that any emerging areas of risk can be introduced to the Plan during the year.

Having considered the report and the further clarifications and assurances provided by the Officers at the meeting, the Committee resolved to note Internal Audit's latest progress in terms of service delivery, assurance provision, reviews completed, performance and effectiveness in driving improvements.

THERE WERE NO PROPOSALS FOR ADDITIONAL ACTION

7. REVIEW OF THE AUDIT AND GOVERNANCE COMMITTEE'S TERMS OF REFERENCE

The report of the Head of Audit and Risk incorporating the Committee's terms and reference for the purpose of review was presented.

The Head of Audit and Risk reported that the Committee's Forward Work Programme provides for the regular review of its terms of reference which is considered good practice. The last review in September 2018 approved a fully revised and updated terms of reference to bring them into line with the publication of CIPFA guidance. Due to the full revision of the terms of reference in 2018, significant and wide-ranging consultation was conducted to obtain stakeholder views. As no new sector specific guidance has been issued and there have been no other significant changes that affect the terms of reference, limited consultation was conducted with the Director of Function (Resources) and Section 151 Officer and an adviser from CIPFA. No significant changes were identified with the only change being the change in the Director of Function (Resources) and Section 151 Officer's job title. If that remains the case, the terms of reference can be updated without requiring the Executive's and Full Council's approval.

Referring to sections 30 to 33 of the terms of reference which covered fraud and corruption, the Officer highlighted that the Committee's work in this area has hitherto been limited – Internal Audit is currently undertaking a piece of work on fraud and corruption with a view to bringing a report to the Committee's April, 2020 meeting that will include a fraud risk assessment as well as an overview of fraud for the year.

The Committee considered the terms of reference and sought clarification of whether any bodies other than CIPFA has a bearing on Audit Committee responsibilities in Wales. Reference was also made to a presentation by Wales Audit Office to an inaugural meeting of the 22 Chairs of Audit Committees where the guidance provided was in contrast to this Committee's terms of reference specifically with regard to membership of audit committees

The Head of Audit and Risk confirmed that CIPFA is the principal body in terms of producing guidance on the function of audit committees. With regard to the Wales Audit Office presentation she clarified that part of the presentation was in relation to proposals contained within the Local Government and Elections (Wales) Bill which introduces electoral reform and new governance arrangements for local government in Wales which when enacted, is likely to result in changes including to this committee's membership. Currently, the Audit and Governance Committee's membership and terms of reference are in accordance with the Local Government (Wales) Measure. In response to a request for an update on the arrangements for the Committee to undertake a self-assessment, the Officer said that as the meeting of the 22 chairs of audit is undertaking a piece of work on the effectiveness of audit committees, it was deemed sensible in order to avoid duplication, to defer to this process. A session where the 22 chairs and the heads of audit met together has identified areas where it was considered audit committees need the greatest support specifically in relation to training on the code of governance. It is therefore hoped that some training on governance matters will be rolled out early next year.

It was resolved to approve the existing term of reference with only minor changes to update the Director of Function (Resources) and Section 151 Officer's job title.

THERE WERE NO PROPOSALS FOR ADDITIONAL ACTION

8. FORWARD WORK PROGRAMME

The Committee's Forward Work Programme was presented for review **and was approved without amendment.**

9. EXCLUSION OF THE PRESS AND PUBLIC

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

10. RISK BASED VERIFICATION

The report of the Director of Function (Resources)/Section 151 Officer seeking the Committee's comments on a proposed Risk Based Verification Policy was presented. The report set out how the risk groups were determined for the proposed Policy; its expected savings/benefits and how the policy would be implemented and monitored.

The Benefits Manager reported that currently the Benefit Service undertakes the same level of verification for all cases. This is the basic level of checks as stipulated by the now redundant DWP verification framework. As this is labour intensive, it makes it more difficult to give extra focus and limits the ability to review cases where the risk of fraud/error is highest. Although the DWP has allowed authorities the discretion to implement their own risk based verification processes since 2011, the Authority has not undertaken to do so until now. A review of processes and the reduction in Housing Benefit cases has resulted in this being considered again to see if it's being done in the most effective way.

For the purpose of assisting to establish which category of claimants has the greater risk of change an analysis was made of all claimant error overpayment cases calculated in June, 2019 which considered the reasons for the overpayments as well as the profile of the claimant's situation. An analysis of claims received in March and April 2019 was also undertaken to ascertain which risk group these would fall into. The report sets out the findings of those analyses including the elements of claims that were considered in order to determine the risk group. The impact on the service was assessed and is summarised in the report. In addition, an Equality Impact Assessment was undertaken to see whether the impact of the proposed change in approach will be greater for particular groups of claimants.

The Committee discussed the report and in considering the objectives of the new policy in seeking to concentrate resources on those cases where discrepancies/errors are likely to occur i.e. those falling into the high risk category, it expressed some reservations regarding the methodology adopted in relation to the elements of claims considered and it highlighted in particular potential difficulties with the age group analysis and the way in which age range had been determined which it believed could result in an inaccurate risk profile thereby biasing the conclusion reached towards a particular age group .The Committee suggested that the Officers might wish to reflect on this component of the policy before presenting it to the Executive for approval; the Committee further recommended that in the early stages of the policy's implementation a random sampling of cases from across age groups, earnings and family composition be undertaken in order to test and verify the assumptions made.

It was resolved to note the proposed Housing Benefit/Council Tax Reduction Risk Based Verification Policy with the recommendations –

- **That the age range within the age groups be reconsidered;**
- **That random sampling on the lines suggested be undertaken once the policy is implemented.**

Mr Jonathan Mendoza
(Chair)

ISLE OF ANGLESEY COUNTY COUNCIL	
REPORT TO:	**AUDIT AND GOVERNANCE COMMITTEE**
DATE:	**11 FEBRUARY 2020**
SUBJECT:	**TREASURY MANAGEMENT PRACTICES (TMP)**
LEAD OFFICER:	**MARC JONES**
CONTACT OFFICER:	**CLAIRE KLIMASZEWSKI (TEL:2663)**
Nature and reason for reporting For scrutiny - consistent with professional guidance.	

1. This report is presented to ensure that the Council is implementing best practice in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management. The code recommends that the Council document their treasury management procedures as Treasury Management Practices (TMPs). The current TMPs were completed and approved in 2016. These have been reviewed and updated and include a section (TMP13) on non-treasury investments held by the Council, as required by the revised CIPFA Treasury Management Code. The Council's non-treasury management investments are the Investment properties which are managed by Property Services.

2. The CIPFA Code of Practice on Treasury Management (Section 7) recommends that the Authority's Treasury Management Practices (TMPs) should be approved, documented and monitored. It goes on to state that the nature and extent of the involvement of an organisation's responsible body in approving and monitoring its TMPs and accompanying schedules is a matter for local decision and recognises that in some organisations this may be delegated to the responsible officer. In all cases it should be subjected to scrutiny by the responsible body following recommendations by the responsible officer. Appendix 1 presents the Authority's TMPs.

3. Recommendations:

- To note the contents of this covering report;
- To endorse the revised Treasury Management Practices included in Appendix 1.

Isle of Anglesey County Council

Treasury Management Practices

Introduction

The Council is committed to implementing best practice and to complying with the CIPFA Code of Practice on Treasury Management (2017) in all aspects of its Treasury Management.

Treasury Management is the management of the Council's cash-flows and investments to ensure that there is sufficient cash to pay the authority's bills on a day-to-day basis. Any surplus cash is invested in accordance with the Authority's Treasury Management Strategy Statement (TMSS).

Another important aspect of Treasury Management is the management of the Council's debt portfolio to ensure that loans are only taken out to fund capital expenditure and that all loans are affordable. The key objectives of the TMSS is that Treasury Management activities are low risk and will ensure that the authority has access to cash to meet its cash-flow needs.

The Code states that all authorities are required to produce a statement of Treasury Management Practices (TMPs). Section 7 and schedule 2 of the code include suggestions on what should be included in authorities' Treasury Management Practices. To ensure compliance with the Code and good practice these Treasury Management Practices endorse and include many of the suggestions provided in the CIPFA Code. These Treasury Management Practices also take into account and supplement the Authority's Treasury Management Strategy Statement.

TMP1 Risk Management

The Director of Function (Resources) / S151 Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk. The Director of Function (Resources) / S151 Officer will report at least annually on the adequacy/suitability of treasury risk management practices, and will report, as a matter of urgency any actual or likely difficulty in achieving the organisation's objectives in this respect in accordance with the procedures set out in TMP6 Reporting Requirements and Management Information Arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out below.

1.1 Credit and Counterparty Risk Management

Credit and counterparty risk management relates to minimising the risks to the council from loss of investment monies or breach of a borrowing arrangement with reference to counterparties reduced creditworthiness. The Council regards the security of its deposits and investments to be the key objective of its TMSS. The Council will ensure that the organisations with whom funds may be deposited or invested are selected on a prudent basis i.e. with caution with the security of the investment in mind not their rate of return. The Treasury Management Strategy Statement lists the minimum criteria an organisation must meet for deposits and investments. This includes cash-limits, time limits and the list of approved countries for investments. These provide additional controls in order to reduce risks (see Table 1).

Table 1 Extract from TMSS 2020/21 – Counterparty Criteria

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

* *as defined in the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003*
****** *as defined in the Local Government Act 2003*
**** Counterparty refers to the organisations that the Council invests in surplus balances in*

Criteria for creating and managing approved counter-party lists/limits	• The Director of Function (Resources)/S151 is responsible for setting prudent criteria; with advice from the Council's Treasury advisors. • The criteria will be included in the annual Treasury Management Strategy Statement (TMSS) each year; • The criteria will be scrutinised by the Audit and Governance Committee and will be approved by the Executive and Full Council; • The Council's Treasury Management advisors will advise on credit policy and creditworthiness.
Procedures for changing limits and changes to counterparties	• All changes relating to counterparty limits and /or criteria within the TMSS will be submitted to Council for approval.
Counterparty Lists and Limits	• Counterparties and market conditions will be monitored regularly. The Council receives information and advice from the Council's specialist Treasury Management Consultant to help monitor counterparties. • A full individual listing of Counterparties and their limits will be maintained. These will be in accordance with the criteria and limits set within the TMSS. The S151 Officer will approve any amendments to the list of counterparties in so far as they are consistent with the TMSS approved by Full Council. Any changes, which do not fall within these, will require an amendment to the TMSS if the change is necessary to achieve the key aims of the TMSS i.e. to ensure secure investments. The TMSS and list will then go to Full Council for approval.

	• Any investment in any counterparty which falls below the Council approved minimum criteria will be called back and invested in counterparties which do meet the minimum requirements and in accordance with the list. Where the council is locked into a fixed- term investment, the investment will have to remain until the end of the term but will then be returned and invested in counterparties which do meet the criteria and who are on the list; • The investments will be diversified as far as possible within the confines of ensuring the investment is secure.

1.2 Liquidity Risk Management

Liquidity risk management aims to protect the Council from running out of cash to ensure that the Council can pay its day-to-day costs. This Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives. The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities. In addition, the organisation may borrow to externalise internal borrowing where internal borrowing compromises liquidity.

Cash-flow Forecast and Daily Cash-flow Management	• An annual forecast of cash-flow balances is maintained covering a twelve-month period. This is to help inform more medium and long-term investment decisions; • The Treasury Management team will ensure that the balance on the main bank accounts is adequate to minimise the risk of any overdraft and to maximise interest receivable. • The banking arrangements have been implemented so that all bank accounts under the corporate contract with NatWest are taken into account when determining the Council's overall balance. This means, that if any account is overdrawn, if the other accounts are in credit to the amount overdrawn or more the council will not be in an overdraft position. There is no approved overdraft facility however, NatWest will honour all payments in the unlikely event of an overdraft for a small charge; • A minimum £5m will kept in instantly accessible investments. In circumstances where it is prudent to hold lower than this amount, for example, where it would cause additional Treasury Management costs. This will be permitted for no more than 10 working days and only where there is absolute certainty that the cash will not needed during this period. This is most likely to occur after the monthly salaries run (circa 25th) and the Revenue Support Grant from Welsh Government, which is paid to the Council in the first week of each month.
Duration of investments	• Balances are generally held in short-term investments in line with the liquidity aims of the TMSS. This ensures that the Council has access to cash as needed; • Balances will be transferred from the general account to short-term investments when the interest/income is greater than the cost of transferring the balance taking into account transaction costs e.g. CHAPS fees. A minimum balance of £200k will be maintained across all the NatWest accounts to reduce the risk of overdraft fees and interest; • A maximum time limit and cash amount is set per investment/deposit to reduce risks. See table 1 above.

Other contingency arrangements	• The Authority has used internal borrowing over a number of years to fund its capital programme. This has reduced the Council's cash balances in order to save on interest payable costs. If there is the risk of a shortfall of cash, the Council will externalise internal borrowing to the amount required to ensure liquidity and taking into account the minimum instantly accessible cash target of £5m as noted above • The Council can also borrow temporarily up to a maximum of 364 days from other local authorities or the money market should there be a cash-flow shortage during the year.
Borrowing in advance of need	• Generally the council will not borrow in advance of need. However, in exceptional cases this may be considered with the approval of the S151 Officer and the Portfolio holder for Finance with a full business case.

1.3 Interest rate risk management

Interest rate risk management relates to the actions taken by the Council to reduce the risk of increased interest costs and to maximise interest receivable, within the constraint of all investments need to be highly secure and relatively liquid. The Authority will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.

Approved interest rate exposure limits	• The Council will use a combination of variable and fixed interest rate investments to maximise returns while minimising risks. The investments/deposits will be low risk counterparties investments rather than high interest return investments. Fixed interest rate investments will be in secure short-term investments, which are higher than the variable rates offered. • Similarly, the Council's debt portfolio is comprised of loans some of which charge a fixed interest rate and some a variable rate. However, the significant majority of the current portfolio is fixed rate interest to ensure certainty and maximise lower interest rates. • The S151 and TM team will monitor interest rates and will make investment and borrowing decisions, which are the most cost effective at the time using up-to-date information provided by the Council's Treasury Management Consultants.
Trigger points and guidelines for managing changes to interest rates	• The significant majority of the Authority's debt portfolio is fixed interest to ensure certainty and stability of payments and to avoid exposure to any potential increased costs; • Re-financing decisions and unsupported borrowing decisions will also consider interest rates at the time.
Minimum/maximum proportions of variable rate debt/interest and fixed rate debt/interest	• The upper limits for fixed rate and variable rate exposures are reviewed each year and documented in the TMSS.

Use of financial derivative	• The Council will not use Financial Derivatives as these are considered too high risk for the aims of the Council's TMSS.

1.4 Exchange rate risk management

The Council will manage its exposure to fluctuations in exchange rates to minimise any detrimental impact on its budgeted income/expenditure levels.

Exchange rate Exposure limits	• Investments/debt will all be made in sterling. The Council will not invest in other currencies as part of its Treasury Management practices as this would expose the Council to too high a risk and could compromise liquidity. The only time the Council will be exposed to exchange rate risks will be in relation to operational activities where a grant is paid to the Council in another currency or the Council is required to pay a supplier in another currency. Any foreign currencies paid to the Council will be converted to Sterling as soon as possible.

