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RHYBUDD O GYFARFOD	NOTICE OF MEETING
PWYLLGOR ARCHWILIO A LLYWODRAETHU	AUDIT AND GOVERNANCE COMMITTEE
DYDD MAWRTH, 9 CHWEFROR, 2021 am 2:00 y. p.	TUESDAY, 9 FEBRUARY 2021 at 2.00 pm
CYFARFOD RHITHIOL	VIRTUAL MEETING
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)*

AELOD LLEYG / LAY MEMBER

Dilwyn Evans

A G E N D A

1 **ELECTION OF VICE-CHAIRPERSON**

To elect a Vice-Chair for the Audit and Governance Committee.

2 **DECLARATION OF INTEREST**

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

3 **REPLACEMENT OF LAY MEMBER ON THE AUDIT AND GOVERNANCE COMMITTEE** (Pages 1 - 2)

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

4 **MINUTES OF THE PREVIOUS MEETING** (Pages 3 - 14)

To present the minutes of the previous meeting of the Audit and Governance Committee held on 1 December, 2020.

5 **ISLE OF ANGLESEY COUNTY COUNCIL - ANNUAL AUDIT SUMMARY 2020** (Pages 15 - 22)

To present the report of External Audit.

6 **UPDATE ON INTERNAL AUDIT STRATEGY AND PRIORITIES 2020/21** (Pages 23 - 28)

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

7 **INTERNAL AUDIT ASSURANCE PROVISION 2020/21** (Pages 29 - 32)

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

8 **DELIVERING WITH LESS: LEISURE SERVICES - ISLE OF ANGLESEY COUNTY COUNCIL** (Pages 33 - 44)

To present the report of External Audit.

9 **TREASURY MANAGEMENT STRATEGY STATEMENT 2021/2022** (Pages 45 - 88)

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

10 **INTERNAL AUDIT CHARTER** (Pages 89 - 102)

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

11 **FORWARD WORK PROGRAMME** (Pages 103 - 104)

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

ISLE OF ANGLESEY COUNTY COUNCIL	
Adroddiad i: **Report to:**	Audit and Governance Committee
Dyddiad: **Date:**	9 February 2021
Pwnc: **Subject:**	Replacement of Lay Member for the Audit and Governance Committee
Pennaeth Gwasanaeth: **Head of Service:**	Marc Jones Director of Function (Resources) and Section 151 Officer 01248 752601 MarcJones@ynysmon.gov.uk
Awdur yr Adroddiad: **Report Author:**	Marion Pryor Head of Audit and Risk 01248 752611 MarionPryor@ynysmon.gov.uk
Natur a Rheswm dros Adrodd / Nature and Reason for Reporting: Following the resignation of Mr Johnathon Mendoza, Lay Member, the Committee is asked to consider whether it wishes to recruit a replacement for the remainder of the term to be served, i.e. until May 2022 or to change the Constitution to reduce the lay members required to one until the new legislation commences.	

Introduction

1. Mr Jonathan Mendoza, Lay Member and Vice-Chair, has resigned from the Audit and Governance Committee, with his last meeting being 1 December 2020.

2. The Local Government (Wales) Measure 2011[1] requires the local authority to ensure at least one member of its audit committee is a lay member.

3. The Isle of Anglesey County Council has extended this requirement; its Constitution provides for the Audit and Governance Committee to consist of two lay members, to serve for a fixed term to coincide with the length of the Council, i.e. five years, currently until May 2022.

4. The Chair and Vice-Chair are responsible for recommending the lay members' appointment.

5. The Local Government and Elections (Wales) Act 2021 (passed on 20 January 2021), introduces a new name, additional functions and responsibilities and amends the membership for the Audit and Governance

[1] https://www.legislation.gov.uk/mwa/2011/4/part/6/chapter/2 82, 2(b)

Committee, including a requirement for one third of the members to be lay members. The Chair will also be required to be a lay member.

6. If the committee continues with eight elected members, there would therefore be a requirement for four lay members.

7. The Council is still awaiting clarification on the date of commencement of the provisions relating to changes to audit committees and the nature of those changes and is a ‘date to be appointed by the Minister’.

8. The Welsh Local Government Association has sought clarification from Welsh Government and we understand that the intention is for commencement to be as follows:

    - April 2021 – new name and new functions / responsibilities

    - From May 2022 – changes to membership (i.e. lay chair and a third of members being lay members).

9. The Council will therefore have to undertake a recruitment exercise in 2022 to recruit the lay members in preparation for this change.

Recommendation

10. That the Audit and Governance Committee considers whether it wishes to either:

    - recruit a replacement lay member to serve the remaining term of office, until May 2022[2] or

    - ask Council to amend the Council’s Constitution to reduce the number of lay members required on the Audit and Governance Committee from two lay members to one, until such time as the provisions of the new legislation come into effect.

[2] The successful replacement would be eligible to apply for a second five-year term, but a maximum of two terms can be served.

AUDIT AND GOVERNANCE COMMITTEE

Minutes of the virtual meeting held on 1 December, 2020

PRESENT:	Mr Jonathan Mendoza (Lay Member) (Vice-Chair) (In the Chair) Councillor R. Llewelyn Jones (Vice-Chair) (for this meeting) Councillors John Griffith, G.O. Jones, Dylan Rees, Alun Roberts, Margaret M. Roberts. Lay Member: Mr Dilwyn Evans
IN ATTENDANCE:	Chief Executive Director of Function (Resources) and Section 151 Officer Interim Director of Social Services (for item 7) Head of Profession (HR) and Transformation (for item 10) Head of Internal Audit & Risk (MP) Head of Democratic Services Insurance and Risk Manager (for item 12) IT Service and Performance Management Manager (for item 10) Senior Education Manager (Secondary Sector) (for item 4) Schools Data Protection Officer (for item 5) Committee Officer (ATH)
APOLOGIES:	Councillors Richard Griffith, Peter Rogers (Chair)
ALSO PRESENT:	Councillor Robin Williams (Portfolio Member for Finance), Councillor Llinos Medi (Leader and Portfolio Member for Social Services), Councillor R.Meirion Jones (Portfolio Member for Education) Mr Jeremy Evans and Bethan Roberts (Audit Wales) Principal Auditor (NW), Senior Auditor (NR), Senior Auditor (BJ), Mr Gareth Wyn Williams, Local Democracy Reporter

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Due to connection issues experienced by the Vice-Chair who was chairing this meeting in the absence of Councillor Peter Rogers, the Committee's Chair, Councillor R.Llewelyn Jones was elected Chair to start the meeting. Subsequently, after the connection issue was resolved Councillor R.Llewelyn Jones was formally elected to serve as Vice-Chair for the duration of the meeting.

1. DECLARATION OF INTEREST

No declaration of interest was received.

2. MINUTES OF THE PREVIOUS MEETING

The minutes of the previous extraordinary meeting of the Audit and Governance Committee held on 13 October, 2020 were presented and were confirmed as correct subject to the following amendments –

- Replace "two" with "to" in the first line of the first bullet point under item 3.

- Replace “interest incurred” in the second line of the second bullet point under item 3 with “interest received.”
- Replace “distrusted” in the first line of the third bullet point under item 3 with “distributed.”
- To note that the sentence in the fourth paragraph under item 3 beginning “Mr Howse reported the External that a level of materiality was set at £3.7m which would apply to any local authority in Wales……” does not read well and is incomplete.

Arising thereon –

Mr Dilwyn Evans, Lay Member referred to the fact that he had raised a point of clarification on the Statement of Accounts at the previous meeting with regard to interest received specifically a disparity between the figure for interest received in the draft Statement of Accounts presented to the Committee’s 1 September, 2020 meeting and the figure shown in the version of the Statement of Accounts presented to the 13 October meeting and had queried why the change in the amount of interest received was not reflected in the Comprehensive Income and Expenditure Account. Assurance was given that an explanation for the anomaly would be provided in due course but this had not been forthcoming. The Director of Function (Resources)/Section 151 Officer apologised for the oversight in not responding and confirmed that he would provide the requested clarification following the meeting.

3. ISLE OF ANGLESEY COUNTY COUNCIL – COVID-19 RESPONSE AND RECOVERY – INTERIM ASSURANCE

The report of External Audit incorporating the findings of work undertaken remotely by Audit Wales to assess the Council’s response to the Covid-19 emergency and its approach to recovery was presented for the Committee’s consideration.

Mr Jeremy Evans, Audit Wales reported that the findings of the report are based on committee meetings observed by Audit Wales, documents reviewed in the form of agenda papers and internal documents supplied by the Council, and meetings held on-line with key officers and councillors. Some of the key conclusions drawn include the following –

- The Council has taken measures to keep staff and the public safe invoking its emergency planning arrangements in March 2020. Going forward, the Council is using a mix of working at home, in the office and on site. As further Council services have been reintroduced, additional actions have been taken to provide a safe environment for the public and staff alike.
- Looking forward, the Council has always recognised that Information technology plays an important role in delivering services and the 2020/21 budget identifies further investment in IT to support the delivery of services.
- Whilst there has been the odd example of growing pains in transferring formal democratic meetings to a digital platform, the Council has adapted well to its new meeting environment and has shown a commitment to making the new arrangements work.
- Staff members’ willingness to be redeployed and undertake different work or roles has supported the communities on the Island and contributed to the resilience of Council services.
- The Council has made significant efforts to communicate to a wide range of audiences.
- The Executive has received detailed reports that estimate the early financial impact of the Covid-19 pandemic as well as identifying future pressures on council services.
- The Council continues to work with the full range of partners to support the Island’s communities and wider region.

The Committee took assurance from Audit Wales's interim findings clearly set out in the report and no questions were raised on the content.

It was resolved to accept and to note the interim findings of Audit Wales as presented in the report.

NO PROPOSALS FOR ADDITONAL ACTION WERE MADE

4. UPDATE ON THE INTERNAL AUDIT STRATEGY AND PRIORITIES 2020/21

The report of the Head of Audit and Risk providing an update as at 16 November, 2020 on the work of Internal Audit since the last report to Committee on Internal Audit activity in September, 2020 together with the priorities for the short to medium term was presented. The report was a shortened version of the usual quarterly update report in line with the requirements of the Meetings Strategy during the emergency period.