1.5 Refinancing risk management

Refinancing risk management relates to managing the Council's debt portfolio in a way, which reduces the risk of increased costs from refinancing activities. The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented. The maturity profile of the monies borrowed are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the Council as can reasonably be achieved in the light of market conditions prevailing at the time. The Council will actively manage its relationships with counterparties and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

Refinancing risk	• The Council will seek to manage its debt portfolio and other capital financing sources in the most cost effective way. The Council will use the cheapest sources of capital financing available first and unsupported borrowing will be used as a last resort for funding the capital programme; • The Council will use council cash balances and reserves for internal borrowing to reduce its capital financing costs if this is cost effective. However, there will be a limit to how much the Council can use internal borrowing. The Council will not use cash balances to internally borrow if it would compromise liquidity. The Internal borrowing should not be used where it would leave council cash balances below £5m; • Longer-term borrowing will be in accordance with the Prudential Code and will therefore be affordable; • Longer-term borrowing will be in accordance with the Treasury Management Strategy Statement and prudential indicators for example kept within the authorised borrowing limit; • Debt will be rescheduled only if it is cost effective. This will be to benefit from lower interest rates and to prevent a number of loans being repayable at the same time to an extent, which would be too costly. The Council will take advice from its Treasury Management Consultants on the benefits and costs of rescheduling debt; • The debt portfolio will be managed in such a way to avoid any significant refinancing problems in the future. Ideally, there should no more than £5m due to be repaid in any one year. When considering new borrowing

	the maturities of the current debt portfolio must be assessed so as to avoid future problems; • Before any new borrowing is taken out, an option appraisal must be completed to determine the most cost effective and affordable time period to borrow. This appraisal will also take into account the existing debt profile and any refinancing requirements. The differing types of loan should be considered to determine the optimal impact on the Council. For example, taking into account interest and MRP against interest and principal repayment. • The Council's Treasury Management Consultants provide the Council with interest rate projections to support treasury management decisions on investment and borrowing. These projections are included in the TMSS each year.
Projected capital investment requirements	• The annual TMSS provides details of the actual capital expenditure and funding for the last audited financial year. It is also includes, projections for the year before the TMSS relates to, the year of the TMSS and two years beyond. This helps to identify the capital programme financing needs for each year; • The Council's long-term borrowing requirement is linked to the CFR. • The Council will complete option appraisals to ensure the most cost effective methods of capital financing are selected and that cheapest sources of capital financing are applied first.
Policy concerning limits on revenue consequences of capital financials	• The Council is bound by the Prudential code and the requirement that borrowing must be affordable; sustainable and prudent. • The Council's debt must not except in the short-term exceed the total of the Capital Financing requirement in the preceding year plus the next two financial years; • Capital and revenue budgeting are interlinked. Capital external financing incurs financial costs which impacts on the revenue budget through interest costs and the MRP; • The estimated capital financing costs for each forthcoming year are built into annual budget setting; • Capital financing costs are also taken into account longer term in the Medium Term Strategy for the Council which covers a three-year period; • The Council's Capital Strategy advocates that new capital projects should be limited to the level of capital financing which does not incur additional revenue costs. The strategy requires that unsupported borrowing should only be considered where the relevant service budget can be reduced by a sum greater than the MRP and interest costs. This excludes the 21st Century Schools programme with Welsh Government, which has already been committed. However, any savings from the 21st Century Schools programme would be used to contribute to the increased capital financing costs.

1.6 Legal and regulatory risk management

Legal and regulatory risks relate to the risk that the Council or third parties dealing with Treasury Management on the Council's behalf fail to act in accordance with the Authority's legal powers or regulatory requirements. The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] *credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged. This organisation recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

Legislation which impact on Treasury Management Activities	• Local Government Act 2003; • Local Government (Wales) Act 1994; • The Accounts and Audit (Wales) Regulations 2014; • The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 No. 3239 (W. 319) and subsequent amendments including the most recent; • The Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2016; • The Accounts and Audit (Wales) Regulations 2014 3362 W337; • The Local Authorities (Capital Finance and Accounting) (Wales) (Amendment Regulations 2018; • CIPFA, Treasury Management Code 2017; • CIPFA, Prudential Code 2017; • CIPFA Code of Practice on Local Authority Accounting 2019/20; • CIPFA Financial Management Code, 2019 • Isle of Anglesey Treasury Management Strategy Statement 2020/21; • Isle of Anglesey, Finance Procedures Rules; • Isle of Anglesey, Contract Procedure Rules.
Procedures for evidencing the Council's powers/authorities to counterparties	• The authority's powers and duties are enshrined in law. The Local Government Act 1972 is a key legislation in relation to councils' functions. The Local Government Act (Wales) 1994 is important legislation which led to the creation of the unitary authorities in Wales of which the Isle of Anglesey County Council is one and provides the law for the transfer of functions from the former authorities; • Section 3.5.3.5 of the Council's constitution outlines the delegated authority of the Director of Function (Resources)/S151 Officer. 3.5.3.5.3 provides the acknowledgement that this role will be the Council's responsible finance officer under section 151 of the Local Government Act 1972. The S151 officer's responsibility for Investment and Capital Planning is noted under 3.5.3.5.8. In addition, 3.5.3.5.17 outlines the S151 officer's responsibility to manage the authority's borrowing, lending and banking arrangements; • constitution 4.3 budget and policy framework procedure rules outline the responsibilities within the Council in relation to Budgeting and Policy; • Constitution 4.8 outlines the authority's financial procedure rules; • Constitution 4.9 provides the contract procedure rules the Council is bound by;

	• These can all be shared with counterparties and are also available on the Council's website;
Information required from counterparties in relation to their powers/authorities	• The Council will only make investments/deposits in organisations, which have been independently rated by a number of sources. These ratings have to be above the minimum credit rating as specified in the TMSS. The Council's Treasury Management Consultants provide information to assist the authority on a regular basis; • Lending to third party organisations will be an exception and will only be made to organisations which have been subject to a thorough financial appraisal;
Statement on the Council's political risks and management of these risks	• Legislation is in place to regulate any internal political risks. The Local Government Act 2000 legislates on the conduct of members and officers; • The constitution of the Council and schemes of delegation help to reduce political risks; • Adoption by Council of each annual TMSS and the CIPFA Treasury Management Code of Practice provide further risk reduction; • The Members' and officers' codes of conduct also provide a framework for reduced risk; • The organisation's Corporate Governance Framework and in particular compliance with TMP12; • External political risks are mitigated by having a robust TMSS and Treasury Management Practices (TMPs). Daily updates from the Council's Treasury Management Consultant will support action needed to mitigate risks.

1.7 Fraud, error and corruption, and contingency management

The Council will ensure that it has identified the circumstances, which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

Systems and procedures to reduce the risk of loss through fraud, error and corruption	- There are several stages of segregation of duties, which are outlined in TMP5 below. The Treasury Management team monitor cash-flows and recommend transfers. The initial arrangement of investments/deposits is completed by the Treasury Management team with the approval of the S151 officer or his deputies. The Treasury Management team are not involved in any processing of treasury management transactions. - All treasury management transactions are processed via CHAPs using the NatWest online banking system. This is a secure system, which in addition to passwords requires use of card readers to authorise transactions. Segregation of duties exists so that no team member with direct responsibility for Treasury Management has access to process payments/transfers. The officers in the technical team who process the payments/transfers are not involved with authorisation of payments/transfers; - The NatWest Bankline system has been set up to ensure segregation of duties and allows access levels to the appropriate level for example the Treasury Management team have view only access to bankline; - Bank mandates are set up with the banks the Council holds deposits with, in accordance with the approved list of authorising officers. This also helps with segregation of duties and helps keep the Council's deposits more secure; - The Council has a List of named officers who have the authority to transact loans and transactions. Brokers and counterparties with whom the Council deals directly with are provided with a copy of the named officers; - Treasury management reconciliations are completed monthly as a quality control check; - The treasury management team use Logotech a specialist treasury management software to support monitoring of treasury management activities; - Internal audit will undertake regular audits of the Treasury Management function.
Emergency and contingency planning	- There is a hard copy of all treasury management decisions and activities; - All IT systems including the Treasury Management systems are backed up by the ICT function and can be restored; - Each service/function of the Council has a Business Continuity plan. - In the event of a failure of the NatWest bankline system, balances can be gained from the NatWest branch in Llangefni. Most treasury management transactions are moving towards internet banking. If a counterparty's online banking facility is not available, the relationship manager would be contacted for their alternative procedures. This would involve the bank separately contacting an authorised signatory for approval. If the Council's internet is not available an internet source as part of the smarter working agenda could be used.

Insurance cover details	• Fidelity Guarantee Insurance is taken out by the Council to protect itself against any fraudulent activity within Treasury Management activities. It provides for a guaranteed sum of £10m should any of the named officers directly involved with treasury management cause loss to the Authority and £1m for any other employee.

1.8 Market risk management

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

Approved procedures and limits for controlling exposure to investments whose capital may fluctuate	The Treasury Management Strategy Statement (TMSS) does not allow high-risk investments, which are likely to fluctuate. Investments can only be made in accordance with the criteria set out in the TMSS as approved by Council. Where the Council invests or temporarily borrows from money markets, these can only be in AAA rated funds which are diversified over a number of investments that the exposure to risk and capital fluctuations is reduced.

TMP 2 – Performance Management

The Authority is committed to the pursuit of value for money in its treasury management Activities and to the use of performance methodology in support of that aim. Value for money must be within the framework set out in the TMSS. Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements.

Methodology to evaluate the impact of treasury management decisions	• The core aims of the TMSS is that Treasury Management activities will prioritise security, liquidity and then return. The function is therefore not judged solely on the returns made. Treasury management decisions are evaluated against its core aims; • The Treasury Management Mid-year and Outturn reports also allow scrutinise the performance of key Treasury Management aims; • Treasury management returns and activity are monitored quarterly in the Corporate Scorecards.
Methodology for testing value for money in treasury management	• The treasury management function is currently provided in-house. The market could be tested at any time via sell2wales; • The specialist Treasury Management Consultants/Advisory service is advertised on sell2wales at the end of each contract period. The current contract was subject to a tendering process last year via sell2wales. The successful tender was Capita Asset Services and the contract is from 1 April 2016 to 31 March 2019 with an option to extend for up to two years. • Banking services are tendered every five years via Sell2Wales. The current contract is with NatWest, which is effective from 3 February 2016. • There is an approved list of money-broking services, where advice from 3 brokers will be sought when formulating options for treasury management investments; • The Council does not use cash/fund management services as part of its treasury management activities. However, fund managers are used for a number of charitable trusts, which the Council is trustee for.

TMP 3 – Decision-making and analysis

The Council will maintain full records of its treasury management decisions and of the processes and practices applied in reaching those decisions. The Council will learn from its experiences and decisions and will build on its successes and take action to avoid any negative issues, which may arise. The Council will record decisions so that the Council can demonstrate that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

Delegated powers and record-keeping	• Full Council approves the Treasury Management Strategy Statement (TMSS) each year after being scrutinised by the Audit and Governance committee and considered by the Executive, these decisions are recorded formally. • The Director of Function (Resources)/S151 Officer has the delegated authority for all aspects of treasury management. All decisions will comply with the TMSS. The treasury management team will provide options and recommendations for the S151 Officer to consider when a new investment or loan is required. This will be documented and signed off by the S151 Officer. The treasury management team makes day-to-day decisions with existing counterparties with one team member recommending a transaction and another more senior member of the team approving this recommendation.
Continuous improvement	• The council will evaluate treasury management activities and seek to avoid any negative outcomes and build upon good practice and treasury management results. This is done on a day-to-day basis operationally; • On a more formal basis treasury management will be evaluated through the mid-year and end of year treasury management reports which will be scrutinised by Audit and Governance Committee, considered by the Executive and Council; • The historic and forecast performance of prudential indicators are provided within the annual TMSS, which is scrutinised by Audit and Governance Committee; considered by the Executive and approved by Council.

TMP 4 – Approved instruments, methods and techniques

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the scheduled below and within the limits and parameters defined in TMP1 Risk management and the Council's TMSS. All instruments, methods and techniques will be focussed on those, which offer greatest security and liquidity. The Council will aim to maximise yield within these two main priorities. The Authority will seek proper advice from its commissioned specialist treasury management consultants/adviser and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

<table>
<tr><td>Approved Capital Financing instruments, methods and techniques</td><td><u>External:</u>
Public Works Loan Board (PWLB);
Temporary money-market loans (up to 364 days);
Long-term money-market loans;
Bank overdraft (only in exceptional circumstances and if this is the cheapest option for a very short-term need);
Commercial loans;
Loans from other organisations if terms and conditions are favourable. The organisations will need to be authorised to lend and are regulated;
Finance leases;
Operating leases;
Capital Government grants and European grants;
Capital Grants from other organisations for example, the National Lottery;
PFI/PPP.
<u>Internal:</u>
Capital receipts:
Revenue contributions;
Use of reserves.</td></tr>
<tr><td>Approved Investment instruments, methods and techniques</td><td>The Council's investment policy has regard to the Welsh Government's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross-Sectorial Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, and then return.
In accordance with the above guidance from the Welsh Government and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

As with previous practice, ratings will not be the sole determinant of the quality of an institution and that it is important to continually</td></tr>
</table>

	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. The following are approved investments in accordance with the TMSS: • Investments in banks and building societies which meet the minimum criteria in appendix 8 of the TMSS (see also table 1, above); • Nationalised/part-nationalised UK banks up in accordance with the TMSS; • UK Central Government; • UK Local authorities; • AAA rated money market funds in accordance with the TMSS.

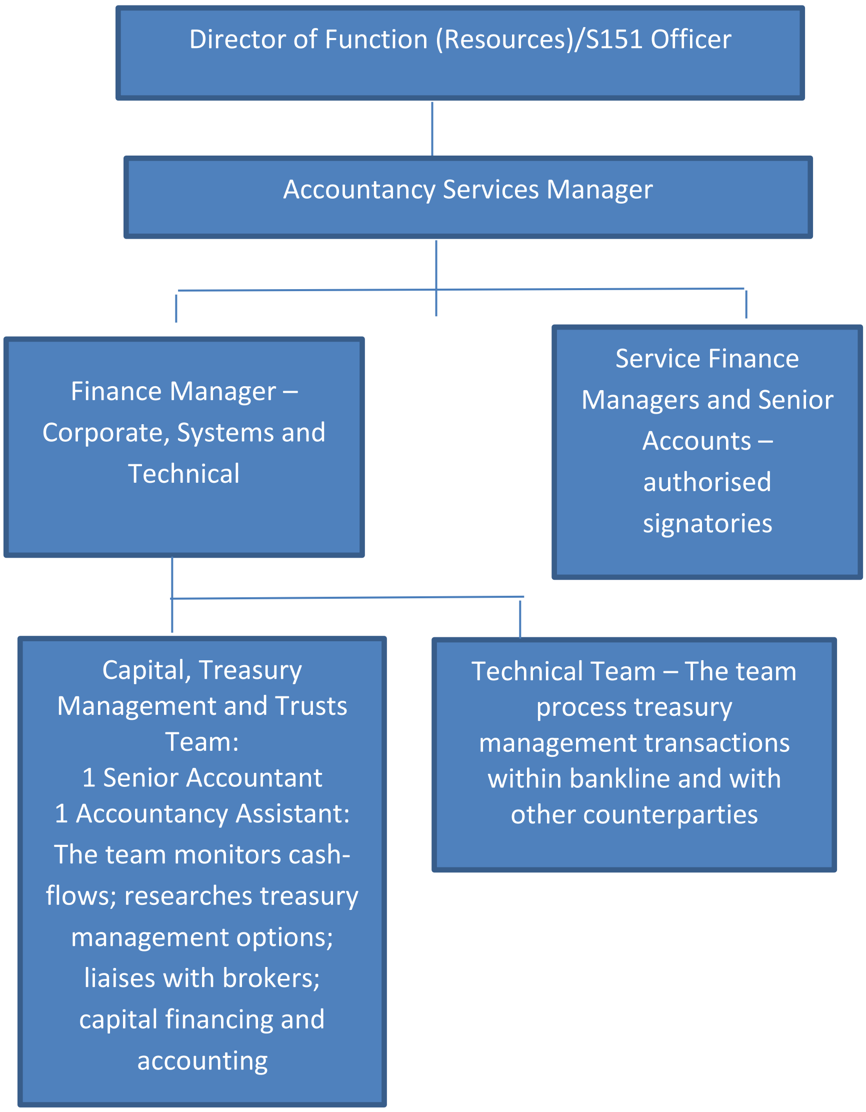
TMP 5 – Organisation; clarity; segregation of responsibilities and dealing arrangements

The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance. These activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities. The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

When the Authority intends, because of lack of resources or other circumstances, to depart from these principles, the S151 Officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated. The S151 Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The responsible officer will also ensure that at all times those engaged in treasury, management will follow the policies and procedures set out. The present arrangements are detailed in the schedule to this document.

The responsible officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the scheduled below. The delegations to the responsible officer in respect of treasury management are also set out below. The responsible officer will fulfil all such responsibilities in accordance with the organisation's policy statement, TMPs and, if a CIPFA member, the *Standard of Professional Practice on Treasury Management*.

Scheme of delegation	• Full council approves the TMSS and receives a mid-year review report and end of financial year on the performance of the treasury management function; • The Executive consider the TMSS, mid-year and end of year report and makes recommendations to Council; • The Audit and Governance Committee scrutinises the TMSS, mid-year and end of year treasury management reports and the TMPs. The Director of Function/(Resources)/S151 Officer has delegated authority for treasury management; • The Director of Function (Resources)/S151 Officer has delegated day-to-day treasury management duties to the Finance Manager – Corporate, Systems and Technical and the Treasury Management team and the Technical team. The Service Senior Accountants and above are delegated to authorise treasury management transactions.
Principles and practices concerning segregation of duties	• The Council considers that segregation of duties is key to ensure robust controls and reduce risks in its treasury management activities. The above scheme of delegation in relation to treasury management ensures that there are adequate checks and balances and segregation of duties in the treasury management function; • Balances are checked each morning and assessed against known income due and payments being made by a treasury management team member (TM). • If payments are expected to exceed the balance in the NatWest accounts, the Treasury Management TM team member will complete a transfer form detailing all the information for a transfer into the NatWest general account to meet the day's cash-flow needs. The details will be checked by the TM officer's line manager or a Finance Manager or higher and authorised if correct.

	• This transfer form is then passed to the Technical team to process the transfer. • Transfers are then approved by authorised signatories which are not part of the Corporate, Systems and Technical team and who have not authorised the transfer form to ensure segregation of duties before the transfer can take place. • The balances are checked regularly during the day to ensure the transfers are completed. If a transfer has not been completed by 2pm that day, a member of the Technical team should contact the bank from where the transfer is being made. This will ensure that the amounts are transferred into the NatWest by close of business. Balances are also re-checked towards the end of the working day. An entry is made in the cash-flow summary sheet for that day with morning and afternoon balances counter-signed by the TM officer's line manager or a Finance Manager or higher. • Any balances which are cost effective to transfer i.e. the interest for the period of investment is greater that the costs of transfer (i.e. the CHAPS fees) will be transferred to a counterparty in accordance with the approved list of counterparties and the TMSS. These will at the best interest possible within the parameters of being highly secure and accessible. The same procedure as transfers into the NatWest will be followed with all four stages of segregation of duties.
Treasury Management Organisation Chart	

Statement of duties/responsibilities of each treasury post	The Director of Function (Resources)/S151 Officer has through the constitution delegated powers for the management of the Treasury Management function as follows: • 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 TMPs. • The Accountancy Services Manager deputises for the Director of Function (Resources)/S151 Officer in relation to the above duties. • The Finance Manager – Corporate, Systems and Technical has responsibility for day-to-day management of the treasury management function; • The Capital, Treasury Management and Trusts team has responsibility for the operation of the Treasury Management function. This includes estimating future cash-flows; monitoring daily cash-flows; researching various options for investments and in the event of any new loans required and completing treasury management transfer requests authorised in line with the team's delegated powers. The team also produce the TMSS, the TMPs and treasury management reports. • The Technical Team process any treasury management transactions within the banking systems. The technical team will double check the information before entering the transactions. • The Service Finance Managers and Senior Accountants authorise treasury management transactions on the basis of documentary evidence that the transactions are appropriate.
Absence cover arrangements	• The Finance Manager – Corporate, Systems and Technical and Accountancy Services Manager will provide absence cover arrangements in the event of the two treasury management team members being absent.
Dealing limits	• £5m per deal
List of Approved Brokers	• BGC Partners; • Tullet Prebon; • Tradition UK.
Policy on Brokers' Services	• The Council will use the above named brokers to research treasury management options and actions necessary. The S151 Officer or Accountancy Services Manager will authorise the deal request. The Council will seek

	information from two of the above named brokers for any potential treasury management transaction. The team will seek to spread the business between them to ensure value for money and maintain business relationships. • The Council may also entire into direct deals with investments or borrowing to/from other local authorities or local authority pension funds.
Policy on taping conversations	• Conversations with brokers are recorded by the broking organisations.
Direct dealing practices	• Dealing options will be researched by the treasury management team and recommendations for new deals will be made to the S151 Officer or his deputy; • The treasury management team members confirm the selected deal with the broker once agreed by the S151 Officer; • A treasury management request form is completed with backing information by the treasury management team; • A member of the technical team will enter the transaction into bankline and will check the details and that the S151 officer has approved the deal; • The online payment is authorised by two authorised signatories after the details and approval of the S151 Officer has been checked; • The online payment is processed by CHAPS once authorised. • Written confirmation is provided to the counterparty; • Written confirmation of the deal is received from the broker and/or counterparty and is checked carefully and signed by a Finance Manager or above; • Any differences in the documented confirmation from the broker and that negotiated will be investigated immediately and corrected; • The deal is recorded in the daily cash-flow and record of investments/loans as relevant.
Documentation requirements	• For each deal undertaken a record should be kept giving details of amount, period, counterparty, interest rate, dealing date, payments date(s), broker. **Investments** • deal ticket authorising the investment • confirmation from the broker • confirmation from the counterparty • Chaps payment transmission document **Loans:** • deal ticket with signature to agree loan • confirmation from the broker • confirmation from PWLB/market counterparty • Chaps payment transmission document for repayment of loan.

TMP 6 – Reporting requirements and management information arrangements

The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies. These will consider the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum:

The Council will receive:

- an annual Treasury Management Strategy Statement which reports on the strategy and plan to be pursued in the coming year;
- a mid-year review;
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

The Audit and Governance Committee is responsible for scrutinising treasury management activities and indicators. The present arrangements and the form of these reports are detailed below:

Content and frequency of board/committee reporting requirements	• All of the above reports will first go to the Audit and Governance Committee for scrutiny. They will then go to the Executive with any advice from the Audit and Governance Committee. Executive will recommendations and the reports will go to Council for approval.

TMP 7 – Budgeting, accounting and audit arrangements

The responsible officer will prepare and the Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk management, TMP2 Performance measurement, and TMP4 Approved instruments, methods and techniques. The responsible officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 Reporting requirements and management information arrangements.

The Council will account for its treasury management activities; for decisions made and transactions executed, in accordance with appropriate accounting practices; standards, statutory and regulatory requirements in force for the time being.

Statutory/regulatory requirements	• The Council will comply with all statutory and regulatory requirements relating to Treasury Management (see 1.6 above). The CIPFA Treasury Management Code 2017 and the CIPFA Prudential Code 2017 incorporate these legal requirements and support with practical guidance. The Council has therefore adopted the code and will manage its treasury management function in line with the CIPFA codes.
Accounting practices and standards	• The Council will as noted above comply with the following CIPFA codes to ensure proper accounting practice and compliance with standards in relation to its treasury management function: • CIPFA Code of Practice on Treasury Management 2017 and related guidance; • CIPFA Prudential Code 2017; • CIPFA SerCOP; • CIPFA Code of Practice on Local Authority Accounting and related practitioners' guide.
List of information requirements of external auditors	• Treasury Management transactions, assets and liabilities are reported in the Council's annual Statement of Accounts which are subject to external audit; • The Council will provide access to all treasury management information that the audit team requires to verify that the accounts represent a true and fair view of the council's financial affairs including treasury management activities; • There are a number of specific notes in relation to treasury management. Each of these notes will have robust working papers, source evidence and transactions and balances held with the financial system relating to the financial year; • The following are examples of the types of treasury management information which will be needed for audit: • Treasury Management Strategy Statement; • Annual and mid-year treasury management report; • Treasury Management Practices; • New loans borrowed during the year, source documentation;

	• Complete list of loans outstanding and their maturity dates; • Loans restructured during the year including premiums and discounts; • Compliance with accounting requirements; • Amortisation of gains or losses on repurchase of borrowing; • Analysis of borrowing between short and long-term; • Debt financing and financing costs including calculations and workings; • MRP calculations and analysis of the movement in CFR; • Bank overdraft position (if any); • Brokerage, commissions and transaction related costs. • Investment transactions during the year including any transaction costs; • Cash and bank balances at year-end; • Short and long-term investments at yearend including source documents; • Calculation of interest and interest accrued; • Actual interest received; • Capita Fair Value report; • Evidence of title to investments; • Reconciliation of the movement in cash to the movement in net debt; • Cash inflows and outflows; • Net increase/decrease in short-term loans, short-term deposits and other liquid sources.
Internal Audit	• Internal audit review systems and test transactions on a regular basis. Any information requests by internal audit will be at the earliest opportunity and within 3 working days at the latest.

TMP 8 – Cash and Cash Flow Management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation will be under the control of the S151 Officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1[1] *liquidity risk management*. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

Arrangements for preparing/submitting cash flow statements	• A detailed annual cash-flow forecast is prepared for each financial year following approval of the budget; • This will take into account the budget and will look at historical information; • The cash-flow forecast will provide estimates of cash inflows and outflows each month and will be reviewed each month; • In addition, a daily cash-flow record of movements and balances is kept and updated morning and afternoon. This is signed off by either the Senior Accountant for Capital, Treasury Management or if it has been completed by the Senior Accountant his line manager or another Finance Manager who is not involved with authorising any treasury management transactions that day; • The cash-flow forecast and daily cash-flow record helps with decision-making and the identification of cash shortages/surpluses; • Treasury management transactions and balances are recorded on the Council's treasury management software Logotech.
Content and frequency of cash flow management	• Cash-flow is monitored morning and afternoon and the annual cash-flow forecast is reviewed regularly; • Information for the cash-flow is as follows: • Regular known inflows: RSG, NNDR receipts, Council tax receipts; • Estimated inflows: grants, miscellaneous income (fees and charges etc.); capital receipts. • Estimated outflows: salaries, pensions, etc.; housing benefits; creditors' runs; etc.
Listing of sources of information	• Systems are in place to ensure that the treasury management team are notified of significant cash-flows. There is a specific Treasury Management email account to which creditors, payroll etc. send details of amounts to be paid out; • Creditors notify the team of the amount of each creditors' run which provides 2 days to ensure adequate cash balances; • Payroll confirm the payroll amounts 2 days before salaries are paid; • The legal and property services notify the team of any capital receipts expected; • The grants manager notifies the Treasury Management team of estimated grants usually once grant claim forms have been completed; • The team look at average miscellaneous income in the past to estimate this.
Bank Statements procedures	• Paper bank statements are sent monthly by NatWest and the counterparties we hold deposits in; • In addition, real-time access is available via bankline or the online banking facilities of counterparties.
Payment scheduling and agree terms of trade with creditors	• The Council pays creditors on the next creditor run after the invoices have been authorised. This is likely to be before the terms of trade has expired. This is to support the local economy and small businesses. However, if there

	were cash-flow difficulties the Council would re-consider and return to paying in accordance with terms of trade usually 30 days.
Arrangements for monitoring creditor/debtor levels	• The Civica financials system produces report which have been scheduled regularly to allow the management team to monitor creditor and debtor levels. Each quarter the bad debt provision is reviewed.
Procedures for banking of funds	• The norm is for funds to be transferred electronically; • Where cash is collected at authority venues for example, leisure centres, Securityplus collects these and pays the cash and cheques into the NatWest coin/cash centre; • Cash paid at the Council county offices and schools is paid into the closest NatWest bank at the earliest opportunity in line with the Finance Procedure Rules.

TMP 9 – Money Laundering

This organisation is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed below.

Policy and procedures to reduce risk of fraud, bribery and money laundering	• Treasury Management activities will follow the Council's policies below to reduce the risk of fraud, bribery and money laundering: • Isle of Anglesey County Council Policy for the prevention of fraud and corruption; • Isle of Anglesey County Council Anti-money laundering policy and procedures. • Fraud response plan.
Procedures for establishing identity/authenticity of lenders	• The Council will only enter into borrowing arrangements with organisations which have been checked with the Financial Services Authority www.fsa.gov.uk and with advice from our specialist Treasury Management Consultants.
Methodology for identifying sources of deposits	• All counterparties will be on the approved counterparty list and will comply with the TMSS. All counterparties will be rated organisations on the credit ratings list provided by Capita. These have long and short-term ratings from Fitch, Moodys and S&P.
Treasury management transactions	• The Council's segregation of duties documented above in TMP 5, reduces the risk of money laundering and fraud.

TMP10 – Training and qualifications

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The S151 Officer will recommend and implement the necessary arrangements.

The S151 Officer will ensure that board/council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities. Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

Details of approved training courses	• CIPFA and Capita Treasury Management courses
Details of approved qualifications	• CCAB and CIMA accountancy qualifications, AAT, specific accredited Treasury Management qualifications, accredited qualifications which provide transferable skills.
Details of qualifications of treasury staff	• The Senior Accountant – Capital, Treasury Management and Trusts is an affiliate CIPFA member, is part-qualified ICAI (Institute of Chartered Accountants Ireland) and has a degree in Business Studies; • The Finance Manager – Corporate, Technical and Systems is a qualified CIMA member, has a degree in Management Science – Economics, an MA in law and the ILM NVQ and OCR, level 5 in Leadership and Management.
Records of training received by training staff	• The team regularly attend CIPFA and Capita Treasury Management Courses to keep up-to-date with Treasury Management requirements; • Training records are kept by the function's Training Coordinator and HR.
Records of training received by those charged with governance	• Members' training is provided on an annual basis by Capita. The treasury management team attend these.

TMP 11 – Use of external service providers

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also 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. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid overreliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the responsible officer, and details of the current arrangements are set out in the schedule to this document.