The Head of Internal Audit and Risk –

- Updated the Committee on the assurance work completed since the last update with reference to the table at paragraph 6 of the report. Of the audits listed, three had resulted in a Substantial Assurance rating; two had resulted in a Reasonable Assurance rating and a further two audits – Management of School Unofficial Funds and Leavers Process had resulted in a Limited Assurance rating.(The Limited Assurance reports were issued separately to the Committee's members and relevant Portfolio Holders). A further two audits not listed in the table relating to Education Grants – the one in relation to the Pupils Development Grant 2019/20 and the other in relation to the Financial Pressures around the Teachers Pay Award had also been finalised and both attracted Substantial Assurance.

  In elaborating on the Action Plan and the status of the risks/issues identified by the Management of the School Unofficial Funds Limited Assurance audit, the Head of Audit and Risk advised that although oversight of school unofficial funds is the responsibility of school governing bodies there is a reputational risk associated with such funds and there have been instances both local and national where fraud and mismanagement have occurred. Given that they are linked to fund raising activities and can involve significant amounts of money school unofficial funds are considered high risk in terms of the potential for fraud. Against this background therefore the Internal Audit undertook to assess the situation in Anglesey and the audit was carried out in collaboration with the Learning Service. The Officer highlighted the audit as a good example of the collaborative audit culture which the Internal Audit Service has been seeking to develop - the Learning Service having responded proactively to the risks/issues raised meaning that a great deal of progress has been made in addressing them. The Senior Education Manager confirmed that the level of collaboration had been excellent and that the Service would continue to progress matters over the coming months. The Portfolio Member for Education also expressed his thanks to both services and urged members in their capacity as school governors to avail themselves of the planned training on the effective management of school funds (the absence of training being one of the risks/issues raised) when arrangements are confirmed.

  The Head of Audit and Risk similarly guided the Committee through the Leavers Process Limited Assurance audit report and confirmed that Human Resources had likewise been proactive in responding to the risks and issues raised by the audit.

- Reported on work in progress as illustrated by the table in paragraph 9 of the report which provided information regarding the audits underway and the stage reached at the time of writing.
- Referred to the National Fraud Initiative - a biennial exercise that is currently underway. Internal Audit is working with services to extract data for uploading to the NFI portal which is mandatory and must be completed by 1 December, 2020 for the main bulk of datasets required. A new exercise had been added this year to undertake data matching to identify potential fraud in relation to the Covid-19 relief programme. In December, Internal Audit will be required to submit data from the Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund.
- Clarified the position with regard to Overdue Actions as at 16 November, 2020 as shown in the 4action dashboard at Appendix 1 to the report. Services have been working hard to address outstanding issues/risks currently leaving only five actions overdue relating to procurement, payroll and the payment of housing rent by standing order. Work is progressing to support services with implementing all outstanding actions.
- Outlined the priorities for the remainder of the year mindful also of the need to remain agile to react to any work arising at short notice and any requests from the Senior Leadership Team.
- Confirmed that two pieces of work will be undertaken before the end of the financial year to provide assurance that the ICT Service is equipped with the required technology, capacity and capability to maintain a level of service to align to the Council's core objectives and to ensure the confidentiality, integrity and availability of the Council's data. Internal Audit has commissioned the City of Salford IT Audit Team to undertake the two pieces of assurance work one of which will be confidential with more information to be provided in due course and the topic of the other piece is to be confirmed.
- Advised that 3 audits linked to Corporate Risk Register priorities (paragraph 33 of the report refers) have been parked and are deemed low priority for assurance. The subject areas of the audits – Investment in Leisure facilities; school modernisation and Island infrastructure have not advanced significantly as projects and therefore an audit as this stage would not provide any significant benefit or assurance.

The Head of Audit and Risk responded to points raised by the Committee in discussing the report by providing the following clarifications -

- That with regard to the risk that collaborative auditing could compromise the independence and objectivity of Internal Audit, the Head of Internal Audit and Risk advised that a collaborative approach is a way of working which Internal Audit as a sector is moving towards and whilst it does involve a joint approach to resolving issues in which the client service is fully engaged it still requires Internal Audit to maintain a professional distance so there is no conflict of interest. By acting jointly it is less a matter of Internal Audit telling the client service what to do and more a matter of giving the client service greater ownership of what needs to be done hence the no recommendations audit process adopted by Internal Audit whereby the issuing of recommendations has been replaced by raising risks and issues. A collaborative approach also means working with the client service towards a common goal of achieving corporate priorities and delivering quality services for the residents of Anglesey.

- That with regard to the coverage of the audit in connection with managing the risk of fraud (one of the priority areas for the reminder of the year) which suggests a wide remit, the Head of Audit and Risk clarified that an audit review of managing the risk of fraud was brought to Committee earlier in the year in which six risks were identified that needed to be addressed; implementing the action plan in relation to these risks will form the basis of the work to be undertaken and will involve looking at strategy, policy and the culture and tone at the top meaning working with the Senior Leadership Team to increase awareness of the risk of fraud throughout the Council.

It was resolved to note Internal Audit's assurance provision and priorities going forward.

NO PROPOSAL FOR ADDITIONAL ACTION WAS MADE

5. ANGLESEY SCHOOLS DATA PROTECTION EVALUATION REPORT – FIRST EVALUATION VISIT TO ANGLESEY PRIMARY AND SECONDARY SCHOOLS BY SCHOOLS DATA PROTECTION OFFICER JULY, 2020

The report of the Schools Data Protection Officer which provided an analysis of schools' position in respect of compliance with requirements under data protection legislation, mainly under the General Data Protection Regulations (GDPR) was presented for the Committee's consideration. The report gave a summary of the Schools Data Protection Officer's findings following the first visit to primary and secondary schools and outlined the next steps to take to ensure that all schools meet data protection requirements as soon as possible.

The Schools Data Protection Officer provided background information to the evaluation visits to 45 out of 46 primary and secondary schools on Anglesey which took place between October, 2019 and February, 2020 and referred to the outcome of those visits which in summary found that -

- Day to day information management practices within schools are generally acceptable but the majority of schools have not adopted current key policies and documents as a number of these policies were not created for schools prior to the appointment of the Schools Data Protection Officer. It is essential that current core policies and documents are adopted as soon as possible.
- There is a need to ensure that specific, effective and robust data protection processes are in place in line with key policies and documents.
- There is a need to ensure that schools have ROPA (Record of Processing Activities) including data flow maps and an Information Register in place that are kept up to date.
- There is a need to ensure that schools have suitable and up to date Privacy Notices available and shared with individuals.
- There needs to be appropriate agreements in place with high level data processors and also with individual schools.
- More work is required around the use of consent.
- The training plan needs to be updated and schools need to ensure that their staff have completed the online module.
- Work needs to be done to ensure that all school governing bodies are aware of their data protection responsibilities and how to ensure that schools comply.

Given that the process of beginning to have policies, processes and practices in place to comply with data protection legislation has started within schools the Schools Data Protection Officer was able to provide Reasonable Assurance in her assessment of the position. However, there remains more work to be done to ensure all schools are on the same level and operating consistently across the Island. Mindful that Covid-19 has had a significant impact on the implementation of the steps to be taken and the work programme for approving and adopting the policies as well as the related training and awareness raising, the Officer updated the Committee on the progress made since July 2020. She also outlined what she had identified as the next steps to be taken (detailed in section 26 of the attached long report) to ensure that all schools operate in accordance with requirements and achieve what is expected of them as Data Controller who is ultimately responsible for ensuring that they process personal data legally.

In response to questions raised by the Committee the Schools Data Protection Officer confirmed the following –

- That Ysgol Caergeiliog has not signed up to the service of the Schools Data Protection Officer but will nevertheless be expected to ensure that it has in place the key documents and policies to comply fully with the requirements under data protection legislation.
- That the Plan to deliver the required actions has been discussed with the schools and will be implemented in stages so as not to place too great a burden on them; this is further supported by a training plan to ensure that schools understand the policies and documentation and what is expected of them - the Committee having expressed some concern about the achievability of the action plan in view of the challenging circumstances in which schools find themselves and the current pressures on them.
- That in view of current Covid-related restrictions, virtual training sessions for school governors have been arranged on different dates to facilitate attendance. Specific guidelines for school governors are also being developed in the form of the School Governing Body Data Protection Guide which will provide detailed guidance on school governors' responsibilities under GDPR.
- That schools have been enthusiastic in their response to the work, are keen to comply with data protection legislation and are grateful for the support provided.
- That the Data Protection Act 2018 brought the EU's General Data Protection Regulation (GDPR) into UK law which means that the UK will be following GDPR data protection principles regardless of whether or not it is a member of the EU. What needs to be looked at are agreements with third party providers who process/store personal data on behalf of schools if the storage is non UK based to establish whether those agreements need to be amended in the event of a no deal Brexit.
- That the Plan is priority based with the Data Protection Policy being the key overarching policy that will need to be adopted by schools as a matter of priority under GDPR as shown in the Data Protection Policy, Guidance and Key Documents Review Process Framework (Appendix C to the report) – the Committee having voiced some concern that schools may be subject to policy and information overload in light of the range of policies and procedures they are being asked to adopt.

The Committee thanked the Schools Data protection Officer for the informative and detailed report and for the work undertaken in the period to date - sentiments which were echoed by the Portfolio Member for Education.

It was resolved –

- **To accept the report and findings of the Schools Data Protection Officer and,**
- **To endorse the School Data Protection Officer's proposed next steps to ensure that all schools operate in accordance with data protection requirements.**

NO PROPOSAL FOR ADDITIONAL ACTION WAS MADE

6. TREASURY MANAGEMENT MID-YEAR REVIEW 2020/21

The report of the Director of Function (Resources)/Section 151 Officer updating the Committee on the Treasury Management 2020/21 mid-year position was presented for the Committee's consideration.