Details of contracts with service providers, including banking, brokers, consultants, advisers and details of the services provided	**Banking:** • The Council's main bankers are: NatWest which is part of the RBS group, Glanhwfa Road, Llangefni, Anglesey, LL77 7YW; • The Council also has accounts with Santander for post office GIROs. **Treasury Advisor:** • Link Asset Services, 6th Floor, 65 Gresham Street, London, EC2V 7NQ. **Brokers**: • BGC Partners; • Tullet Prebon. • Tradition UK. **BACS Transmissions** • **Bottomline technologies**
Regulatory status of services provided	• All are regulated organisations.
Procedures and frequency for tendering services	• The Council is bound to follow the Contract Procedure rules which are part of the constitution. All contracts likely to be £25k or higher have to be advertised on sell2wales. The treasury management consultancy contract was also advertised on sell2wales and evaluated robustly even though contract amount was less than the mandatory amount. • Contract periods are recommended as 3 years with up to 2 years option to extend with the agreement of both parties.

TMP 12 – Corporate Governance

The Authority is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed throughout this document, are considered vital to the achievement of proper corporate governance in treasury management. The S151 Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

List of public documents to be made available for public inspection	• Annual Statement of Accounts; • Treasury Management Strategy Statement; • Mid-year Treasury Management Report; • Annual Treasury Management Report; • Treasury Management Practices.
Procedures for consultation with stakeholders	• Stakeholders are consulted on the annual budget each year which includes treasury management revenue budgets.
List of external funds managed on behalf of others and the basis of attributing interest earned and costs to these investments	• There are a number of appointeeship/guardianship accounts managed by the Council on behalf of individuals. These are not part of the Corporate Contract but are with the Council's banker NatWest. Any costs attributable to the accounts will be charged to the accounts and any interest earned will also be paid on an actual basis for that account; • The Council is trustee to a number of charitable trusts and smaller trusts. The average interest rate on deposits is applied to these trusts' balances. Each trust is charged costs relating to the administration and management of the trusts in accordance with the Charities Commission.

TMP 13 - Non-Treasury Management Investments

In addition to Treasury Management investments, the Council has a portfolio of investment properties, which generate rental income for the Council. These are managed by the Council's Property Services section. These investment properties help to reduce risk by introducing more diversity of investments for the Council. The investments help to provide additional income to the Council at a time when Government funding is reducing. The properties are held long-term and are maintained to the standards required by legislation. The Council has the legal right under the Local Government 2003 (S12) to invest:

a) For any purpose relevant to its functions under any enactment, or
b) For the purposes of the prudent management of its financial affairs.

The Council's Investment Property portfolio is therefore authorised by the above legislation for the reasons specified in S12 a) and b).

Several of the Council's investment properties were funded from full or significant external funding from European and/or Welsh Government grants. The Council, at the time of writing is in a joint venture with Welsh Government to build industrial units at Penrhos, Holyhead which should be completed during 2020. More recently, the Council received significant grant funding for building new industrial units in Llangefni which are now fully operational. The Council's strategic plan in relation to investment properties is to keep viable units and maintain and to build new units where there is significant external funding. This complies with the Council's Capital Strategy and Council Plan 2017-22. Accepting grant funding to build investment properties helps the council maximise its external funding and also provides additional rental income to reduce the need for council tax, etc.

Information about the Council's Investment Properties

The Isle of Anglesey's statement of Accounts 2018/19 shows that the investment property portfolio was valued at £6m which is shown below. The significant share (75%) of the portfolio comprises of Commercial Units, which are mainly industrial units.

Recurring fair value measurements at 31 March 2019 using:	Quoted prices in active markets for identical assets (level 1) £'000	Other significant observable inputs (level 2) £'000	Significant unobservable inputs (level 3) £'000	Fair Value as at 31 March 2019 £'000
Retail Properties	-	820	-	820
Office units	-	658	-	658
Commercial units	-	4,522	-	4,522
Total	**-**	**6,000**	**-**	**6,000**

The table below shows that in both 2017/18 and 2018/19 there was a net income stream from the Council's investment properties.

Expenditure and Income on Investment Properties	2018/19 £000	2017/18 £000
Expenditure	**129**	**164**
Income	**(346)**	**(331)**
Net Expenditure/(Income)	**(217)**	**(167)**

The Council also owns a significant amount of domestic properties which is a ring-fenced and is called the Housing Revenue Account (HRA). These are not classed as investment properties and are not included in the investment property portfolio because the Council provides housing as part of its social housing operations not purely to invest in domestic properties for rental income. Similarly, smallholdings are excluded from investment properties as a key objective for the provision of smallholdings is to support the agriculture sector on Anglesey given its importance for the Island.

Risk Management (TMP1)	• Many of the risks in TMP1 above apply to non-treasury management investments. • Credit and Counterparty Risk - The risk of loss of investment monies is lower than the risk presented by many treasury management investments as the Council has more control over the investment properties including holding the deeds. The Property Services section, in leasing out investment properties will select the most suitable tenant who offers best overall terms for the Council in terms of rent, use of property and status of the tenant. This is highlighted in the Council's Commercial Lettings Guidance. • Liquidity risk – investment in properties does present a higher liquidity risk as cash cannot be accessed quickly as the investment cash would only be available once the investment property is sold which can take time. When investment properties are let and the leases/tenants pay rent on time this helps with cash flow. However, when units are empty (voids) or tenants are not paying rent on time this has an adverse impact on cash flow. • Interest rate risk – bank interest base rates have been very low since the 2008 recession/banking crisis. This means that the return on cash investments is low. Bank deposit rates of return are less than 1% and have been this low for a number of years. The rate of return on commercial properties will vary according to area but returns tend to be 5% or higher. Interest rate risk is not eliminated as low interest rates are linked to a

sluggish economy or a recession. This can lead to increased voids and risk of lessees not paying rent.

- Legal and regulatory risk management – the Council constantly has to respond to legal and regulatory requirements. Increased standards of maintenance for investment properties will increase expenditure required though keeping the properties to a good standard protects investment properties into the future. The Council maintains its investment portfolio to a good standard. The Council also reduces risk by ensuring that investment in properties comply with the Local Government Acts. There is a small risk of Welsh Government reversing local authorities' powers to invest. This might lead to no further investment properties in the future or the Council having to sell-off its investment property portfolio. All the legislation and guidance listed in 1.6. above also apply to investment properties.

- Fraud, Error and Corruption and Contingency Management – The following procedures and practices help to mitigate the risk of fraud, error, corruption and contingency management in relation to the Investment Properties:

  1) Asset Management Policy and Procedures;
  2) Commercial lettings guidance;
  3) Council constitution particularly 4.8 Finance Procedures;
  4) The Council governance framework including the role of the Executive;
  5) The Legal department produces lease agreements and liaises with proposed tenant's solicitors;
  6) The Council's Resources Function complete all transactions for the Council including relating to Investment Properties. Segregation of duties and authorisation rules for transactions help mitigate risks.

- Market Risk – the property market tends to fluctuate more slowly than many different investment markets such as equities, etc. Market risk will also fluctuate depending on the type of investment property. Domestic properties have less risk than commercial properties due to the strong demand for domestic properties. The council's investment properties are at risk of reduced rents or vacant units when the investment property market is affected by a downturn in the economy. The market value of the investment properties are also at risk during an economic downturn. This would impact on the Council if an industrial unit is advertised for sale. The Council does not invest in risky investment properties such as retail parks.

Performance Measurement and Management (TMP2	• Operational performance and management of the investment properties are completed by Property Services and takes into account the asset management plans relating to investment properties, occupancy rates and financial performance.
Decision-making, Governance and Organisation (TMP5)	• The Council's Constitution sets out the decision-making and governance framework for all services including investment properties. The annual budget for expenditure and income for the Investment properties will be included in the Property Service's budget and will be scrutinised by Finance Panel and Scrutiny Committee, reported to the Executive and submitted for approval by Full Council; • The Executive is the main strategic decision-making body in relation to the Council's assets including Investment Properties. The Executive on 14 December 2015 approved the Corporate Asset Management Plan for Land and Buildings 2015 to 2020. This includes Investment properties and there are two action plan points (4 and 5) specific to the Investment properties portfolio. In addition, the Property Services Asset Management Plan guides the work of Property Service including for Investment Properties. The Head of Highways, Waste and Property has delegated authority in relation to Investment properties some of which will require the approval of the Portfolio Holder for Highways, Waste and Property. Officers within the Property service have delegated authority on the day-to-day operation of the Investment Properties. The Legal Service officers also play an important role in ensuring leases and sales of investment properties are negotiated and contracted in accordance with the best interests of the Council. • Investment in new or significant refurbishment of investment properties will need to form part of the annual capital programme and will need to align with the Corporate Plan 2017-2022, Capital Strategy and other key Council strategies. The driver for building new industrial units has been significant external grant funding as Europe and Welsh Government invested in the Island to meet their priorities to support the economy of Anglesey. All schemes in the capital programme are approved by Full Council and are monitored quarterly by the Executive.
Reporting and Management Information (TMP6)	• The costs and income relating to Investment properties are recorded in the financial system to specific cost centres. An Accountant monitors this and provides budget monitoring information to the budget holder and Head of Service throughout the year.

	• The income and expenditure from Investment properties is included in the annual Statement of Accounts for the Council where there is a specific note in relation to Investment properties(note 18). This also includes a valuation of the Investment properties portfolio. • The Property Section manages the day-to-day running of the properties including leasing, maintenance, etc. in conjunction with Legal, Economic Development and Resources as needed. • The annual valuation report lists every property within the Investment Property portfolio, investment units are revalued every year in accordance with CIPFA requirements.
Training and Qualifications (TMP10)	• TMP10 above outlines the qualifications of Accounting staff involved accounting for Investment Properties; • In addition, Investment properties are managed by property services experts, two of which are qualified RICS members and hold university degrees in Property Valuation. • A specialist Grants team within Resources support the Economic Development service in attracting millions of pounds of external funding for Investment Properties. The grants team have finance qualifications and attend training events to keep up-to-date with issues and guidance in relation to external funding; • The degree qualified staff within the Economic Development Service played a key role in attracting significant funding to build industrial units. Economic Development staff also completed project and programme management training; •

Date scrutinised by Audit and Governance Committee: 12 February 2020

Date considered by the Executive: 2 March 2020

Date approved by Council: 10 March 2020

Author: Claire Klimaszewski

Date for Review: 2023 or earlier if there is a policy change in relation to Treasury Management or Investment Properties.

Bibliography

CIPFA. 2017. Code of Practice on Treasury Management. CIPFA. London.

CIPFA. 2017. Prudential Code. CIPFA. London.

Isle of Anglesey. 2020. Treasury Management Strategy Statement 2020/21. Isle of Anglesey County Council. Anglesey.

Isle of Anglesey County Council. 2016. Corporate Asset Management Plan. Isle of Anglesey County Council. Anglesey.

Isle of Anglesey County Council. 2016. Property Services Asset Management Plan. Anglesey

Isle of Anglesey County Council. Lettings Guidance. Anglesey

Agenda Item 4

ISLE OF ANGLESEY COUNTY COUNCIL	
REPORT TO:	**AUDIT COMMITTEE**
DATE:	**11 FEBRUARY 2020**
SUBJECT:	**TREASURY MANAGEMENT STRATEGY STATEMENT 2020/21**
LEAD OFFICER:	**MARC JONES, DIRECTOR OF FUNCTION (RESOURCES AND SECTION 151 OFFICER**
CONTACT OFFICER:	**JEMMA ROBINSON, SENIOR ACCOUNTANT (TEL: EXT 2675)**
Nature and reason for reporting For scrutiny - consistent with professional guidance.	

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

2. The CIPFA Code of Practice on Treasury Management (Section 7) recommends that the Authority's Treasury Management Practices (TMPs) should be approved, documented and monitored. It goes on to state that the nature and extent of the involvement of an organisation's responsible body in approving and monitoring its TMPs and accompanying schedules is a matter for local decision and recognises that in some organisations this may be delegated to the responsible officer. In all cases, it should be subjected to scrutiny by the responsible body following recommendations by the responsible officer. This Authority has produced documented TMPs, and were approved by the Audit Committee on 6 December 2016.

3. In terms of updates to the Treasury Management Strategy Statement, there are no proposed amendment to the core principals and policies of the 2019/20 Statement.

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

5. Recommendations

- To consider the Treasury Management Strategy for 2020/21 and to make recommendations or note comments for consideration by the Executive Committee.

ANNEX A

TREASURY MANAGEMENT STRATEGY STATEMENT

ANNUAL INVESTMENT STRATEGY, MINIMUM REVENUE PROVISION POLICY STATEMENT AND TREASURY MANAGEMENT POLICY STATEMENT 2020/21

1. BACKGROUND

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

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

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

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

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

2. CIPFA CODE OF PRACTICE ON TREASURY MANAGEMENT

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

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

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

3. EXTERNAL CONTEXT

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

- Weakening economic growth in the US, China and the Eurozone.
- Inflation in the UK is likely to remain close to or under 2% over the next two years.
- A potential for interest rates rises from March 2021 onwards.
- Continuing uncertainty surrounding Brexit and its impact on the UK and Eurozone economy.
- Investment returns are likely to remain low during 2020/21 with little increase in the following two years.

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

Table 1
Prospects for Interest Rates to March 2023

Annual Average	Bank Rate (%)	PWLB Borrowing Rates (including certainty rate adjustment)		
		5 year	25 year	50 year
December 2019	0.75	2.30	3.20	3.10
March 2020	0.75	2.40	3.30	3.20
June 2020	0.75	2.40	3.40	3.30
September 2020	0.75	2.50	3.40	3.30
December 2020	0.75	2.50	3.50	3.40
March 2021	1.00	2.60	3.60	3.50
June 2021	1.00	2.70	3.70	3.60
September 2021	1.00	2.80	3.70	3.60
December 2021	1.00	2.90	3.80	3.70
March 2022	1.00	2.90	3.90	3.80
June 2022	1.25	3.00	4.00	3.90
September 2022	1.25	3.10	4.00	3.90
December 2022	1.25	3.20	4.10	4.00
March 2023	1.25	3.20	4.10	4.00

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

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

2019/20: 0.75%;
2020/21: 0.75%;
2021/22: 1.00%;
2022/23: 1.25%;
2023/24: 1.50%;
2024/25: 1.75%;
2025/26 Onwards: 2.25%.

4. THE COUNCIL'S CURRENT POSITION

4.1. Borrowing

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

Table 2
Summary of the Council's Current Outstanding Loans

PWLB LOANS					
	PWLB / PWLB Maturity	**PWLB EIP/ Annuity**	**Market Loans**	**PWLB Variable**	**Total Maturing**
Loan Outstanding	£126,184k	£220k	£0k	£0k	£126,404k
Average life (years)	25.48	6.94	0.00	0.00	25.44
Average rate (%)	5.15	9.44	0.00	0.00	4.73

OTHER LOANS							
	Welsh Government	**Salix Loan 1**	**Salix Loan 2**	**Salix Loan 3**	**Salix Loan 4**	**Salix Loan 5**	**Total**
Outstanding Balance	£44k	£74k	£274k	£572k	£251k	£1,178k	£2,393k
Repayment Date	2020/21	2024/25	2025/26	2028/29	2029/30	2030/31	
Interest Rate (%)	0.00	0.00	0.00	0.00	0.00	0.00	

4.2. Investments

4.2.1. Any surplus cash is currently invested in short term deposit accounts, call accounts and with other UK local authorities. The balance invested in these accounts changes daily (balance as at 31 December 2019 was £23.2m).