The Director of Function (Resources)/Section 151 Officer summarised the main points for the Committee in terms of borrowing and investment activity at the mid-year point with particular reference to the impact of Covid 19 and confirmed compliance with the treasury and prudential indicators set in the Council's Treasury Management Strategy Statement 2020/21.

Points noted included the following –

- That it remains the Council's priority to ensure security of capital and liquidity and to obtain an appropriate level of return which is consistent with the Council's risk appetite. Where possible, the Council makes use of its own cash funds to finance capital expenditure and does not borrow more than, or in advance of its needs. However, the ability to externally borrow to repay the reserves and balances if needed is important.
- The Council held £42.224m of investments as at 30 September, 2020 (£20.208m at 31 March, 2020). Due to large sums of grants received from Welsh Government to help deal with the Covid crisis and the availability of call accounts to the Council, this has resulted in the Council holding balances in call accounts over and above the limits approved within the Annual Investment Strategy included in the TMSS 2020/21.Although this could not be foreseen counterparty limits will be assessed and reviewed when producing the TMSS for 2021/22.
- Given that security of funds is a key indicator of the Council, other local authorities are seen as the most secure way of investing funds giving greater return than most bank call accounts. The table at paragraph 5.9 of the report shows a list of investments made to other local authorities during the first half of the financial year.
- Whilst no borrowing was undertaken during the first half of the financial year, it is anticipated that borrowing will be undertaken during the second half of the financial year. There will be a borrowing requirement to fund part of the 2020/21 capital programme and this will be through internal borrowing and external borrowing. The latter is in relation to funding the £4.449m capital costs of new vehicles as part of the conditions of the waste contract awarded to Biffa. The Council has projected year end borrowing of £128.9m and will have used £11.7m of cash flow funds in lieu of borrowing.
- No debt rescheduling has been undertaken to date in the current financial year.
- There are some changes to the financing of the capital programme due to an expected significant underspend in capital schemes in 2020/21 primarily the 21st Century Schools Programme and the Housing Revenue Account. As at 30 September, 2020 £11.471m of capital spend had taken place against the original capital budget of £49.466m with a projected year end position of £33.755m expenditure on the capital budget. Details of how the projected underspend affects the capital funding arrangements are provided in the table at 3.3.2 leading to a revised CFR (Capital Financing requirement) forecast as at paragraph 7.4.3.1 of the report.

  In considering the information presented the Committee raised the following points –

  - Whether the forecast £33.755m expenditure on the capital budget at year end is realistic given that only £11.471m of expenditure has been achieved in the first half of the year and mindful also of the Authority's historical annual underspends on its capital programme. The Director of Function (Resources)/Section 151 Officer advised that the Covid-19 pandemic and related restrictions have had a significant impact on the progress of capital schemes and therefore on capital expenditure during the first quarter of the financial year with the actual capital expenditure of £11m at mid-point being unusually low. The second half of the year will therefore involve an element of catch-up; also a number of the Authority's capital schemes are in any case weighted towards the latter part of the financial year. Whilst the Authority tends to be overly optimistic in its projections for capital expenditure progress, scheme activities do tend to accelerate towards the end of the year. The weather is a further factor which can impede the progress of schemes. The Housing Revenue Account which represents a significant amount of expenditure is a budget that can be rolled forwards into the following year. The capital programme is subject to regular monitoring and will be next reviewed at the end of Quarter 3. The Authority seeks to ensure that no funding is lost by delays on capital projects.

- The significant difference between the interest which the Authority pays on its borrowing with specific reference to PWLB rates and the interest which it receives on investments and whether as a consequence it should be looking to review and reduce its external borrowings. The Director of Function (Resources)/Section 151 Officer advised that a number of the Authority's loans are long-term and are kept under review. Although the PWLB rate has reduced, it is considered that early repayment would not be cost-effective because of the prohibitive penalty charges involved in doing so. It is has also been the Authority's strategy for some years to use the cash it holds for capital expenditure thereby avoiding interests payments.
- In view of the extent of the Authority's cash balances, whether it is able to provide support to the Island's business/employment sectors. The Director of Function(Resources)/Section 151 Officer advised that the cash which the Authority holds is not necessarily available to spend and that much of it is earmarked for specific purposes including meeting the revenue cost of the capital programme. The Authority's reserves are also held to provide a safety net in the event of an unforeseen crisis the pandemic being a case in point. Whilst the economy comes within the range of local authority statutory duties, supporting and promoting the economy is a function of Welsh and Westminster Governments. It is a matter for the Full Council to decide whether as part of its annual budget setting, it wishes to increase the revenue budget to help meet the needs of the local economy at this time. The Council's Constitution sets parameters with regard to what officers and the Executive are authorised to do in terms of committing revenue expenditure.

It was resolved to accept the TM mid-year review report for 2020/21 without further comment.

NO PROPOSAL FOR ADDITIONAL ACTION WAS MADE

7. AUDIT LETTER: NORTH WALES REGIONAL POOLED FUNDS IN RELATION TO CARE HOME PLACES FOR OLDER PEOPLE

The report of External Audit with regard to regional pooled funds in relation to care home places for older people was presented for the Committee's consideration. The report in the form of two letters, the one to the Chief Executive of Anglesey County Council and the other to the Director General for Health and Social Services raised value for money issues in respect of the current North wales pooled funding arrangements in relation to care home places for older people.

Mr Jeremy Evans, Audit Wales reported that Audit Wales recently completed two reviews looking at residential and nursing care in North Wales, specifically in Conwy County Borough Council and Denbighshire County Council. Whilst the reviews looked primarily at local arrangements they also raised some specific concerns about the North Wales regional pooled fund in relation to care home places for older people which is a partnership between all six North Wales councils and Betsi Cadwaladr University Health Board. The review concluded that the current arrangement whereby the funding from the relevant organisations is initially deposited into a pooled fund administered by Denbighshire County Council and returned to each contributor 24 hours later although it meets the minimum compliance with Welsh Government standards, does not offer value for money, nor any of the intended benefits of a pooled fund. Whilst Audit Wales has not tested the arrangements in other regions it understands that they are of a similar nature. The information and proposals for improving the pooled fund arrangement have been shared with Anglesey Council as a partner in the fund. Welsh Government has been apprised of these concerns and has been asked to provide assurance with regard to the actions it intends to take to better support the delivery of pooled funding in Wales.

The Director of Function (Resources)/Section 151 Officer advised that the Social Services and Well-being Act 2014 requires local authorities to enter into a pooled funding agreement for care home accommodation for older people. Given the value of the North Wales regional pooled fund (around £100m), entering into such an arrangement needs to be carefully considered, the risks assessed and procedures agreed beforehand. In the absence of prior consultation with the councils, and a lack of clarity regarding the objectives of the pooled fund in relation to care home accommodation services for older people, the six local authorities and BCUHB discussed their obligations in terms of meeting the minimum technical requirements under the Act and, based on a model implemented by the Cardiff region, came to the arrangement described in the Audit Letter whereby contributions are deposited into a pooled fund and returned on the same day. Whilst the Authority is meeting its legal requirements, as part of ongoing discussions pressure is being brought to bear on Welsh Government by the local authorities through BCUHB to review the Act and to clarify what the pooled fund is expected to achieve. There are risks to the Council in contributing to the pooled fund and being involved in joint procurement with the BCUHB and the five other North Wales local authorities without formal processes around the use of the pooled funds having been established and agreed.

The Interim Director of Social Services said that there are merits to some pooled funding arrangements with the Authority having recently approved entering into a pooled fund pilot with the Betsi Cadwaladr University Health Board for the supported living budget for adults with learning disabilities resident in Anglesey but that the effectiveness of such arrangements can be affected by size. The Director of Function (Resources)/Section 151 Officer further advised that the Learning Disability pooled fund pilot project is based is an agreement between two partners meaning it is more manageable. Pooled funds work best when they are on a smaller scale because they are easier to control and produce better more clearly defined outcomes.

The Leader of the Council and Portfolio Member for Social Services in drawing attention to the scale of the North Wales regional pooled fund highlighted that there is a collective annual cost to the councils to administer the arrangement which might be more productively spent elsewhere in Social Services. Providing contributions to the North Wales pooled fund without assurance about the benefits to the service and end users is a risk. Whilst the Authority is undertaking the minimum in order to comply with the requirements of the Act it has in the meantime identified an area in relation to Learning Disability Services where a pooled budget with BCUHB is likely to be of benefit to the service and its users.

The Committee noted the position with regard to the North Wales Pooled Fund in relation to care home places for older peoples as set out in the Audit Letters and, reflecting on the comments provided by the Officers and Portfolio Member and the reservations expressed with regard to practical and governance aspects of the North Wales Pooled Fund, it confirmed that it was satisfied with the stance taken by the Authority and was happy to support it.

It was resolved to note the Audit Letters and their content and to support the stance taken by the Authority with regard to the North Wales Pooled Fund in relation to care home places for older people.

NO PROPOSAL FOR ADDITIONAL ACTION WAS MADE

8. FORWARD WORK PROGRAMME

The report of the Head of Audit and Risk incorporating the Committee's Forward Work Programme to April, 2021 was presented for the Committee's consideration.

It was resolved to accept the Forward Work Programme without amendment.

9. EXCLUSION OF 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. CYBER SECURITY ANNUAL REPORT 2019/20

The report of the Head of Profession (HR) and Transformation incorporating the Cyber Security Annual Report for 2019/20 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 any other internet connected organisation the Council's network is subject to attack and the large volume of information held by the Council including sensitive data means that it is imperative that the risk of a successful cyber-attack is reduced as much as is reasonably possible. 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 IT Service and Performance Management Manager guided the Committee through the annual report with reference to the various types of cyber attackers and their motivations and the different forms which cyber-attacks can take, and he outlined in general terms the mitigations the Council has in place to reduce the organisation's vulnerability to cyber-attacks and security incidents along with the assurance which these provide.

The Committee in considering the report highlighted the following –

- The importance of cyber security awareness training as more services are delivered digitally and a significant proportion of the workforce operate online. Specific reference was made to individuals such as the Lay/Co-opted members of the Council's committees who have access to information but who may not necessarily be captured by the Council's ICT cyber security protocols or training. The IT Service and Performance Management Manager confirmed that he would raise the issue of non-councillor and non-officer cyber security training with the Human Resources Service.
- Whether any quantative assessment of the success of the mitigation measures has been undertaken. The IT Service and Performance Management Manager advised that the additional resource with which the service has been provided is intended to

improve reporting capacity and to bring together the various techniques for identifying an event in order to provide an overall picture.

It was resolved to accept the report and to note the assurance provided therein.

NO PROPOSAL FOR ADDITIONAL ACTION WAS MADE

11. EXCLUSION OF 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.

12. CORPORATE RISK REGISTER UPDATE

The report of the Head of Audit and Risk incorporating the revised Corporate Risk Register was presented for the Committee's consideration.

The Risk and Insurance Manager reported that the Covid 19 pandemic has brought about an unprecedented change to daily life and has resulted in the refocusing of priorities and consequently impacts on the perceived level of risk. All corporate risks have been reviewed since the Corporate Risk register was last presented to the Committee in February, 2020 with a particular emphasis on any impact that the Covid-19 pandemic may have on those risks. Likewise, each service risk register has also been reviewed in light of the impact of Covid-19 and any resulting significant changes to risks have been reflected in the corporate risk register.

The Officer highlighted the changes/amendments to the Corporate Risk Register in light of the review which are summarised as follows –

- Risk YM10 (impact of welfare reform on demand for services) has been closed and replaced with YM45 (Impact of poverty on demand for services) in recognition of the fact that poverty is not limited to those receiving Universal Credit.
- In addition to YM45 above, four other new risks have been added to the register – YM43 (Covid-19 related) and YM44 (visitor economy related), YM46 (fraud related) and YM47 (tree management related).
- That due to changing circumstances and/or increase/decrease in control activity the level of residual and/or inherent risk has changed for YM4 (health and safety), YM9 (impact of major event), YM11 (safeguarding), YM13 (demographic change), YM15 (schools modernisation), YM29 (Gypsies and Travellers) and YM38 (IT resilience)
- The top (red) risks to the Council have been identified as YM9 (impact of major event), YM28 (cyber security), YM38 (IT resilience), YM40 (Brexit related) and YM41 (Funding related), YM43 (Covid-19 related).

In response to questions by the Committee, the Risk and Insurance Manager clarified the rationale for redefining YM10 in the introduction of new risk YM45 and explained that YM44 is connected to improving infrastructure, facilities and amenity provision in response to increased visitor numbers which issue came to the fore over the summer.

It was resolved to note the amendments to the Corporate Risk register as part of the Council's arrangements for managing its risks and to take assurance that the Senior Leadership team has recognised and is managing the risks to the achievement of the Council's priorities.

NO PROPOSAL FOR ADDITIONAL ACTION WAS MADE

Jonathan Mendoza
Chair

Archwilio Cymru
Audit Wales

Isle of Anglesey County Council

Annual audit summary 2020

This is our audit summary for Isle of Anglesey County Council. It shows the work completed since the last Annual Improvement Report, which was issued in July 2019. Our audit summary forms part of the Auditor General for Wales' duties.

More information about these duties can be found on our website.

About the Council

Some of the services the Council provides

Key facts

The Council is made up of 30 councillors who represent the following political parties:

- Plaid Cymru 13
- The Independent Group 7
- Anglesey Independents 6
- Welsh Labour 2
- Vacant seat 2

The Council spent £143.7 million on providing services during 2019-20, the second lowest spend of the 22 unitary councils in Wales.

As at 31 March 2020, the Council had £16 million of usable financial reserves. This is equivalent to 11% of the Council's annual spend on services, the ninth lowest percentage of the 22 unitary councils in Wales.

Key facts
The Isle of Anglesey has one of its 44 areas deemed the most deprived 10% of areas in Wales, this is the 19th lowest of the 22 unitary councils in Wales[1].
The Isle of Anglesey's population is projected to decrease by 0.6% between 2020 and 2040 from 69,896 to 69,499, including a 10.5% decrease in the number of children, an 8.3% decrease in the number of the working-age population and a 22.7% increase in the number of people aged 65 and over[2].

The Auditor General's duties

We complete work each year to meet the following duties

- **Audit of Accounts**

  Each year the Auditor General audits the Council's financial statements to make sure that public money is being properly accounted for.
- **Value for money**

  The Council has to put in place arrangements to get value for money for the resources it uses, and the Auditor General has to be satisfied that it has done this.
- **Continuous improvement**

  The Council also has to put in place arrangements to make continuous improvements, including related plans and reports, and the Auditor General has to assess whether the Council is likely to (or has) met these requirements.
- **Sustainable development principle**

  Public bodies need to comply with the sustainable development principle when setting and taking steps to meet their well-being objectives. The Auditor General must assess the extent to which they are doing this.

[1] An area in this context is defined as a 'Lower Super Output Area'. Source: Stats Wales

[2] Source: Stats Wales

Since the Spring of 2020, the ongoing pandemic has affected our audit work. We recognise the huge strain on public services and have reshaped our work programme and found new ways of working to reduce its impact on public bodies' response to COVID-19, while still meeting our statutory duties.

To meet the Auditor General's duties we complete specific projects, but we also rely on other audit work, and the work of regulators such as Care Inspectorate Wales and Estyn (the education inspectorate). We take the findings of our audit work into account when assessing whether the Council has put in place arrangements to secure value for money. Our findings and conclusions are summarised below.

What we found

Audit of Isle of Anglesey County Council's 2019-20 Accounts

Each year we audit the Council's financial statements.

For 2019-20:

- The Auditor General gave an unqualified true and fair opinion on the Council's financial statements on 30 November 2020.
- The Council's Annual Governance Statement and Narrative Report were prepared in line with the CIPFA Code and relevant guidance. They were also consistent with the financial statements prepared by the Council and with our knowledge of the Council.
- The quality of the draft statements presented for audit on 15 June 2020 was good.
- A number of changes were made to the Council's financial statements arising from our audit work, which were reported to the Audit and Governance Committee in our Audit of Financial Statements Report in October 2020.
- In addition to the Auditor General's responsibilities for auditing the Council's financial statements, he also has responsibility for the certification of a number of grant claims and returns. There have been delays in the certification of the Housing Benefits claims and we are working with the Council to bring the position up to date as soon as possible. However, the volume of errors identified, through our audit work, is higher than we would expect and are recurrent. This raises concerns over your quality control arrangements and your basis for identifying and addressing the training needs of staff working in this area.
- The Auditor General issued the certificate confirming that the audit of accounts for 2019-20 has been completed.
- Key facts and figures from the 2019-20 financial statements can be viewed here.

Well-being of Future Generations Examination – An examination of early intervention and prevention to ensure that children are safe and supported (November 2019)

The examination that we undertook in 2019-20 considered the extent to which the Council has acted in accordance with the sustainable development principle when taking steps to ensure that children are safe and supported. We concluded that the Council has considered and applied the sustainable development principle in developing the 'Early intervention and prevention to ensure that children are safe and supported', but there are opportunities to further embed the five ways of working. The report can be viewed here.

Continuous Improvement

The Auditor General certified that the Council has met its legal duties for improvement planning and reporting and believes that it is likely to meet the requirements of the Local Government (Wales) Measure 2009 during 2020-21.

Financial Sustainability (July 2020)

During 2019-20, we examined the financial sustainability of each council in Wales.
We concluded that the continual funding of unrealised savings and year-end overspends from general reserves is not sustainable, the Council needs to develop a more sustainable financial strategy to deliver services within available funding whilst building usable reserves to improve its resilience. The report can be viewed here.

National Fraud Initiative

In October 2020, the Auditor General published his report on the findings of the latest National Fraud Initiative (NFI) data-matching exercise in Wales. The exercise helped public bodies in Wales, including the 22 unitary authorities, identify fraud and overpayments amounting to £8 million. The report can be accessed on our website. NFI continues to be developed, and in the forthcoming NFI exercise (NFI 2020-2022), local authorities will have access to matches designed to help identify potential fraudulent applications for COVID-19 business support grants.

Other Inspectorates

We also took into account the reports of Care Inspectorate Wales (CIW) and Estyn as well as any subsequent actions taken by the Council in response.

CIW undertook inspection of Older Adults' Services in July 2019. The report is here.
They published their local authority performance review letter 2019/20 in August 2020. The report is here.

Estyn have undertaken a number of inspections as well as publishing thematic reports.
There were no other Isle of Anglesey County Council inspections in this period, but as usual Estyn inspected local schools, and services that are registered with CIW in Anglesey were subject to regular review.

Local Government Studies

As well as local work at each council, each year we also carry out studies across the local government sector to make recommendations for improving value for money. Since the last annual improvement report we have published the following reports:

The effectiveness of local planning authorities (June 2019)

We reviewed progress of local planning authorities in delivering their new responsibilities. We conclude that planning authorities are not resilient enough to deliver long-term improvements because of their limited capacity and the challenge of managing a complex system. The full report can be viewed here.

The 'Front Door' to Social Care (September 2019)

We considered the effectiveness of the new 'front door' to social care, looking specifically at services for adults. We found that whilst councils are preventing social-care demand, information, advice and assistance are not consistently effective. The full report can be viewed here.

Review of Public Services Boards (October 2019)

We inspected how Public Services Boards are operating; looking at their membership, terms of reference, frequency and focus of meetings, alignment with other partnerships, resources and scrutiny arrangements. We concluded that Public Services Boards are unlikely to realise their potential unless they are given freedom to work more flexibly and think and act differently. The full report can be viewed here.

Progress in implementing the Violence Against Women, Domestic Abuse and Sexual Violence Act (November 2019)

We examined how the new duties and responsibilities of the Violence against Women, Domestic Abuse and Sexual Violence (Wales) Act are being rolled out and delivered. We found that victims and survivors of domestic abuse and sexual violence are often let down by an inconsistent, complex and fragmented system. The full report can be viewed here.