4.2.2. Under the current treasury management strategy, the Council invests surplus cash ensuring first of all the security of the deposit, secondly the liquidity of the deposit and, finally, the return on the investment. In practice, in order to ensure the first and second principles, the rate of return on investments is sacrificed and the current average return on investments is 0.55% (as at 31 December 2019).

5. IMPACT OF FUTURE PLANS ON BORROWING

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

Table 3
Proposed Capital Expenditure Programme 2020/21 – 2022/23

	2020/21 £'000	2021/22 £'000	2022/23 £'000
Non - HRA	**19,765**	**21,662**	**14,675**
HRA	**17,138**	**17,704**	**14,402**
Commercial Activities / Non Financial Investment	**0**	**0**	**0**
TOTAL EXPENDITURE	**36,903**	**39,366**	**29,077**
Financed By			
Capital Grants	**12,286**	**9,856**	**8,090**
Capital Receipts	**245**	**250**	**250**
Reserves	**0**	**750**	**0**
Revenue	**14,728**	**9,294**	**10,642**
Balance Funded from Borrowing	**9,644**	**19,216**	**10,095**

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

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

5.4. In order to ensure that the Council has sufficient funds available to repay debt as it falls due, the Council is required to make a charge to the revenue account each year and this charge is known as the Minimum Revenue Provision. Regulations require that the Council approves a MRP statement in advance of each financial year. The policy for 2020/21 is set out in **Appendix 6**. The Council's MRP was substantially revised in 2018 but there are no changes from that revised policy for 2020/21. By making the MRP charge each year, the Council's cash balances are replenished and that, in turn, reduces the level of internal borrowing.

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

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

Table 4
Capital Financing Requirement and Borrowing 2019/20 to 2022/23

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Capital Financing Requirement				
Opening Balance of CFR	**138,662**	**142,034**	**147,985**	**163,265**
Capital Expenditure	33,126	36,903	39,366	29,077
External Capital Grants	(14,380)	(12,286)	(9,856)	(8,090)
Capital Receipts	(1,612)	(245)	(250)	(250)
Revenue Contribution & Reserves	(10,331)	(14,728)	(10,044)	(10,642)
Minimum Revenue Provision	(3,431)	(3,693)	(3,936)	(4,391)
CLOSING BALANCE OF CFR	**142,034**	**147,985**	**163,265**	**168,969**
External Borrowing				
Opening Balance of External Borrowing	**132,549**	**129,257**	**134,093**	**152,944**
Borrowing to Fund Capital Expenditure	2,001	9,644	19,216	10,095
Borrowing to Fund Loan Repayments	0	0	0	0
Borrowing to Replace Internal Borrowing	0	0	0	0
Loan Repayments	(5,293)	(4,808)	(365)	(2,651)
Closing Balance of External Borrowing	**129,257**	**134,093**	**152,944**	**160,388**
Internal Borrowing				
Opening Balance of Internal Borrowing	**6,113**	**12,777**	**13,892**	**10,321**
Replacement of Internal Borrowing	0	0	0	0
Funding Loan Repayments from External Borrowing	0	0	0	0
External Loan Repayments	5,293	4,808	365	2,651
Borrowing to Fund Capital Expenditure	4,802	0	0	0
Minimum Revenue Provision	(3,431)	(3,693)	(3,936)	(4,391)
Closing Balance of Internal Borrowing	**12,777**	**13,892**	**10,321**	**8,581**
TOTAL BORROWING	**142,034**	**147,985**	**163,265**	**168,969**

6. BORROWING STRATEGY

6.1. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement) has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This approach is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered. As part of this strategy, the ability to externally borrow to repay the reserves and balances, if needed, is important. Table 4 indicates that £12.777m may need to be externally borrowed if urgently required. This is the amount of Council reserves and balances used in the past to fund the capital programme instead of taking out borrowing.

6.2. Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Section 151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:-

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

6.3. External v Internal Borrowing

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

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

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

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

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

6.3.4. However, short term savings by avoiding new long term external borrowing in 2020/21 must also be weighed against the potential for incurring additional long term extra costs, by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be higher. Additionally, the cash flow implications of internalising borrowing require regular review and will limit the potential extent of internalising borrowing.

6.4. Borrowing in Advance of Need

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

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

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

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

6.5. Debt Rescheduling

6.5.1. Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100 bps increase in PWLB rates in November 2019 only applied to new borrowing and not to premature debt repayment .

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

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

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

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

6.6. Debt Profile

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

7. INVESTMENT STRATEGY

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

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

7.2. Management of Risk

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

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

- Welsh Government's Guidance on Local Government Investments ("the Guidance");
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code");
- CIPFA Treasury Management Guidance Notes 2018;
- The Council's investment priorities will be security first, portfolio liquidity second and then yield (return).

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

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
2. **Other information**: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration, the Council will engage with its advisors to maintain a monitor on market pricing such as "**credit default swaps**" and overlay that information on top of the credit ratings.

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

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

5. **Non-specified investments limit**. The Council has determined that it will limit the maximum total exposure to non-specified investments by ensuring that no non-specific investment is undertaken without the prior consent of the Council. The Council does not hold any non-specified investments, nor does it intend to during 2020/21 (see **Appendix 7**).

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

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

8. This Authority will set a limit for the amount of its investments which are invested for **longer than 365 days** (see **Appendix 11**).

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

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

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

12. As a result of the change in accounting standards for 2019/20 under **IFRS 9,** this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.

7.3. Creditworthiness Policy

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

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

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

7.3.2. The Section 151 Officer will maintain a counterparty list in compliance with the criteria set out in **Appendix 8** and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

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

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

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

7.3.5. 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 Section 151 Officer, to assist in determining the duration for investments. The Council will, therefore, normally use counterparties within the following durational bands:-

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

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

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

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

- If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

- In addition to the use of credit ratings, the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

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

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

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

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

7.4. Country Limits

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

8. GOVERNANCE AND CONTROL

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

8.2. Corporate Governance includes the following elements:-

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

8.3. Role of the Section 151 Officer and Members

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

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

8.3.3. Members also play an important role in not just authorising the relevant decisions but also in scrutinising treasury management processes, decisions and performance. In order to undertake this role, the CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. In order to support the scrutiny role of the members of the Audit and Governance Committee, the Committee's members received training in treasury management, delivered by the appointed treasury management consultants on 7 November 2019. Further training will be arranged when required. The training needs of treasury management officers are regularly reviewed and addressed.

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

8.4. Treasury Management Advice

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

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

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

8.5. Prudential and Treasury Indicators

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

8.6. Reporting

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

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

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

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

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

APPENDICES

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

Treasury Management Policy Statement

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

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

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

APPENDIX 2

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

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

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

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

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

The Code then goes on to say that:

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

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

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

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

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

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

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

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

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

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

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

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

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

ECONOMIC BACKGROUND

UK. Brexit. 2019 has been a year of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October 2019, with or without a deal. However, MPs blocked leaving on that date and the EU agreed an extension to 31 January 2020. In late October, MPs approved an outline of a Brexit deal to enable the UK to leave the EU on 31 January. Now that the Conservative Government has gained a large overall majority in the **general election** on 12 December, this outline deal will be passed by Parliament by that date. However, there will still be much uncertainty as the detail of a trade deal will need to be negotiated by the current end of the transition period in December 2020, which the Prime Minister has pledged he will not extend. This could prove to be an unrealistically short timetable for such major negotiations that leaves open two possibilities; one, the need for an extension of negotiations, probably two years, or, a no deal Brexit in December 2020.

GDP growth has taken a hit from Brexit uncertainty during 2019; quarter three 2019 surprised on the upside by coming in at +0.4% q/q, +1.1% y/y. However, the peak of Brexit uncertainty during the final quarter appears to have suppressed quarterly growth to probably around zero. The economy is likely to tread water in 2020, with tepid growth around about 1% until there is more certainty after the trade deal deadline is passed.

While the Bank of England went through the routine of producing another **quarterly Inflation Report,** (now renamed the Monetary Policy Report), on 7 November, it is very questionable how much all the writing and numbers were worth when faced with the uncertainties of where the UK will be after the general election. The Bank made a change in their Brexit assumptions to now include a deal being eventually passed. Possibly the biggest message that was worth taking note of from the Monetary Policy Report, was an increase in concerns among MPC members around weak global economic growth and the potential for Brexit uncertainties to become entrenched and so delay UK economic recovery. Consequently, the MPC voted 7-2 to maintain Bank Rate at 0.75% but two members were sufficiently concerned to vote for an immediate Bank Rate cut to 0.5%. The MPC warned that if global growth does not pick up or Brexit uncertainties intensify, then a rate cut was now more likely. Conversely, if risks do recede, then a more rapid recovery of growth will require gradual and limited rate rises. The speed of recovery will depend on the extent to which uncertainty dissipates over the final terms for trade between the UK and EU and by how much global growth rates pick up. The Bank revised its inflation forecasts down – to 1.25% in 2019, 1.5% in 2020, and 2.0% in 2021; hence, the MPC views inflation as causing little concern in the near future.

The **MPC meeting of 19 December** repeated the previous month's vote of 7-2 to keep Bank Rate on hold. Their key view was that there was currently 'no evidence about the extent to which policy uncertainties among companies and households had declined' i.e. they were going to sit on their hands and see how the economy goes in the next few months. The two members who voted for a cut were concerned that the labour market was faltering. On the other hand, there was a clear warning in the minutes that the MPC were concerned that "domestic unit labour costs have continued to grow at rates above those consistent with meeting the inflation target in the medium term".

If economic growth were to weaken considerably, the MPC has relatively little room to make a big impact with Bank Rate still only at 0.75%. It would therefore, probably suggest that it would be up to the Chancellor to provide help to support growth by way of a **fiscal boost** by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy. The Government has already made moves in this direction and it made significant promises in its election manifesto to increase government spending by up to £20bn p.a., (this would add about 1% to GDP growth rates), by investing primarily in infrastructure. This is likely to be announced in the next Budget, probably in February 2020. The Chancellor has also amended the fiscal rules in November to allow for an increase in government expenditure.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell again in both October and November to a three-year low of 1.5%. It is likely to remain close to or under 2% over the next two years and so, it does not pose any immediate concern to the

MPC at the current time. However, if there was a hard or no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

With regard to the **labour market,** growth in numbers employed has been quite resilient through 2019 until the three months to September where it fell by 58,000. However, there was an encouraging pick up again in the three months to October to growth of 24,000, which showed that the labour market was not about to head into a major downturn. The unemployment rate held steady at a 44-year low of 3.8% on the Independent Labour Organisation measure in October. Wage inflation has been steadily falling from a high point of 3.9% in July to 3.5% in October (3-month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.0%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market is easing.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of growth to a robust 2.9% y/y. **Growth** in 2019 has been falling after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2 and then 2.1% in quarter 3. The economy looks likely to have maintained a growth rate similar to quarter 3 into quarter 4; fears of a recession have largely dissipated. The strong growth in employment numbers during 2018 has weakened during 2019, indicating that the economy had been cooling, while inflationary pressures were also weakening. However, CPI inflation rose from 1.8% to 2.1% in November, a one year high, but this was singularly caused by a rise in gasoline prices.

The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not intended to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August, (reducing its holdings of treasuries etc.). It then cut rates by 0.25% again in September and by another 0.25% in its October meeting to 1.50 – 1.75%.. At its September meeting it also said it was going to **start buying Treasuries again**, although this was not to be seen as a resumption of quantitative easing but rather an exercise to relieve liquidity pressures in the repo market. Despite those protestations, this still means that the Fed is again expanding its balance sheet holdings of government debt. In the first month, it will buy $60bn, whereas it had been reducing its balance sheet by $50bn per month during 2019. As it will be buying only short-term (under 12 months) Treasury bills, it is technically correct that this is not quantitative easing (which is purchase of long term debt). The Fed left rates unchanged in December. However, the accompanying statement was more optimistic about the future course of the economy so this would indicate that further cuts are unlikely.

Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This **trade war** is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China. However, in November / December, progress has been made on agreeing a phase one deal between the US and China to roll back some of the tariffs; this gives some hope of resolving this dispute.

EUROZONE. Growth has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1, +0.2% q/q (+1.2% y/y) in quarter 2 and then +0.2% q/q, +1.1% in quarter 3; there appears to be little upside potential in the near future. German GDP growth has been struggling to stay in positive territory in 2019 and fell by -0.1% in quarter 2; industrial production was down 4% y/y in June with car production down 10% y/y. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars.

The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which then meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by quantitative easing purchases of debt. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels "at least through the end of 2019", but that was of little help to boosting growth in the near term. Consequently, it announced a **third round of TLTROs**; this provides banks with cheap borrowing every three months from September 2019 until March 2021 that means that, although they will have only a two-year maturity, the Bank was making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum; at its meeting on 12 September it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a **resumption of quantitative easing purchases of debt for an unlimited period.** At its October meeting it said these purchases would start in November at €20bn per month - a relatively small amount compared to the previous buying programme. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and, unsurprisingly, the ECB stated that governments would need to help stimulate growth by 'growth friendly' fiscal policy.

There were no policy changes in the December meeting, which was chaired for the first time by the new President of the ECB, Christine Lagarde. However, the outlook continued to be down beat about the economy; this makes it likely there will be further monetary policy stimulus to come in 2020. She did also announce a thorough review of how the ECB conducts monetary policy, including the price stability target. This review is likely to take all of 2020.

On the political front, Austria, Spain and Italy have been in the throes of **forming coalition governments** with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The latest results of German state elections has put further pressure on the frail German CDU/SDP coalition government and on the current leadership of the CDU. The results of the Spanish general election in November have not helped the prospects of forming a stable coalition.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

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

WORLD GROWTH. Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation. **Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates**.

The trade war between the US and China is a major concern to **financial markets** due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns resulted in **government bond yields** in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks and the use of negative central bank rates in some countries. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been predicting a downturn in growth; this confirms investor sentiment that the outlook for growth during the year ahead is weak.

INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services in paragraph 3.3 are **predicated on an assumption of an agreement being reached on Brexit between the UK and the EU.** On this basis, while GDP growth is likely to be subdued in 2019 and 2020 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement on the detailed terms of a trade deal is likely to lead to a boost to the rate of growth in subsequent years. This could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- In the event of an **orderly non-agreement exit in December 2020**, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.
- If there were a **disorderly Brexit**, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably even, but dependent on a successful outcome of negotiations on a trade deal.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- In the event that a Brexit deal was agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

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

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

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis.** In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new coalition based on an unlikely alliance of two very different parties will endure.
- Weak capitalisation of some **European banks**, particularly Italian banks.
- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in recent state elections but the SPD has done particularly badly and this has raised a major question mark over continuing to support the CDU. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until 2021.
- **Other minority EU governments.** Austria, Finland, Sweden, Spain, Portugal, Netherlands and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- In October 2019, the IMF issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was **potential for a rerun of the 2008 financial crisis**, but his time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. This now means that there are corporates who would be unable to cover basic interest costs on **some $19trn of corporate debt in major western economies,** if world growth was to dip further than just a minor cooling. This debt is mainly held by the shadow banking sector i.e. pension funds, insurers, hedge funds, asset managers etc., who, when there is $15trn of corporate and government debt now yielding negative interest rates, have been searching for higher returns in riskier assets. Much of this debt is only marginally above investment grade so any rating downgrade could force some holders into a fire sale, which would then depress prices further and so set off a spiral down. The IMF's answer is to suggest imposing higher capital charges on lending to corporates and for central banks to regulate the investment operations of the shadow banking sector. In October 2019, the deputy Governor of the Bank of England also flagged up the dangers of banks and the shadow banking sector lending to corporates, especially highly leveraged corporates, which had risen back up to near pre-2008 levels.
- **Geopolitical risks,** for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

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

- **Brexit** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation,** whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

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

ATODIAD 4 / APPENDIX 4

Rhagolygon Graddfeydd Llog 2020/2023
Interest Rate Forecasts 2020/2023

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

Link Asset Services Interest Rate View	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00
Bank Rate													
Link Asset Services	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%
Capital Economics	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	-	-	-	-	-
5yr PWLB Rate													
Link Asset Services	2.40%	2.40%	2.50%	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.20%	3.20%
Capital Economics	2.40%	2.50%	2.50%	2.60%	2.60%	2.80%	2.80%	2.90%	-	-	-	-	-
10yr PWLB Rate													
Link Asset Services	2.70%	2.70%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.50%
Capital Economics	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	-	-	-	-	-
25yr PWLB Rate													
Link Asset Services	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%
Capital Economics	3.10%	3.10%	3.20%	3.20%	3.20%	3.30%	3.30%	3.40%	-	-	-	-	-
50yr PWLB Rate													
Link Asset Services	3.20%	3.30%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%
Capital Economics	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.40%	3.50%	-	-	-	-	-

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

DADANSODDIAD BENTHYCIADAU PWLB YN AEDDFEDU 2020/21 YMLAEN / PWLB LOANS MATURITY ANALYSIS 2020/21 ONWARDS						
	Aeddefedu PWLB Maturity £'000	**Blwydd-dal PWLB EIP/ Annuity £'000**	**Benthyciadau Marchnad/ Market Loans £'000**	**Amrywiol/ PWLB Variable £'000**	**Cyfanswm yn Aeddfedu/ Total Maturing £'000**	**%Yn Aeddfedu o'r Cyfran yn sefyll/ Maturing of Total Outstanding %**
2020/21	4,500	12	0	0	4,512	3.6
2021/22	0	14	0	0	14	0.0
2022/23	2,285	15	0	0	2,300	1.8
2023/24	1,854	16	0	0	1,870	1.5
2024/25	0	18	0	0	18	0.0
2025/26	0	20	0	0	20	0.0
2026/27	1,381	22	0	0	1,403	1.1
2027/28	2,165	24	0	0	2,189	1.7
2028/29	263	26	0	0	289	0.2
2029/30	1,538	21	0	0	1,559	1.2
2030/31	451	15	0	0	466	0.4
2031/32	1,941	9	0	0	1,950	1.5
2032/33	315	8	0	0	323	0.3
2033/34	637	0	0	0	637	0.5
2034/35	624	0	0	0	624	0.5
2035/36	611	0	0	0	611	0.5
2036/37	599	0	0	0	599	0.5
2037/38	587	0	0	0	587	0.5
2038/39	225	0	0	0	225	0.2
2039/40	5,000	0	0	0	5,000	4.0
2040/41	3,500	0	0	0	3,500	2.8
2042/43	1,000	0	0	0	1,000	0.8
2043/44	1,020	0	0	0	1,020	0.8
2044/45	1,010	0	0	0	1,010	0.8
2045/46	11,464	0	0	0	11,464	9.1
2050/51	2,000	0	0	0	2,000	1.6
2052/53	28,238	0	0	0	28,238	22.3
2054/55	3,000	0	0	0	3,000	2.4
2055/56	3,500	0	0	0	3,500	2.8
2056/57	5,000	0	0	0	5,000	4.0
2057/58	8,513	0	0	0	8,513	6.7
2059/60	1,763	0	0	0	1,763	1.4
2064/65	10,000	0	0	0	10,000	7.9
2066/67	6,200	0	0	0	6,200	4.9
2068/69	15,000	0	0	0	15,000	11.9
	126,184	**220**	**0**	**0**	**126,404**	**100.0**
Cyfartaledd bywyd (blynyddoedd)/ Average life (years)	25.48	6.94	0.00	0.00	25.44	
Cyfartaledd graddfa (%)/ Average rate (%)	5.15	9.44	0.00	0.00	4.73	

PROFFIL AD-DALU BENTHYCIADAU ERAILL 2020/21 YMLAEN / OTHER LOANS REPAYMENT PROFILE 2020/21 ONWARDS							
	Llywodraeth Cymru / Welsh Government £'000	**Benthyciad Salix Loan 1 £'000**	**Benthyciad Salix Loan 2 £'000**	**Benthyciad Salix Loan 3 £'000**	**Benthyciad Salix Loan 4 £'000**	**Benthyciad Salix Loan 5 £'000**	**Cyfanswm / Total £'000**
2020/21	44	16	46	64	26	100	296
2021/22	0	16	46	64	26	199	351
2022/23	0	17	46	63	26	199	351
2023/24	0	17	46	64	26	200	353
2024/25	0	8	45	64	26	200	343
2025/26	0	0	45	64	27	200	336
2026/27	0	0	0	63	27	200	290
2027/28	0	0	0	63	27	200	290
2028/29	0	0	0	63	27	200	290
2029/30	0	0	0	0	13	200	213
2030/31	0	0	0	0	0	99	99
Cyfanswm / Total	**44**	**74**	**274**	**572**	**251**	**1,997**[1]	**3,212**

[1] Total amount to be repaid differs from the total amount outstanding in Table 4.1.1 due to only having received £1,178k to date, however £1,997k will be received.

Minimum Revenue Provision Policy Statement 2020/21

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

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

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

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

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

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

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

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

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

Specified and Non-Specified Investments

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

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

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

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

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

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

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

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

During 2020/21 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 8 set out the investment criteria and limits for the categories of investments intended for use during 2020/21 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.

APPENDIX 8

Counterparty Criteria

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

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

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

Notes and Clarifications

(1) Cash Limit

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

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

(2) Time Limit

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

(3) Foreign Countries

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

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

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

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

4. Credit Rating Downgrade

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

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

Approved countries for investments [correct as at 3 January 2020]

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

Based on lowest available rating

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

AA+
- Finland
- U.S.A.

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

AA-
- Belgium
- Qatar

APPENDIX 10

Treasury management scheme of delegation

(i) County Council

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

(ii) Executive Committee

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

(iii) Audit Committee

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

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

The Treasury Management role of the Section 151 Officer

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

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

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

PRUDENTIAL & TREASURY INDICATORS **APPENDIX 11**
BUDGET SETTING 2020/21

No.	Indicator					
	Affordability	**2018/19 out-turn**	**2019/20 estimate**	**2020/21 proposal**	**2021/22 proposal**	**2022/23 proposal**
1,2	Estimates of [or actual] ratio of financing costs to net revenue stream:					
	Council Fund	4.92%	5.03%	5.15%	5.40%	5.91%
	Housing Revenue Account (inclusive of settlement)	16.88%	18.78%	17.16%	14.57%	14.18%
	Total	6.34%	6.68%	6.62%	6.57%	7.01%
	Prudence					
3	Gross debt and the Capital Financing Requirement (CFR)	✓	✓	✓	✓	✓
	Is the gross external debt < the CFR for the preceding year plus the estimates of any additional CFR for the current and the next two financial years?			✓	✓	✓
	Capital Expenditure	**£000**	**£000**	**£000**	**£000**	**£000**
4,5	Estimates of [or actual] capital expenditure					
	Council Fund	21,650	18,820	19,765	21,662	14,675
	Housing Revenue Account	9,028	14,307	17,138	17,704	14,402
	Total	30,678	33,127	36,903	39,366	29,077
6,7	Estimates of [or actual] Capital Financing Requirement					
	Council Fund	97,847	102,036	108,536	118,856	124,349
	Housing Revenue Account	40,815	39,998	39,449	44,410	44,621
	Total	138,662	142,034	147,985	163,266	168,970
	External Debt	**£000**	**£000**	**£000**	**£000**	**£000**
8	Authorised Limit					
	: General Borrowing	174,000	175,000	178,000	193,000	199,000
	: Other long term liabilities	3,000	3,000	5,000	5,000	5,000
	: Total	177,000	178,000	183,000	198,000	204,000

9	Operational Boundary					
	: General Borrowing	161,000	170,000	173,000	188,000	194,000
	: Other long term liabilities	3,000	3,000	5,000	5,000	5,000
	: Total	164,000	173,000	178,000	193,000	199,000
10	Actual External Debt	132,549				
Treasury Management		**2018/19 out-turn**	**2019/20 estimate**	**2020/21 proposal**	**2021/22 proposal**	**2022/23 proposal**
11	The Local Authority has adopted the CIPFA Code of Practice for Treasury Management in the Public Services	✓	✓	✓	✓	✓
		£000	**£000**	**£000**	**£000**	**£000**
12	Gross and net debt	100%	100%	100%	100%	100%
	The upper limit on the net debt as a proportion of gross debt					
13	The upper limit on fixed rate exposures:	157,000	155,000	158,000	173,000	179,000
	(net principal outstanding)					
14	The upper limit on variable rate exposures:	20,000	20,000	20,000	20,000	20,000
	(net principal outstanding)					
15	The limit for total principal sums invested for periods longer than 364 days	15,000	15,000	15,000	15,000	15,000
	(any long term investments carried forward from previous years will be included in each year's limit)					
			2020/21 upper limit		**2020/21 lower limit**	
16	The upper and lower limits for the maturity structure of fixed rate borrowing					
	• under 12 months		20%		0%	
	• 12 months and within 24 months		20%		0%	
	• 24 months and within 5 years		50%		0%	
	• 5 years and within 10 years		75%		0%	
	• 10 years and above		100%		0%	
			no change		no change	

Information on Prudential & Treasury Management indicators

A) Affordability

1 & 2 Ratio of financing costs to net revenue stream

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

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

B) Prudence

3 Gross Debt and the CFR

The Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2020/21 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

C) Capital expenditure

4 & 5 Estimates of Capital Expenditure

This is the forecast Capital Expenditure from 2019/20 to 2022/23, and is based on the Capital Programme for 2019/20 and the Capital Strategy for 2020/21.

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

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

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

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

CH) External Debt

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

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

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

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

This page is intentionally left blank

ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Audit and Governance Committee
Date:	11 February 2020
Subject:	Internal Audit Update
Head of Service:	Marc Jones Director of Resources and Section 151 Officer 01248 752601 MarcJones@ynysmon.gov.uk
Report Authors:	Marion Pryor Head of Audit and Risk 01248 752611 MarionPryor@ynysmon.gov.uk
Nature and Reason for Reporting: This report provides information on work carried out by Internal Audit since the last Committee meeting. It allows the Committee to monitor Internal Audit's performance and progress as well as providing summaries of Internal Audit reports so that the Committee can receive assurance on Council services and corporate areas.	

1. INTRODUCTION

1.1. The report provides an update as at 19 January 2020 on:

- Internal Audit reports issued since 10 November 2019
- Follow up of internal audit reports
- Addressing 'Issues/Risks'
- Progress in delivering the Internal Audit Operational Plan 2019/20

2. RECOMMENDATION

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

INTERNAL AUDIT UPDATE

FEBRUARY 2020

Marion Pryor BA MA CMIIA CPFA, Head of Audit & Risk

MarionPryor@YnysMon.gov.uk

01248 752611

CYNGOR SIR YNYS MÔN ISLE OF ANGLESEY COUNTY COUNCIL

TABLE OF CONTENTS

INTERNAL AUDIT REPORTS ISSUED

1. This section provides an overview of internal audit reports finalised since the last meeting, including the overall assurance rating and the number of issues/risks raised.

2. Members of the committee and the relevant portfolio holder have received full copies of the reports separately.

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

Title	Assurance Level	Critical	Major	Moderate	Total
Managing the Risks of Brexit	Reasonable Assurance	0	0	0	0
Business Continuity Planning	Reasonable Assurance	0	3	1	4

Managing the Risks of Brexit

Reasonable Assurance	Issues/Risks	
	0	Critical
	0	Major
	0	Moderate

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

   Does the council have robust systems in place to respond to the UK's withdrawal from the EU (Brexit) so that the Council can mitigate any negative impact?

5. Overall, our review concludes that the council has effective governance arrangements in place to recognise, assess and manage the potential risks associated with the UK's withdrawal from the EU.

6. We are therefore able to provide **'Reasonable'** assurance of the governance, risk management, and control of this area. We did not raise any 'Issues/Risks' for management attention.

Business Continuity Planning

Reasonable Assurance	Issues/Risks	
	0	Critical
	3	Major
	1	Moderate

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

   Does the council have robust systems in place to respond to emergencies and/or disruptions so that it can continue to deliver essential services?

8. While we have identified some areas for improvement in the council's overall business continuity framework, our review concludes in the main that it is managing the risk in this area well, and has a number of effective controls in place to ensure the continuity of critical services following a major event or emergency.

9. We have raised four issues/risks that require management attention, three of which due to the potential impact of the risk in this area, are classed as 'Major'. However, the outcome of our review is mainly positive and therefore we are able to provide **'Reasonable'** assurance of the governance, risk management, and control of this area. We have agreed an action plan with management, which we will monitor through our action tracking system.

FOLLOW UP OF INTERNAL AUDIT REPORTS

10. Currently, we follow up all reports with an assurance rating of 'Limited' or below, and others we wish to monitor going forward.

11. We have finalised **four** follow up reviews in this period, with the following outcomes. Further details of the work undertaken follow below:

Title of Audit	Review	Follow Up Concluded	Assurance Level	Critical	Major	Moderate	Total
Direct Payments	First Follow Up	December 2019	**Reasonable**	0	0	3	3
Schools Information Governance Health Check	First Follow Up	January 2020	**Reasonable**	0	0	10	10
Governance Review at Ysgol Kingsland	First Follow Up	January 2020	**Substantial**	0	0	1	1
Primary Schools – Income Collection	First Follow Up	January 2020	**Limited**	0	2	0	2

Direct Payments – First Follow Up

Original Report			Current Report		
Limited Assurance	Issues/Risks		Reasonable Assurance	Issues/Risks	
	0	Critical		0	Critical
	0	Major		0	Major
	5	Moderate		3	Moderate

12. We undertook a review of Direct Payments, issuing the final report in February 2019. We raised five 'Issues/Risks' which resulted in a 'Limited Assurance' rating.

13. Our follow up review in November 2019 concluded that the service has addressed two of the 'issues/risks' raised in the original report.

14. Three 'issues/risks' remain outstanding but are in progress of being addressed; up to date care and support plans, timely review of direct payment care and support packages, and evidence of agreement to care and support plan arrangements. However, we can confirm that the service has shown improvement in the level of compliance and / or undertaken work to address these issues/risks.

15. There has been a concerted focus within the service to ensure consistent and accurate record keeping and increased use of alerts and notifications on the system. The service reported that further work is required to fully embed and expand the system to improve case and workflow management and further improve efficiency and effectiveness, to aid decision-making and drive service improvement.

16. Where work is in progress and this has reduced the likelihood of the risk, we have reflected this in the risk rating. We have therefore been able to increase the assurance provided to **'Reasonable'**.