Rough Sleeping in Wales – Everyone's Problem; No One's Responsibility (July 2020)

We looked at how well public services are responding to the issue of rough sleeping. Overall, we found that responding to COVID-19 is an opportunity for public bodies to start addressing long standing weaknesses in partnership working which has stopped them from tackling rough sleeping in the past. The full report can be viewed here.

Better Law Making (September 2020)

This report draws on five reports published between 2019 and today looking at how local authorities are responding to the challenge of implementing new legislation. Implementation is a complex task which needs to be fully thought through by the Welsh Government and the Senedd whenever they bring forward and make any new legislation. The paper highlights the difficulties faced by local authorities and their public sector partners in implementing their new responsibilities. The full report can be viewed here.

Commercialisation in Local Government (October 2020)

Councils have conducted commercial activity for a long time, and many councils are exploring additional commercial opportunities to mitigate against the financial pressures they face. Our report is specifically targeted at helping elected members and senior officers to examine and judge the potential impact on their organisations when considering whether to undertake commercialisation. It will also help councils to demonstrate how well they are discharging their value for money responsibilities. The full report can be viewed here.

Planned work for 2020-21

We also looked at the key challenges and opportunities facing the Council. These risks could have an effect on the Council's ability to meet its legal obligations in relation to the sustainable development principle, the use of its resources and continuous improvement.

The most significant risk and issue facing councils and the wider public sector during 2020-21 is the COVID-19 pandemic. We have shaped our work to provide assurance and challenge in a way which helps to support the Council through this period. Our work undertaken in 2020-21 includes:

- Recovery planning in response to the COVID-19 pandemic
- COVID-learning project – helping to identify and share learning from the way in which public bodies have responded to the pandemic
- Assurance and risk assessment
- A review of the Council's financial sustainability
- A review of workforce planning
- North Wales Economic Ambition Board
- Commissioning Older People's Care Home Placements – North Wales Councils and Betsi Cadwaladr University Health Board

The Auditor General is independent of government, and is appointed by Her Majesty the Queen. The Auditor General undertakes his work using staff and other resources provided by the Wales Audit Office, which is a statutory board established for that purpose and to monitor and advise the Auditor General. The Wales Audit Office is held to account by the Senedd.

The Auditor General audits local government bodies in Wales, including unitary authorities, police, probation, fire and rescue authorities, national parks and community councils. He also conducts local government value for money studies and assesses compliance with the requirements of the Local Government (Wales) Measure 2009.

Beyond local government, the Auditor General is the external auditor of the Welsh Government and its sponsored and related public bodies, the Senedd Commission and National Health Service bodies in Wales.

Audit Wales is the non-statutory collective name for the Auditor General for Wales and the Wales Audit Office, which are separate legal entities with their own legal functions, as described above. Audit Wales is not a legal entity.

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

This document is also available in Welsh.

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ISLE OF ANGLESEY COUNTY COUNCIL	
Adroddiad i: **Report to:**	Audit and Governance Committee
Dyddiad: **Date:**	9 February 2021
Pwnc: **Subject:**	An Update on the Internal Audit Strategy and Priorities for 2020-21
Pennaeth Gwasanaeth: **Head of Service:**	Marc Jones Director of Function (Resources) and Section 151 Officer 01248 752601 MarcJones@ynysmon.gov.uk
Awdur yr Adroddiad: **Report Author:**	Marion Pryor Head of Audit and Risk 01248 752611 MarionPryor@ynysmon.gov.uk
Natur a Rheswm dros Adrodd / Nature and Reason for Reporting: In accordance with the Council's 'Strategy for Committee Meetings', this report meets the requirements of the Local Government (Wales) Measure 2011, which sets out the legislative duties to be performed by a council's audit committee, specifically, to oversee the authority's internal audit arrangements.	

Introduction

1. Because of the current pandemic, the Council has had to prioritise its resources and the efforts of its workforce, so maintaining 'business as usual' has been difficult. However, although half of the Internal Audit team was redeployed within the organisation until late August 2020, 'internal auditing' has continued and has been directed to the areas of greatest value and risk to the organisation, responding to requests for assurance from the Senior Leadership Team, and undertaking mandatory grant audits.

2. We have therefore provided this brief update, as at 27 January 2021, on the audits completed since the last update as at 1 December 2020, the current workload of internal audit and our priorities for the short to medium term going forward.

Recommendation

3. That the Audit and Governance Committee notes Internal Audit's assurance provision and priorities going forward.

CURRENT CONTEXT

4. There needs to be a flexible approach to ensuring audit work meets the needs of the Council in this ever-changing risk and control environment.

5. The internal audit team's workload is therefore being kept under constant review, in close consultation with the Risk and Insurance Manager and the Senior Leadership Team.

ASSURANCE WORK COMPLETED SINCE THE LAST UPDATE

Audit Area	Date of Final Report	Assurance Level	Catastrophic	Major	Moderate
Local Authority Education Grant – Teachers Pay Award – Cost of Teachers' pay award (excluding 6th forms) & Financial Pressures Associated with Teachers Pay Award	27/11/20	**Substantial**	0	0	0
Local Authority Education Grant – Pupil Development Grant (PDG) – Access	12/01/21 v1 22/01/21 v2	**Reasonable**	0	0	0
Local Authority Education Grant – Professional learning to support and raise the quality of our teachers	12/01/21	**Substantial**	0	0	0
Local Authority Education Grant – Wellbeing - A whole-school approach to mental health and emotional well-being	12/01/21	**Substantial**	0	0	0
Payments – Supplier Maintenance	26/01/21	**Limited**	0	5	5
Corporate Parenting Panel	27/01/21	**Reasonable**	0	2	3

6. In accordance with the Committee's request, we have separately issued the full report and action plan for the 'Limited Assurance' report to members of the Committee and the relevant Portfolio Holder.

7. The responsible officer, the Director of Function (Resources) and Section 151 Officer, will be present in the meeting to answer any questions the Committee may have.

WORK IN PROGRESS

8. There are a number of audits currently underway and will be prioritised for completion by the end of the year, while also remaining agile to react to any work arising at short notice, and any requests from the Senior Leadership Team.

9. The previously identified priority areas for audit will be carried forward into the Internal Audit Strategy for 2021/22.

Audit Area	Service	Reason for Audit	Stage	Anticipated Reporting Date
Emergency Management Assurance (First-line assurance)	Corporate	High risk – Covid 19 related; 2020/21 assurance provision	Piloting	April 2021
Recovering Council Debts	Resources	Director of Function (Resources) and Section 151 Officer request	Scoping and preparation	April 2021
The Identification of Duplicate Invoices and Recovery of Duplicate Payments	Resources	Director of Function (Resources) and Section 151 Officer request	Fieldwork	April 2021
Housing – Allocations	Housing	Requested by the Executive	Scoping and Preparation	April 2021
Housing – Homelessness	Housing	High risk – Covid 19 related; requested to prioritise by the Deputy Chief Executive	Fieldwork	April 2021
IT Audit	Corporate	High risk – Covid 19 related; 2020/21 assurance provision	Fieldwork	April 2021
Special Care Payments to Social Care Workforce	Resources	Director of Function (Resources) and Section 151 Officer request	‘Parked’ due to extension of payment deadline	June 2021

10. The following work is also underway:

National Fraud Initiative

11. The biennial National Fraud Initiative (NFI) exercise is underway. The Auditor General for Wales mandates these data matching exercises under his statutory powers in the Public Audit (Wales) Act 2004.

12. We have received the first tranche of matches, which involved matching Council Tax Single Person Discount and Electoral Register data to identify people who may be claiming the discount when the Electoral Register suggests that there are other adults living in the property and the discount may be fraudulently claimed. An initial review of the matches has highlighted a data quality issue, which we are currently investigating.

13. We have also undertaken work with Cyswllt Môn regarding 'Blue Badges', where matches have suggested that permit holders may be deceased or where a permit is held in more than one local authority area.

14. We expect the NFI to release the remainder of the matches in February 2021.

Overdue Actions

15. Work is progressing to support services with implementing all outstanding actions. The 4action dashboard at Appendix 1 provides the situation as at 27 January 2021.

16. Services have been working hard to address outstanding 'Issues/Risks' leaving currently only three actions overdue, relating to guidelines around Universal Credit, the payment of housing rent by standing order and independent checks of payroll exception reports.

School Unofficial Funds

17. A recent internal audit of school unofficial funds identified that schools did not have any up to date guidance about the proper operation and arrangements of a school fund and consequently, that many had not arranged for an independent audit of their fund (reported to Audit and Governance Committee on 1 December 2020).

18. We have been assisting the Learning Service with developing new guidance and provided two training events for head teachers and governors on their responsibilities with regards the proper operation of a school fund.

19. We have also offered to arrange and fund an independent audit of funds where the head teacher is struggling to appoint an auditor, or has not had the fund audited for some years. We are working with the Learning Service to identify the status of the fund in each school and have provided advice to head teachers on specific queries about the operation of their funds.

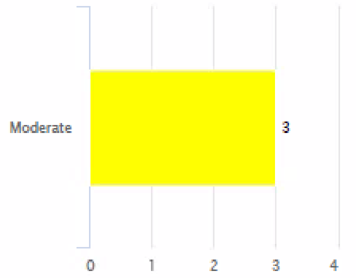
Investigations

20. Although not strictly internal audit work, due to the training and skill set of the team, Human Resources has asked us to assist with three investigations, one of which we have concluded and two that are ongoing.

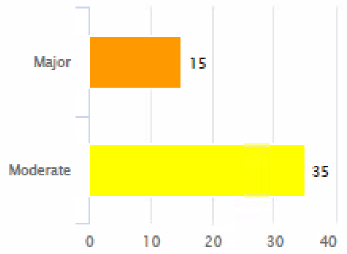
APPENDIX 1 – OVERDUE ACTIONS (4ACTION DASHBOARD) AS AT 27 JANUARY 2021

CYNGOR SIR YNYS MÔN ISLE OF ANGLESEY COUNTY COUNCIL

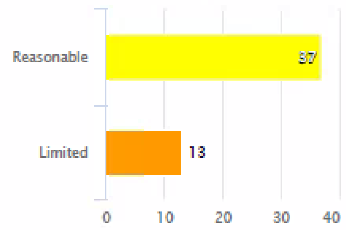
Overdue Actions



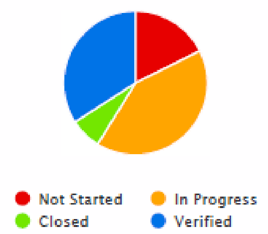
Total Outstanding Actions



Outstanding Issues/Risks by Assurance Rating



Total Issues/Risks by status



Overdue Issues/Risks by Service

Analysis Code	Count
Tai / Housing	1
Adnoddau / Resources	2

All outstanding Issues/Risks by Service

Analysis Code	Count
Tai / Housing	1
Dysgu / Learning	16
Gwasanaethau Cymdeithasol / Social Services	3
Adnoddau / Resources	21
Busnes y Cyngor / Council Business	1
Uwch Dim Arweinyddu / Senior Leadership Team	1
Trawsnewid / Transformation	8

Outstanding Red Issues/Risks

ID	Summary

0 of 0

Outstanding Limited Assurance Reports

Analysis Code	Count
Primary Schools Themed Audit – Income Collection 171813	2
IT Resilience 192003	4
Leavers' Process 192014	3
Management of School Unofficial Funds 192012	4

Outstanding Amber Issues/Risks

ID	Summary
3975	Corporate Safeguarding 4 - Current monitoring of School DBS compliance by the Learning Service is ineffective.
3983	Cyber Security - While IT undertakes daily operational monitoring of network security, there is little high level, proactive monitoring to...
3997	Corporate Safeguarding 3 - The Council does not have an integrated Council-wide system to record and monitor compliance levels with Disclosure and...
3999	Cyber Security - Corporate scrutiny and reporting mechanisms for cybersecurity issues and risks are insufficient. This could result in the Council...

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ISLE OF ANGLESEY COUNTY COUNCIL	
Adroddiad i: **Report to:**	Audit and Governance Committee
Dyddiad: **Date:**	9 February 2021
Pwnc: **Subject:**	Internal Audit Assurance Provision for 2020/21
Pennaeth Gwasanaeth: **Head of Service:**	Marc Jones Director of Function (Resources) and Section 151 Officer 01248 752601 MarcJones@ynysmon.gov.uk
Awdur yr Adroddiad: **Report Author:**	Marion Pryor Head of Audit and Risk 01248 752611 MarionPryor@ynysmon.gov.uk
Natur a Rheswm dros Adrodd / Nature and Reason for Reporting: Following sector-specific guidance issued by CIPFA, the Audit and Governance Committee is asked to approve the current arrangements for ensuring the Head of Audit and Risk will have sufficient assurance to support the Internal Audit Annual Opinion for 2020/21 to ensure no limitation of scope.	

Introduction

1. The impact of COVID-19 on all the public services has been considerable and for internal auditors it has raised the question of whether they will be able to undertake sufficient internal audit work to gain assurance during 2020/21.

2. This is a key consideration to fulfil the requirement of the Public Sector Internal Audit Standards (PSIAS) where the Head of Audit & Risk is required to issue an annual opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. This opinion is one of the sources of assurance that the Council relies on for its annual governance statement.

3. CIPFA[1] has recognised that local government bodies are struggling with considerable challenges and are having to make difficult decisions on how best to use their available staff and financial resources to meet critical needs, while the professional and regulatory expectations on local government bodies to ensure that their internal audit arrangements conform with PSIAS have not changed.

4. CIPFA has therefore prepared sector specific guidance for internal auditors working in or for local government in the UK. It is a requirement for local

[1] CIPFA is the Relevant Internal Audit Standard Setter (RIASS) for local government and works with the other UK RIASS to mandate the PSIAS across the public sector.

government in the UK. The guidance was published in December 2020 and is available here:

https://www.cipfa.org/policy-and-guidance/standards/guidance-for-head-of-internal-audit-annual-opinions-202021

5. It sets out and discusses in detail six key requirements for local government bodies that heads of internal audit or the chief audit executive (CAE), leadership teams and audit committees should follow:

- The CAE should plan to obtain sufficient assurance to support the annual opinion, taking into account both internal audit work and other sources of assurance. The CAE should disclose in the overall opinion the reliance placed on other sources of assurance.

- The CAE, leadership team and audit committee should review and discuss internal audit capacity where there are concerns and develop an action plan to mitigate the risk.

- The CAE should make best use of their audit resources to maximise assurance.

- Where the CAE considers that a limitation of scope is likely, the Head of Audit and Risk should advise the leadership team and audit committee promptly. The CAE should set out the likely consequences assessed and advise on remedial action to avoid a limitation of scope.

- The Internal Audit Annual Opinion should contain a clear explanation of any limitation of scope along with its causes and plans to address the situation going forward.

- Where the Internal Audit Annual Opinion contains a limitation of scope the authority should state this in the annual governance statement.

Internal Audit Priorities

6. The Head of Audit and Risk has therefore revised and agreed the internal audit team's priorities to cover the new risks and changes from the impact of COVID-19 with the Senior Leadership Team to ensure that there will be no limitation of scope and we will have sufficient assurance to support the annual opinion.

7. The key pieces of work that will contribute to the assurance are:

- Corporate risk register audits

- Review of COVID–19 Emergency Response (Self-Assessment) and Follow Up – completed between April and June 2020

- Emergency Management Assurance (First-line assurance) – currently at fieldwork stage

8. The risks continue to change through the pandemic and therefore SLT regularly reviews and updates the risk registers (corporate, COVID-19, Brexit and service risk registers), which informs actions and decisions.

9. Consequently, we will revise internal audit priorities to take account of the changing risks, along with issues identified through discussions with members and senior officers.

Making effective use of internal audit resources

10. When delivering the risk-based audit strategy, the Head of Audit & Risk, supported by the Senior Leadership Team, has made every effort to make best use of available internal audit resources during the pandemic, including:

    - streamlining reports to the Audit and Governance Committee
    - narrowing the focus of audit scopes to examine only key risks
    - filling vacant audit posts on a temporary basis – additional Senior Auditor recruited
    - buying in audit expertise from an external provider – IT Audit from Salford City Council
    - evaluating all requests for advisory work and prioritising assurance work and advisory work that supports the annual opinion – School Fund guidance and training, audit certificate work outsourced
    - avoiding diversion of internal audit staff to counter fraud work – the counter fraud programme has been delayed until 2021/22
    - reducing to a minimum non-audit work, such as Covid-19 returns and redeployment to the Test, Trace and Protect (TTP) and business grants teams
    - increasing communication with services to help ensure good co-operation and avoid unnecessary delays when undertaking audits – there has been better use of technology such as Microsoft Teams
    - continuing with the adoption of an ‘agile audit’ approach to smooth bottlenecks and remove barriers to progression.

Recommendation

11. That the Audit and Governance Committee:

    - considers the arrangements for ensuring the Head of Audit and Risk will have sufficient assurance to support the Internal Audit Annual Opinion for 2020/21 and
    - notes that there will be no ‘limitation of scope’.

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WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Delivering with Less: Leisure Services – **Isle of Anglesey County Council**

Audit year: 2018-19

Date issued: March 2020

Document reference: 1815A2020-21

This document has been prepared for the internal use of Isle of Anglesey County Council as part of work performed in accordance with Section 17 of the Public Audit (Wales) Act 2004, the Local Government Wales Measure 2009 and Section 15 of the Well-being of Future Generations Act (Wales) 2015.

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We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

The team who delivered the work comprised Alan Hughes, Bethan Roberts, Sara Jones and Jeremy Evans under the direction of Huw Rees.

Contents

The Council has continued to deliver its leisure centres with less resources and it has a clear vision for the future of the service, but run-down facilities pose a financial challenge.

Summary report

Summary

What we reviewed and why

1 This review is a follow-up to the Auditor General's 2015 national report **Delivering with Less – Leisure Services**. It considers the impact of reductions in local government funding on the Council's leisure services and the effectiveness of the Council's arrangements for delivering those services.

2 In this report we use the term council leisure services to mean sports and recreation services provided directly or indirectly (for example, underwritten by a partnership agreement or contract). This only covers the provision and management of sport and leisure centres, including indoor and outdoor facilities and wet and dry centres on school sites[1]. Our definition does not cover or include activities relating to tourism, library services, parks/open spaces, museums/heritage or the arts.

3 In the 2015 national report we reported that the Council was focussing on in-house provision of leisure services and was focussed on making the best use of resources. The Council are constrained by the financial challenges they face and are consequently focussed on improving their financial and operating environment.

4 This review considered:

- whether leisure service resources had reduced since our 2014-15 report;
- the Council's Leisure Strategy and its performance against the vision set out in the Strategy;
- the Council's arrangements for considering the future sustainability of the leisure service and exploring and appraising alternative delivery models;
- the Council's governance and monitoring arrangements in relation to leisure performance; and
- how service users feel about the leisure service and whether they are able to inform service design and delivery.

What we found

5 Our review sought to answer the question: Does the Council have effective arrangements to ensure the service provides value for money and determine future models of leisure service delivery?

6 Overall, we found that: **The Council has continued to deliver its leisure centres with less resources and it has a clear vision for the future of the service, but run-down facilities pose a financial challenge.**

[1] Anglesey sport and leisure centres are in Amlwch, Holyhead, Llangefni and Menai Bridge where the centre is located with a school.

We reached this conclusion because:

- there has been a reduction in the Council's leisure service resources since 2014-15, and the service net cost has decreased;
- the Council has a clear vision for its leisure service and is effectively considering the service's financial sustainability; the Council recognises its run-down leisure centres are a risk;
- the Council has robust performance monitoring and governance arrangements, but recognises it could improve its understanding of the outcomes achieved; and
- most service users are happy with the leisure service and the Council uses customer feedback to inform the design and delivery of the service.

Proposals for improvement

Exhibit 1: proposals for improvement

The table below sets out the proposal for improvement that we have identified following this review.