Schools Information Governance Health Check – First Follow Up

Original Report			Current Report		
Not Applicable	Issues/Risks		Reasonable Assurance	Issues/Risks	
	n/a	Critical		0	Critical
	n/a	Major		0	Major
	n/a	Moderate		10	Moderate

17. In June 2019, we commissioned the Strategic Risk Practice of Zurich Risk Engineering to conduct a health check of information governance and the embedding of the new General Data Protection Regulations (GDPR) requirements embedding across all the schools located on the island.

18. The Zurich Municipal review identified 11 action areas, with two of them rated 'High', eight 'Medium' and one 'Low'. These did not correlate with our ratings and therefore a comparison was not possible.

19. The Learning Service appointed a School Data Protection Officer (DPO) in August 2019 who is actively in the process of addressing the remaining 10 action areas, which we have rated as 'moderate' risks. With the appointment of the Schools DPO and the work that is currently in progress, we are able to provide **'Reasonable'** assurance for the risk management, governance and control of GDPR within schools.

Governance Review at Ysgol Kingsland – First Follow Up

Original Report			Current Report		
Not Applicable	Issues/Risks		Substantial Assurance	Issues/Risks	
	n/a	Critical		0	Critical
	n/a	Major		0	Major
	n/a	Moderate		1	Moderate

20. We undertook a governance review during 2018/19 following the receipt of a complaint regarding the relationship between Ysgol Kingsland and Caban Kingsland Ltd. The review discovered no declarations of conflicts of interests, poor record keeping and weak governance arrangements in the running of the school and the School Fund.

21. Of the eight recommendations made, the School has implemented four and partially implemented three recommendations. We did not review one recommendation as it falls under the responsibility of the Learning Service and we will review it as part of the Management of School Unofficial Funds audit. It is therefore our opinion that there is good progress in implementing the recommendations. We are therefore able to provide **'Substantial'** assurance of the governance in this area.

Primary Schools – Income Collection – First Follow Up

Original Report			Current Report		
Limited Assurance	Issues/Risks		Limited Assurance	Issues/Risks	
	0	Critical		0	Critical
	2	Major		2	Major
	1	Moderate		0	Moderate

22. We undertook a review of Primary School Income Collection in 2018/19 and issued a final report in October 2018. This resulted in a 'Limited Assurance' rating, with three issues/risks raised and a number of actions agreed to address them.

23. Our follow up review has found that although much work has been undertaken and progress has been made in addressing the issues/risks originally raised, in many cases, it has been insufficient to fully address the issue/risk. Timescales originally proposed for some of the management actions were unrealistic, considering the number of departments and work involved. This, coupled with staffing issues across a number of departments, has meant a number of these actions are still outstanding. In addition, the new Primary Senior Manager post will need to approve the new process, and the Learning Service is yet to appoint to this post.

24. In the process of our follow up review, we concluded that some of the management actions originally proposed, even if fully implemented, would not wholly address the issue/risk raised. We have therefore discussed with management and agreed further actions to address the issue/risk raised in full.

25. Consequently, the assurance rating has remained as **'Limited'**. We will therefore revisit the action plan in September 2020.

26. In accordance with our protocol of issuing full 'Limited Assurance' reports to members of the Committee, the details of the 'Issues/Risks' and the actions proposed to address them, are included in a separate report.

Follow Ups in Progress

27. We have no follow ups of reports with a **'Limited Assurance'** rating currently in progress.

Follow Ups Scheduled

28. Currently, we have **three** follow ups scheduled for the next financial year. These may be added to dependent on the assurance provided for reviews we conduct throughout the year:

Title of Audit	Review	Date of Follow Up	Assurance Level	Critical	Major	Moderate	Total
System Controls – Logical Access and Segregation of Duties	Fourth Follow Up	~~Jul-19~~ April 2020[1]	**Limited**	0	3	2	5
Sundry Debtors	Third Follow Up	May 2020	**Reasonable**	0	1	7	8
Primary Schools – Income Collection	Second Follow Up	September 2020	**Limited**	0	2	0	2

[1] The management actions to address the 'Issues/Risks' raised in the System Controls - Logical Access and Segregation of Duties review are dependent on the restructure of the Payroll/Payments function currently in progress, with an expectation that it will be complete by March 2020.

ADDRESSING 'ISSUES/RISKS'

29. The Committee can take assurance that there are no High or Red 'issues/risks' currently outstanding. In addition, we have reported at each meeting over the last couple of years a continued improvement in the performance of the council in addressing outstanding 'issues/risks', with the overall implementation percentage for High/Red/Amber 'issues / risks' at 94% as at December 2019.

30. Progress with implementing the new and upgraded version of the action tracking system is now moving on at pace, following the resolution of an IT compatibility issue. We have now completed the data cleanse of circa 200+ historic records and the software provider is currently in the process of migrating the remaining data to the new upgraded system.

31. We have also recently met with the software provider to reconfigure the new system to take advantage of the extra functionality it provides, and to write a suite of performance reports that will assist us, and managers, to monitor outstanding 'issues / risks'. A dashboard will include the functionality to provide widgets for managers to display a snapshot of the information they find most useful. We will work with managers to set up these widgets for them.

32. We anticipate that we will be in a position to issue the first report from the new system to the Committee at its next meeting, in April 2020. However, going forward, we hope to make the report interactive, to increase the value of the information we provide to the members of this Committee.

PROGRESS IN DELIVERING THE INTERNAL AUDIT OPERATIONAL PLAN 2019/20

33. The Operational Plan for 2019/20 is at Appendix A.

34. Work is in progress on the following audits:

    - Financial Resilience
    - Welfare Reform – Homelessness
    - Leavers' Process
    - Managing the Risk of Fraud
    - Recovering Council Debts

35. We have delayed the audit of the Management of School Unofficial Funds at the request of the Director of Education, Skills and Young People until we can meet with head teachers at their Primary and Secondary School cluster meetings, in January and February 2020, respectively.

36. We have concluded the audit of IT Resilience, but we are working with the Senior Leadership Team to develop an Action Plan to address the 'Issues / Risks' identified.

37. Progress with concluding audits has been hampered by the loss of two members of the team, effectively reducing the resource by 118 days. The plan has been amended accordingly and a recruitment process is currently underway.

APPENDIX A – INTERNAL AUDIT OPERATIONAL PLAN 2019/20

<table>
<tr><th>Service / Section</th><th>Title</th><th>Reason for Inclusion</th><th>Corporate Risk Rating (Inherent)</th><th>Corporate Risk Rating (Residual)</th><th>Revised Indicative Days 2019-20</th><th>Actual Days as at 19/01/20</th><th>Notes / Assurance Rating</th><th>Date of Reporting to Committee</th></tr>
<tr><td colspan="3">CORPORATE</td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Corporate</td><td>Business Continuity (YM9)</td><td>Corporate Risk Register</td><td>C2</td><td>C2</td><td>15</td><td>15</td><td>Reasonable Assurance</td><td>February 2020 (2019/20)</td></tr>
<tr><td rowspan="3">Corporate</td><td rowspan="2">Corporate Safeguarding (YM11)</td><td rowspan="2">Corporate Risk Register</td><td rowspan="3">C2</td><td rowspan="3">D2</td><td rowspan="2">18</td><td rowspan="2">18</td><td>Reasonable Assurance</td><td>December 2018 (2018/19)</td></tr>
<tr><td>Reasonable Assurance</td><td>September 2019 (2019/20)</td></tr>
<tr><td>CONTEST (Countering Terrorism and Preventing Radicalisation)[2] (YM11)</td><td>Corporate Risk Register</td><td>0</td><td>0</td><td>Reasonable Assurance</td><td>April 2019 (2018/19)</td></tr>
<tr><td>Corporate</td><td>Corporate Planning (YM13)</td><td>Corporate Risk Register</td><td>D2</td><td>D3</td><td>0</td><td>0</td><td>Deleted</td><td></td></tr>
<tr><td>Corporate</td><td>Financial Resilience (YM41)</td><td>Corporate Risk Register</td><td>A1</td><td>B2</td><td>17</td><td>3.25</td><td>Work in progress</td><td>April 2020 (Target)</td></tr>
</table>

[2] Previously a 'stand-alone' risk - YM27

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Inherent)	Corporate Risk Rating (Residual)	Revised Indicative Days 2019-20	Actual Days as at 19/01/20	Notes / Assurance Rating	Date of Reporting to Committee
Corporate	Information Governance (YM3)	Corporate Risk Register	B3	C3	0	0	**Reasonable Assurance**	**December 2018[3] (2018/19)**
Corporate	Payment Card Industry Data Security Standards (PCIDSS) (YM34)	Corporate Risk Register	D1	D1	7	7	**Reasonable Assurance**	**June 2019 (2019/20)**
Corporate	Brexit	Corporate Risk Register	A2		10	10	**Reasonable Assurance**	**February 2020 (2019/20)**
Corporate	Leavers' Process	Concerns raised			30	21.5	Work in progress	April 2020 (Target)
Corporate	Risk Management	PSIAS requirement			0	0	**Managed**	**February 2019 (ZRE) (2018/19)**
Corporate	Managing the Risk of Fraud	PSIAS requirement			20	4	Work in progress	April 2020 (Target)
Corporate	Culture – Protecting Reputation and the Use of Social Media	Horizon Scanning			0	0	Deleted	
RESOURCES								
Resources	Recovering Council Debts	Key Financial System – S.151 concerns			20	2.5	Work in progress	April 2020 (Target)

[3] Assurance provided for General Data Protection Regulations previously 'stand-alone' Amber Risk (YM31)

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Inherent)	Corporate Risk Rating (Residual)	Revised Indicative Days 2019-20	Actual Days as at 19/01/20	Notes / Assurance Rating	Date of Reporting to Committee
Resources	Corporate Procurement (YM22)	Corporate Risk Register	B2	D2	0	0	**Reasonable Assurance**	**December 2018 (2018/19)**
Resources	Corporate Procurement Cards	Concerns raised			15	0		
Resources	Payroll	Key Financial System - restructure and new system; external audit assurance			0	0	Postponed until 2020/21	
TRANSFORMATION								
ICT	IT Audit - Cyber Security (YM28)	Corporate Risk Register	B1	C1	0	0	**Reasonable Assurance**	**February 2019 (2018/19)**
ICT	IT Audit - IT Resilience (YM38)	Corporate Risk Register	C1	D2	15	12.75	Work in progress	April 2020 (Revised Target)
Human Resources	Sickness Absence (YM23)	Corporate Risk Register	A2	D3	0	0	Deleted	
Human Resources	Recruitment & Retention (YM5)	Corporate Risk Register	B2	C2	0	0	**Reasonable Assurance**	**April 2019 (2018/19)**
Human Resources	Workplace Culture – Discrimination and Staff Inequality	Horizon Scanning			0	0	Deleted	

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Inherent)	Corporate Risk Rating (Residual)	Revised Indicative Days 2019-20	Actual Days as at 19/01/20	Notes / Assurance Rating	Date of Reporting to Committee
REGULATION & ECONOMIC DEVELOPMENT								
Regulation & Economic Development	Infrastructure projects (YM17)	Corporate Risk Register	B2	D2	12	0		
Regulation & Economic Development	Leisure Services - Investment in Facilities (YM32)	Corporate Risk Register	B2	B3	15	0		April 2020 (Target)
Regulation & Economic Development	Leisure Services - Governance and Control	Head of Service Request - major structural changes (carried forward from 2018/19)			2	2	**Reasonable Assurance**	**April 2019 (2018/19)**
HIGHWAYS, WASTE & PROPERTY SERVICES								
Property	Asset Management	Horizon scanning			0	0	Deleted	
HOUSING								
Housing	Gypsies and Travellers (Requirements of the Housing Act 2014) (YM29)	Corporate Risk Register	B2	C2	0	0	**Reasonable Assurance**	**April 2019 (2018/19)**
Housing	Welfare Reform – Universal Credit and Housing Rent Income (YM 10)	Corporate Risk Register	B2	C2	8	8	**Reasonable Assurance**	**April 2019 (2018/19)**

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Inherent)	Corporate Risk Rating (Residual)	Revised Indicative Days 2019-20	Actual Days as at 19/01/20	Notes / Assurance Rating	Date of Reporting to Committee
	Welfare Reform – Homelessness (YM10)				15	4.5	Work in progress	April 2020 (Revised Target)
ADULT SERVICES								
Adults	Continuous Healthcare	Horizon scanning	n/a	n/a	0	0	Postponed until 2020/21	
LEARNING								
Learning	Schools Modernisation (YM15)	Corporate Risk Register	C2	C2	0	0	Postponed until 2020/21	
	TOTAL PROGRAMMED AUDIT DAYS				**219**[4]	**113.75**		
CHARGEABLE NON PROGRAMMED DAYS (PRODUCTIVE)								
	Follow Up Work	Several limited assurance reports requiring follow up, includes reporting and administering 4action			100	93.75		
	General Counter Fraud Work, National Fraud Initiative (NFI)				10	8.75		

[4] Previously 420 days

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Inherent)	Corporate Risk Rating (Residual)	Revised Indicative Days 2019-20	Actual Days as at 19/01/20	Notes / Assurance Rating	Date of Reporting to Committee
	Management of School Unofficial Funds	Proactive Counter Fraud			25	10	Work in progress	April 2020 (Target)
	Referrals				10	4.5		
	Closure of Previous Year's Work				13	13		
	Grant Certification:	Grant Requirement			20	20		
	Rent Smart Wales Grant						**Substantial Assurance**	**September 2019 (2019/20)**
	Pupil Development Grant						**Substantial Assurance**	**September 2019 (2019/20)**
	Pupil Development Grant – Looked After Children Allocation						**Substantial Assurance**	**December 2019 (2019/20)**
	Teachers Pay Award & Cost Pressures						**Substantial Assurance**	**December 2019 (2019/20)**
	Pupil Development Grant – Access						**Substantial Assurance**	**December 2019 (2019/20)**
	Ethnic Minority & Gypsy Roma Traveller Learners						**Substantial Assurance**	**December 2019 (2019/20)**

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Inherent)	Corporate Risk Rating (Residual)	Revised Indicative Days 2019-20	Actual Days as at 19/01/20	Notes / Assurance Rating	Date of Reporting to Committee
	Additional Free School Meals Costs due to rollout of Universal Credit						**Reasonable Assurance**	**December 2019 (2019/20)**
	Corporate consultancy				70	66.25		
	Audit & Governance Committee, including training for members and self-assessment				50	38		
	Management Review				40	26.5		
	Contingency				0	0		
	TOTAL NON-PROGRAMMED AUDIT DAYS				**338[5]**	**280.75**		
NON CHARGEABLE DAYS (NON-PRODUCTIVE)								
	Risk & Insurance				28	26.5		
	General Administration				48	42		
	Personal Development & Review, 121 & Team Meetings				18	11		
	Management, including liaison with External Audit and audit plan preparation				38	30.25		

[5] Previously 440 days

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Inherent)	Corporate Risk Rating (Residual)	Revised Indicative Days 2019-20	Actual Days as at 19/01/20	Notes / Assurance Rating	Date of Reporting to Committee
	Leave, including annual, statutory, special and sick leave				500[6]	497.75		
	Training and Development for staff				113	106.5		
	TOTAL				**745**[7]	**714**		
	TOTAL RESOURCE REQUIREMENT				**1302**	**1108**		
	RESOURCE AVAILABLE				**1302**[8]	**1108**		
	RESOURCE SHORTFALL				**0**	**0**		
	PRODUCTIVITY				**44%**[9]	**36%**		

[6] Previously 182 days
[7] Previously 440 days
[8] Previously 1,300 days, increased to 1,420 due to secondment in October 2019, reduced in January 2020 due to vacancies
[9] Previously 67%

This page is intentionally left blank

ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Audit and Governance Committee
Date:	11 February 2020
Subject:	Draft Internal Audit Strategy 2020-21
Head of Service:	Marc Jones, Director of Function (Resources) / Section 151 Officer 01248 752601 MarcJones@ynysmon.gov.uk
Report Author:	Marion Pryor, Head of Audit and Risk 01248 752611 MarionPryor@ynysmon.gov.uk
Nature and Reason for Reporting: This report submits the draft Internal Audit Strategy for 2020-21 for the Audit and Governance Committee's consideration to determine if it meets the Council's assurance requirements. The Public Sector Internal Audit Standards require the chief audit executive to establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals, which the Audit and Governance Committee must approve (Standard 1110).	