Proposal for improvement	
P1	The Council should explore opportunities to make further use of data to improve understanding of the effects of its outcomes.

Detailed report

The Council has continued to deliver its leisure centres with less resources and it has a clear vision for the future of the service, but run-down facilities pose a financial challenge

There has been a reduction in the Council's leisure service resources since 2014-15, and the service net cost has decreased

7 In reaching this conclusion we found that:

- the Council has kept all four of its leisure centres open, but following a Vibrant Viable Places Grant investment, in the last four years, the Council has transferred some of its outdoor sports and recreation facilities to Town and Community Councils. This has reduced the Council's spend on leisure services.
- there has been a reduction of between four and six full time equivalents (FTE) in the overall number of staff, and amendments made to job descriptions. Employment terms and conditions have remained the same throughout the leisure service over the last four years.
- there been a 77% reduction in the leisure services budget in the last four years. This has been partly offset by an increase in income of 31% and a fall in expenditure of 11%. Overall, the leisure service net cost has reduced from £610,600 to £252,400 between 2014-15 and 2018-19.
- however, between 2015-16 and 2018-19 the service has overspent. Overspends have ranged from 38% to 77%, the 2018-19 overspend being 42%. This suggests that delivering within the base budget is not possible.
- Welsh Government data shows the Council's gross revenue expenditure on Sports and Recreation Services decreased by 6% between 2014-15 and 2017-18. As a result, in 2017-18 leisure revenue expenditure per head of was the eighth highest in Wales.

The Council has a clear vision for its leisure service and is effectively considering the service's financial sustainability; the Council recognises its run-down leisure centres are a risk

8 In reaching this conclusion we found that:

- the Council has considered the requirements of the Well-being of Future Generations (Wales) Act 2015 in setting priorities and developing its new strategy for leisure services. For example, the Council is collaborating with a range of partners in an effort to deliver an integrated approach to preventative health care. However, the Council needs to consider how it further embeds an integrated approach across services internally to ensure that all staff are thinking about how benefits from their service can be maximised. Internal collaboration needs to be further strengthened particularly with Education, for example, integrate leisure centres with education facilities as part of the 21st century schools programme.

- the Council's new Leisure Strategy (Draft) which is linked to the main Council plan's priorities, itself sets out clear priorities to ensure current and future resources can be utilised effectively to deliver outcomes. The new strategy vision is to 'Maintain, improve and provide high quality, flexible, accessible and affordable facilities to meet the current and future well-being needs of Anglesey.' The current in-house Leisure Function is delivering the vision of the Leisure Strategy:
  - the number of people visiting Anglesey sport and leisure centres to participate in physical activity[2] has increased 8% since 2014-15. This is against an all-Wales increase of 5% over the same period and places the Council tenth highest in Wales.
  - the Council has established a more commercial approach and culture to raise income levels and reduce the Council subsidy.
  - the Council has modernised some of its leisure facilities and equipment, and its payment and booking system, but recognises that its overall building infrastructure is run down and inefficient.
  - the Council can demonstrate examples of improved well-being through leisure. For example, 85% of its National Exercise Referral Scheme participants felt that the exercise programme had led to an improvement in health.
- the Council has invested in its facilities and equipment, refurbishing several existing sites including the fitness room at Holyhead, undertook a refit including all new equipment, the first 3G pitch on the Isle of Anglesey at Plas Arthur, Llangefni, and fitted LED lighting in each leisure centre to reduce energy costs.
- the Council has assessed its buildings and found them to be rundown and in need of refurbishment, which increases the risk of incurring additional cost. The Council has considered its financial position, its scope to invest and the impact of the suspension of a nuclear build project in delivering its plan. It recognises that securing enough capital funding together to improve the leisure centres will be a challenge.
- the Council has focussed on taking a commercial approach to leisure by investing in its facilities and growing membership and income to make the service more self-sustaining. This is beginning to have an impact and whilst overall the service

[2] Defined as the number of visits during the year to Anglesey sport and leisure centres per 1,000 population where the visitor will be participating in physical activity. InfoBaseCymru, Leisure and Culture, Local Authority: table

is not yet self-sustaining, in 2018-19, income at Plas Arthur Leisure Centre in Llangefni was 9% more than its expenditure.

- the Council appointed an external company to review its leisure service and a public consultation was undertaken to help establish local needs and identify potential alternative delivery models to ensure the future sustainability of the service. The Council has reviewed and compared potential alternative delivery options that included retaining the service in-house, outsourcing to the private sector, a leisure trust or procure on the open market. For the mid-term, it is the Council's intention to retain the four leisure centres and implement an investment programme to maintain current provision.

The Council has robust performance monitoring and governance arrangements, but recognises it could improve its understanding of the outcomes achieved

9 In reaching this conclusion we found that:

- the Council has a clear accountability structure for its leisure service, and a management information dashboard system that allows officers to monitor performance.
- the Council recognises it could make further use of its data and technology to improve understanding of the effects of its service. For example, further work is needed to maximise its Self-Service System reporting capabilities to enable more targeted and tailored approaches to service. Greater use of data analytics has the potential to help the Council to identify non-users and target their services more effectively. Also, further analysis of its data could provide better understanding of the outcomes of different activities.
- officers and the Deputy Chief Executive monitor and challenge performance at regular service-level meetings. Leisure performance is also reviewed by the County Council's Partnerships, Communities and Service Improvement Transformation Programme Board.
- annual service challenges also provide both senior officers and councillors the opportunity to scrutinise and challenge leisure performance.

Most service users are satisfied with the leisure service and the Council uses customer feedback to inform the design and delivery of the service

10 In reaching this conclusion we found that:

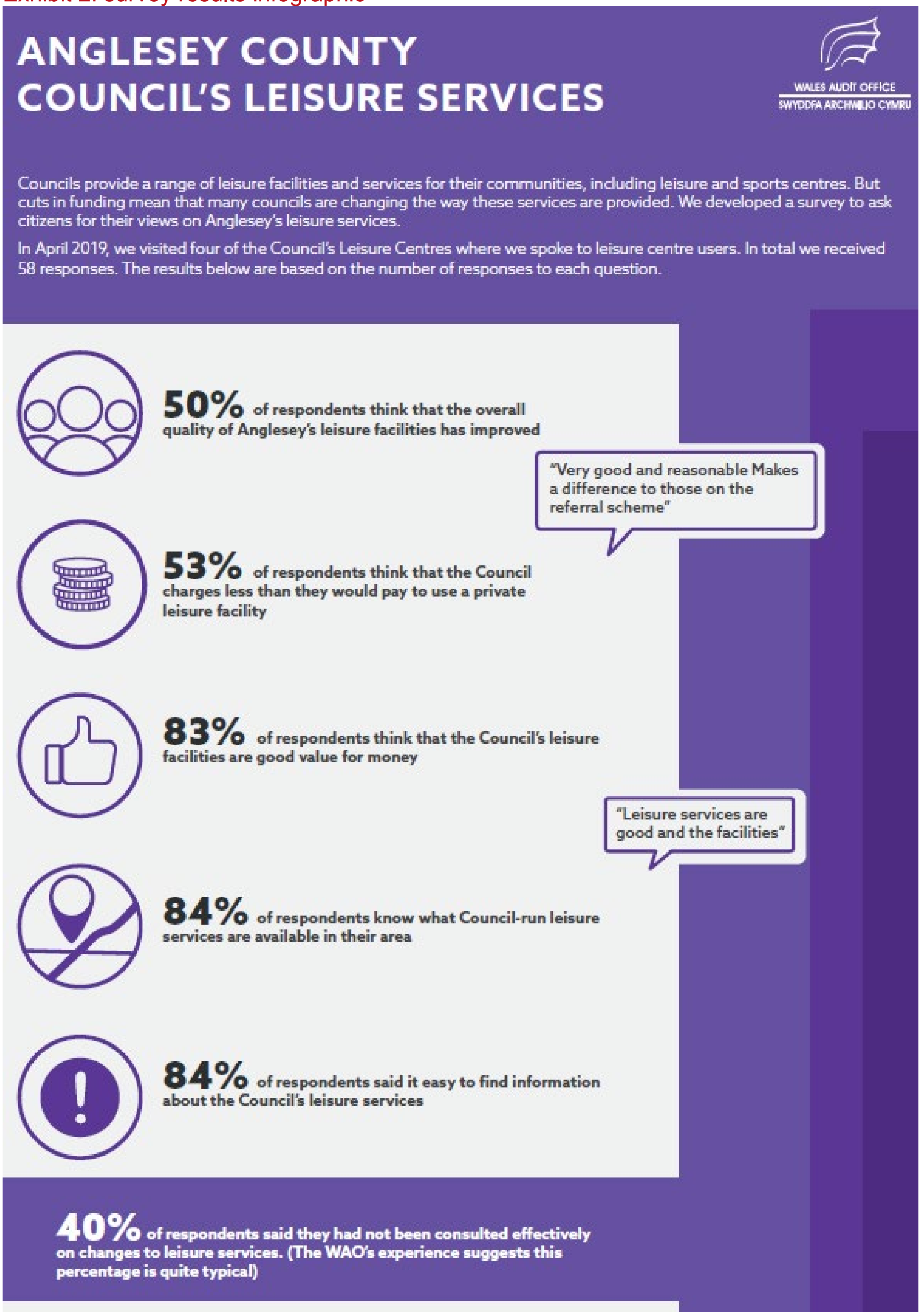
- most respondents to our survey[3] are happy with the Council leisure services:
  - 50% think the quality of the service has improved in recent years, 32% think the quality of the service has stayed the same; and
  - 83% consider the service good value for money.
- most people we spoke to were well informed about local leisure services:
  - 84% are aware what services are available locally; and
  - 84% said it is easy for them to find the information they need.
- the Council proactively engages with service users and can demonstrate that it uses customer feedback to inform service design and delivery.

[3] In April 2019, the Wales Audit Office conducted a survey to gather citizens' views on leisure services in Anglesey. The results of the survey are summarised in Appendix 1.