1. Introduction

1.1. The proposed Internal Audit Strategy for 2020-21 is attached for review and consideration by the Committee.

2. Background

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

2.2. As its basis, I have used the corporate risk register to determine the priorities for internal audit activity. In addition, I have met with the Council Leader, the Senior Leadership Team and all heads of service to discuss their views on the proposed areas for review and their areas of concern.

2.3. Due to the uncertainty around recruitment, I have not yet developed an operational plan. Once recruitment is complete, I will develop a plan and keep it under review, as necessary, adjusting it in response to changes in the Council's business, risks, operations and programmes to ensure that it remains relevant. I will report changes to the Director of Function

(Resources) and Section 151 Officer and the Audit and Governance Committee.

2.4. Following the incorporation of any feedback, I will submit a final Internal Audit Strategy, including an operational plan, to the Audit and Governance Committee on 21 April 2020 for approval.

3. Recommendation

3.1. That the Audit and Governance Committee considers the Internal Audit Strategy for 2020-21 and considers whether the approach and priorities outlined fulfil the Council's assurance needs.

DRAFT INTERNAL AUDIT STRATEGY 2020-21

Marion Pryor BA MA CMIIA CPFA

MarionPryor@YnysMon.gov.uk

01248 752611

CYNGOR SIR YNYS MÔN ISLE OF ANGLESEY COUNTY COUNCIL

TABLE OF CONTENTS

INTRODUCTION

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

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

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

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

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

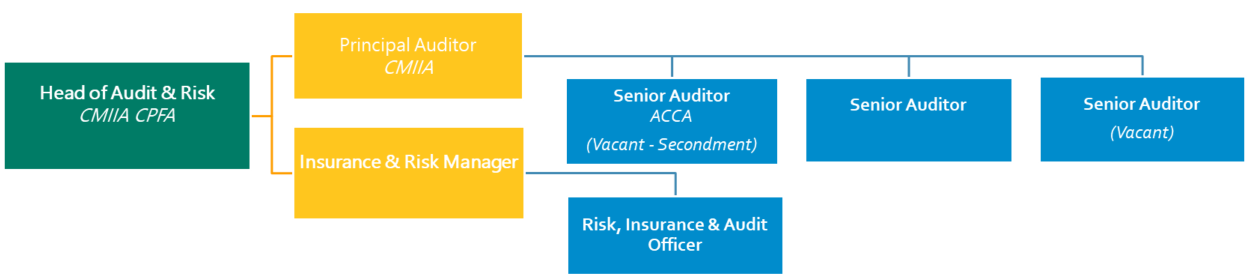
[1] The Relevant Internal Audit Standard Setters (CIPFA, Department of Health, Welsh Government, Department of Finance (NI), HM Treasury and the Scottish Government) issue the Public Sector Internal Audit Standards (2017) and are mandatory for all local and central government bodies.

SERVICE STRUCTURE, CAPACITY AND TRAINING

The Internal Audit team has undergone significant change in recent years. Adopting a fully risk-based approach, 'lean audit' and integrating Internal Audit and Risk Management, has improved the assurance it provides to the Council.

The team has responded well; staff have changed their skill sets, delivered more complex and strategic audits in less time, and managed higher workloads. Staff turnover has unfortunately been high, due to internal and external promotions and we currently have two vacancies (one temporary and one permanent), which we are recruiting.

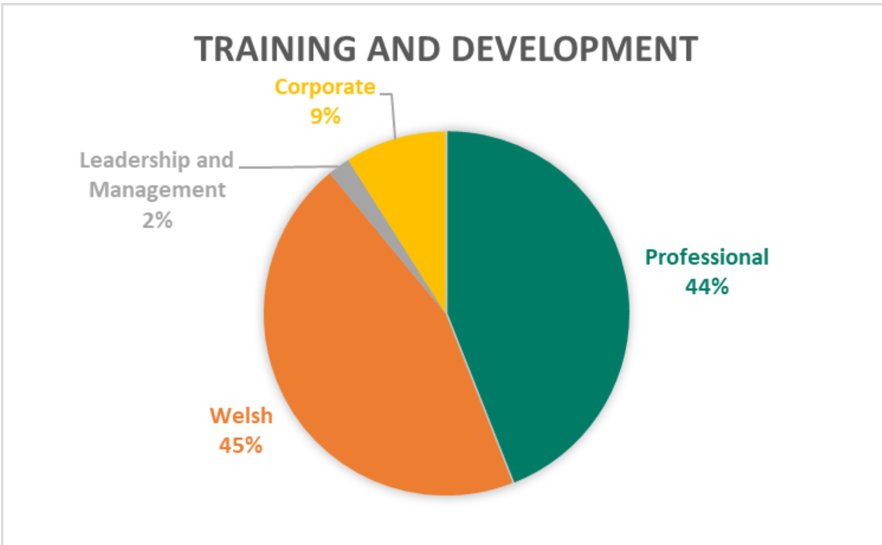
However, the team continues to include a wealth of internal and external audit experience, along with an excellent mix of professional qualifications, including CIPFA[2], CIIA[3], and ACCA[4] and academic qualifications in Change Management, Business and Accountancy.



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

Training

The **service will continue to invest** to ensure the team continues their professional development and stays abreast of emerging risks and developments. We will also participate in the mandatory corporate training, where required. The team will invest around 100 days in training and development during 2020-21, consisting of:



AUDIT PLANNING

There are various requirements to be satisfied when carrying out the planning of internal audit's work.

Risk-based Audit Planning

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

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

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

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

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

Compliance versus Assurance

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

Assurance Mapping

There are also other sources of assurance that can be used to provide assurance that risks are being effectively managed. Internal audit is uniquely positioned within the organisation to provide holistic assurance to the Audit and Governance Committee and senior management on the effectiveness of internal controls, governance and risk management. It is also well placed to fulfil an advisory role on the coordination of assurance.

The 'three lines of defence (or assurance)' model is a framework that can be used to bring these sources of assurance together, and will give assurance to members, sector regulators and external auditors that appropriate controls and processes are in place and are operating effectively.

We use our risk management software (4risk) to record the 'three lines of defence/assurance':

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

PRIORITIES

This has been a year of uncertainty for local government, both financially and politically. Most of the key challenges relate to budgets being squeezed and an increased demand for services, along with some new emerging challenges.

Local government continues to face a relentless perfect storm:

- Budget cuts, diminishing reserves and financial uncertainty
- Changing and increasing demand pressures
- Demographic and technological challenges
- Other cost pressures such as increased employer national insurance contributions, and the national living wage

Internal Audit's priorities will need to take account of these as well as:

- Austerity is a driver for change – where there is change, there is a risk
- With workforce cuts and re-organisations, there is the risk of dissatisfied staff and a loss of experience
- Cutting costs can also lead to cutting of controls
- The organisation needs to be more inventive (and sometimes takes greater risks), which needs to be taken into account when conducting audits.

Consequently, deciding Internal Audit's priorities will be more important and also more difficult.

Corporate Risk Register

To ensure we are concentrating on what matters most to the Council, the majority of the internal audit activity will be a review of the red and amber residual risks on the corporate risk register. These will be the priority areas for Internal Audit review. Currently, the corporate risk register includes 12 areas where the residual risk has been assessed as red or amber. The top five of which are:

- The risk of a **cyber-attack** having a significant impact on the Council's ability to deliver front line and support services (red inherent/red residual)

- The risk that the Council cannot agree on a suitable, cost effective site that meets the needs of those identified in the **Gypsies and Traveller Accommodation Needs Assessment** (red inherent/red residual)
- Risk that the UK's **withdrawal from the EU (Brexit)** will negatively impact the Isle of Anglesey (red inherent/red residual)
- The risk that the real term **reduction in the Council's funding** continues and leads to statutory services being curtailed, priorities not being achieved, investments not being made, and increased staffing pressures (red inherent/red residual)
- Risk that the Council is unable to **recruit, retain and develop suitable staff** to deliver efficient and effective services (red inherent/amber residual)

The remaining seven include welfare reform, safeguarding, schools modernisation, infrastructure, contracts, investment in leisure facilities and IT failure.

Fraud

The ‘perfect storm’ creates an environment ripe for fraud. The CIPFA ‘Fraud and Corruption tracker’ 2019 highlights the highest areas of fraud (by value) as:

- Housing fraud (53.6%)
- Council Tax fraud (12.1%)
- Business Rate fraud (5.1%)
- Disabled Parking Concession (1.8%)

Other fraud risks include adult social care, procurement, payroll, expenses and mandate fraud. During 2020-21, we will therefore undertake targeted counter fraud activities, to raise awareness and proactively identify fraud in the organisation.

We will also continue with the review of the Council’s approach to counter fraud, anti-bribery and corruption, anti-money laundering and terrorism financing and will update the Fraud Response Plan accordingly.

Climate Change

Climate change and its downstream impacts, such as extreme weather events, is an increasingly significant risk. While governments have begun to take tentative steps to tackle climate change, the public are demanding more urgent action. Climate change may not feature on the Council's risk register, but the increasing frequency of extreme weather events may affect business continuity. Extreme weather events can also have a devastating impact on communities, and can cause serious damage to properties; the Council also needs to protect its housing stock for future generations.

We will consider whether any risk assessment has been carried out to determine the potential impacts, whether the monitoring systems to identify these impacts are working, and if the Council's insurance policies and operational contingency plans are fit for purpose.

Ash dieback

Ash dieback, Hymenoscyphus fraxineus (formerly known as Chalara fraxinea), is the most significant tree disease to affect the UK since Dutch Elm Disease. It will lead to the decline and possible death of the majority of ash trees in Britain and has the potential to infect more than two billion ash trees (over 1.8 billion saplings and seedlings to more than 150 million mature trees) across the country.

Ash dieback will lead to changes to our landscape and tree populations, changes to biodiversity and landscape character and potentially increase effects such as flooding caused by the way water interacts with the environment. With current consensus being that up to 85 – 90% of ash trees will die or be severely affected over the next 5 – 15 years the scale of health and safety risks caused by ash dieback alone will mean that it will not be 'business as usual' for any organisation managing ash trees. Tree failures could translate into an increase in the number of people harmed by trees and a potential increase in property claims.

The Council will need to review, where necessary, make changes to tree safety management regimes and practices. This will have major resource implications to make safe those ash trees close to roads, public rights of way, public spaces, railways, and telephone and electricity cables.

While there is still a degree of uncertainty on how Ash Dieback will impact our society, it is foreseeable that it will result in a loss of current amenity, while elevating risk and the costs of managing these.

Due to the prevalence of Ash trees in parks and roadside verges, the Head of Highways, Waste and Property has raised this issue with us. We will review the action taken by the Council to understand the scale of the issue, the risks it presents and how effectively the Council is controlling and mitigating these risks.

Adult Social Care Finance

There is a widening social care funding gap, which puts critical pressure on the Council to manage its income and expenditure in this area. There is an increasing demand for services and assistance, but reduced resources and capacity to deliver. There is also a direct financial cost to local authorities and a reputational risk from the failure to meet statutory requirements.

At the request of the Director of Social Services, we will review the charging framework for adult social care services.

Looked After Children

The increase in the number of looked after children and the increased complexity of cases has increased the demands on the Council. Along with the difficulty in placing these children, there is also a growing capacity issue with residential care, which is driving up costs. The lack of choice of residential placement means that the quality of provision cannot always be guaranteed. These and other challenges increases the pressure on the workforce. We will therefore conduct a review into children's social care caseload management.

Grant Funding

The Council is increasingly funded by one-off grants, often received at short notice. Therefore, we will conduct a review of the Council's preparedness to respond to grant funding opportunities.

IT Audit

Government has rated IT as one of the top four risks to UK national security. With two IT-related risks in the corporate risk register, IT is clearly a significant risk (and opportunity) for the Council. There are substantial risks of being hacked, being unable to use key systems or access key data, all potentially leading to reputational loss, fines in relation to GDPR breaches and a loss of service to vulnerable clients.

With attacks becoming more sophisticated and being seen as big business for criminals, the Council must take proactive action. Having completed two significant pieces of work in this area, we have exhausted our technical capabilities. We will therefore commission the IT Department of Salford City Council to undertake a high-level IT Health Check to provide the Council with the assurance that its IT vulnerabilities are being effectively managed.

FOLLOW UP

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

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

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

In accordance with our agreed Internal Audit Charter, we will follow up all Issues/Risks included within audit reports with a 'Limited' or 'No' Assurance rating. Where reports continue to attract a 'Limited' or 'No' Assurance rating, the Audit and Governance Committee may invite the head of service to attend a meeting to discuss the report.

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

PERFORMANCE MEASURES

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

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

Performance Indicator	Target 2020/21	Performance 2019/20 (to Q3)	Performance 2018/19	Performance 2017/18
Red and Amber Residual Risks in the Corporate Risk Register audited	80%	58%	29%	Not Measured
Audits completed within six months	100%	92%	Not measured	Not measured
Clients responses at least 'satisfied'	100%	100%	100%	100%
Reported to Audit and Governance Committee within target	100%	92%	87%	76%
Audits completed within planned time	100%	92%	100%	86%
Number of staff	5.0 FTE	5.0 FTE (plus 1.0 FTE temporary secondment to 31/03/20)	4.0 FTE	4.3 FTE

Benchmarking

Externally, where relevant, **we will continue to benchmark our performance against** the other 21 members of the Welsh Chief Auditors Group.

CHALLENGES GOING FORWARDS

In a small team, staff absence can have a significant impact. In 2018-19, two vacancies and a long-term absence and, similarly in 2019-20, two long-term absences and two vacancies at the end of the financial year significantly reduced the resource available to deliver the internal audit activity.

However, the experience from last year has provided valuable learning. A new, enthusiastic and dedicated team, and new risk management software, has placed the internal audit team in a good position to ensure delivery of its strategy. Consequently, it will continue to support the Council as a key component of its governance structure**, enabling the Head of Audit and Risk to fulfil the requirement to produce an annual internal audit opinion, to support the Annual Governance Statement.**

This page is intentionally left blank

DDIM I'W GYHOEDDI
NOT FOR PUBLICATION

(Teitl yr Adroddiad: /Title of Report:)

PRAWF BUDD Y CYHOEDD
PUBLIC INTEREST TEST

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

This page is intentionally left blank

By virtue of paragraph(s) 14, 16 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 8

Document is Restricted

This page is intentionally left blank