Appendix 1

Survey results infographic

Exhibit 2: survey results infographic



The most popular reasons for choosing to use the Council's leisure services are:

"Friendly staff and welcoming"

62% convenient location

62% reasonable costs

34% convenient opening hours

The leisure facilities most used by respondents are:

75% Gym

24% Café

20% fitness classes

"Could do with a bit more money invested in them"

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ISLE OF ANGLESEY COUNTY COUNCIL	
REPORT TO:	**AUDIT COMMITTEE**
DATE:	**09 FEBRUARY 2021**
SUBJECT:	**TREASURY MANAGEMENT STRATEGY STATEMENT 2021/22**
LEAD OFFICER:	**MARC JONES, DIRECTOR OF FUNCTION (RESOURCES) AND SECTION 151 OFFICER**
CONTACT OFFICER:	**JEMMA ROBINSON, SENIOR ACCOUNTANT**
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 11 February 2020.

3. In terms of updates to the Treasury Management Strategy Statement, there are no proposed amendment to the core principals and policies of the 2020/21 Statement.

4. As noted in the Treasury Management Mid-Year Report 2020/21, presented to this committee on 01 December 2020, due to the large sums of grants received from Welsh Government to help deal with the Covid crisis and the availability of call accounts to the Council, this has resulted in the Council holding balances in call accounts over and above the limits approved within the Annual Investment Strategy included in the Treasury Management Strategy Statement (TMSS) 2020/21. When producing the TMSS 2020/21, these unprecedented times could not be foreseen. In light of this, counterparty limits have been assessed and reviewed when producing the TMSS for 2021/22. Appendix 8 has been amended (with specific reference to NatWest Bank cash limit).

5. 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.

6. Recommendations

- To consider the Treasury Management Strategy for 2021/22 and to make recommendations or note comments for consideration by the Executive Committee.
- To consider the increase in transaction limits in Appendix 8 (as noted in point 4 above) 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 2021/22

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 in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

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 as well as the implications for future financial sustainability. The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.
- 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:-

- World growth has been in recession in 2020 and this is likely to continue into the first half of 2021 before recovery in the second half.
- Inflation is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor.
- Continuing uncertainty surrounding Brexit and its impact on the UK and Eurozone economy, however the final agreement of a trade deal in December 2020 has eliminated a significant downside risk for the UK economy.
- Investment returns are likely to remain exceptionally low during 2021/22 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 2024

Annual Average	Bank Rate (%)	PWLB Borrowing Rates (including certainty rate adjustment)		
		5 year	25 year	50 year
March 2021	0.10	0.80	1.50	1.30
June 2021	0.10	0.80	1.60	1.40
September 2021	0.10	0.80	1.60	1.40
December 2021	0.10	0.80	1.60	1.40
March 2022	0.10	0.90	1.60	1.40
June 2022	0.10	0.90	1.70	1.50
September 2022	0.10	0.90	1.70	1.50
December 2022	0.10	0.90	1.70	1.50
March 2023	0.10	0.90	1.70	1.50
June 2023	0.10	1.00	1.80	1.60
September 2023	0.10	1.00	1.80	1.60
December 2023	0.10	1.00	1.80	1.60
March 2024	0.10	1.00	1.80	1.60

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

Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England. The unexpected increase of 100 bps in PWLB rates on top of the then current margin over gilt yields of 80 bps in October 2019, required an initial major rethink of local authority treasury management strategy and risk management. However, in March 2020, the Government started a consultation process for reviewing the margins over gilt rates for PWLB borrowing for different types of local authority capital expenditure. On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme

3.3. Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising. Given the forecast for bank base rates, the suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows (the long term forecast is for periods over 10 years in the future):

2020/21: 0.10%;
2021/22: 0.10%;
2022/23: 0.10%;
2023/24: 0.10%;
2024/25: 0.25%;
Long term later years: 2.00%.

3.4. The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered to the population. There is uncertainty regarding Brexit in relation to the economic impact of the deal agreed between the UK and the EU. There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, or a return of investor confidence in equities, could impact gilt yields, (and so PWLB rates), in the UK.

3.5. Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

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	£121,684k	£208k	£0k	£0k	£121,892k
Average life (years)	30.62	5.28	0.00	0.00	30.57
Average rate (%)	4.58	9.42	0.00	0.00	4.59

OTHER LOANS						
	Salix Loan 1	**Salix Loan 2**	**Salix Loan 3**	**Salix Loan 4**	**Salix Loan 5**	**Total**
Outstanding Balance	£58k	£228k	£509k	£224k	£1,614k	£2,633k
Repayment Date	2024/25	2025/26	2028/29	2029/30	2030/31	
Interest Rate (%)	0.00	0.00	0.00	0.00	0.00	

4.2. Investments

4.2.1. Any surplus cash is currently invested in short term deposit accounts, call accounts and with other UK local authorities. The balance invested in these accounts changes daily (balance as at 31 December 2020 was £34.8m).

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 0.09% (as at 31 December 2020).

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 2021/22 – 2023/24

	2021/22 £'000	2022/23 £'000	2023/24 £'000
Non - HRA	**15,842**	**16,380**	**17,221**
HRA	**20,313**	**18,816**	**22,670**
Commercial Activities / Non Financial Investment	**0**	**0**	**0**
TOTAL EXPENDITURE	**36,155**	**35,196**	**39,891**
Financed By			
Capital Grants	**12,042**	**9,181**	**10,282**
Capital Receipts	**0**	**100**	**100**
Reserves	**921**	**0**	**0**
Revenue	**15,639**	**10,156**	**10,510**
Balance Funded from Borrowing	**7,553**	**15,759**	**18,999**

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 2021/22 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 2021/22. 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. The Council may choose to pay more MRP in any given year. These overpayments of MRP (which in the Council's case, are to ensure enough cash for loan repayments), can, if needed, be reclaimed in later years. Up until 31 March 2020, the total overpayments were £212k and related specifically to the Salix loans where the MRP charged to the revenue account has been calculated on the basis of the life of the loan rather than on the life of the asset which was funded by the loan. This ensures that the Council has sufficient cash to repay the loans when they become due for repayment.

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 2020/21 to 2023/24

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Capital Financing Requirement				
Opening Balance of CFR	**136,904**	**145,154**	**148,346**	**159,611**
Capital Expenditure	39,594	36,155	35,196	39,891
External Capital Grants	(16,397)	(12,042)	(9,181)	(10,282)
Capital Receipts	(782)	0	(100)	(100)
Revenue Contribution & Reserves	(10,669)	(16,560)	(10,156)	(10,510)
Minimum Revenue Provision	(3,496)	(4,360)	(4,496)	(4,795)
CLOSING BALANCE OF CFR	**145,154**	**148,346**	**159,611**	**173,815**

External Borrowing				
Opening Balance of External Borrowing	**139,232**	**136,270**	**143,458**	**156,567**
Borrowing to Fund Capital Expenditure	11,746	7,553	15,760	18,999
Borrowing to Fund Loan Repayments	0	0	0	0
Borrowing to Replace Internal Borrowing	0	0	0	0
Loan Repayments	(14,708)	(365)	(2,651)	(2,222)
Closing Balance of External Borrowing	**136,270**	**143,458**	**156,567**	**173,344**
Internal Borrowing				
Opening Balance of Internal Borrowing	**(2,328)**	**8,884**	**4,889**	**3,044**
Replacement of Internal Borrowing	0	0	0	0
Funding Loan Repayments from External Borrowing	0	0	0	0
External Loan Repayments	14,708	365	2,651	2,222
Borrowing to Fund Capital Expenditure	0	0	0	0
Minimum Revenue Provision	(3,496)	(4,360)	(4,496)	(4,795)
Closing Balance of Internal Borrowing	**8,884**	**4,889**	**3,044**	**471**
TOTAL BORROWING	**145,154**	**148,347**	**159,611**	**173,815**

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 £8.884m 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 2021/22 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 2021/22 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 there is still a very large difference between premature redemption rates and new borrowing rates, even though the general margin of PWLB rates over gilt yields was reduced by 100 bps in November 2020.

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 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. All investments with local authorities are also specified investments regardless of the length of period to maturity.

   - **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. (Investments, [other than investments with local authorities], which would be specified investments apart from originally being for a period longer than 12 months remain as non-specified even when the remaining period to maturity falls to under twelve months.)

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 2021/22 (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 2020/21 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. The Welsh Government has passed a statutory override to allow Welsh local authorities time to adjust their portfolio of all pooled investments by delaying implementation of IFRS 9 for five years until 31.03.23.

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 the Link Group, our treasury advisors, 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. Although the credit rating agencies changed their outlook on many UK banks from Stable to Negative during the quarter ended 30.06.20 due to upcoming risks to banks' earnings and asset quality during the economic downturn caused by the pandemic, the majority of ratings were affirmed due to the continuing strong credit profiles of major financial institutions, including UK banks. However, during Q1 and Q2 2020, banks made provisions for expected credit losses and the rating changes reflected these provisions. As we move into future quarters, more information will emerge on actual levels of credit losses. (Quarterly earnings reports are normally announced in the second half of the month following the end of the quarter.) This has the potential to cause rating agencies to revisit their initial rating adjustments earlier in the current year. These adjustments could be negative or positive, although it should also be borne in mind that banks went into this pandemic with strong balance sheets. This is predominantly a result of regulatory changes imposed on banks following the Great Financial Crisis. Indeed, the Financial Policy Committee (FPC) report on 6th August revised down their expected credit losses for the UK banking sector to "somewhat less than £80bn". It stated that in its assessment, "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

7.3.11. All three rating agencies have reviewed banks around the world with similar results in many countries of most banks being placed on Negative Outlook, but with a small number of actual downgrades.

7.3.12. Although bank CDS prices, (these are market indicators of credit risk), spiked upwards at the end of March / early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. Nevertheless, prices are still elevated compared to end-February 2020. Pricing is likely to remain volatile as uncertainty continues. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information via its Link-provided Passport portal.

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. 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 exercised the option to extend for two years. In accordance with procurement regulations, the Council will retender this service during early 2021 for the period 1 April 2021 to 31 March 2026 with an 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.

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

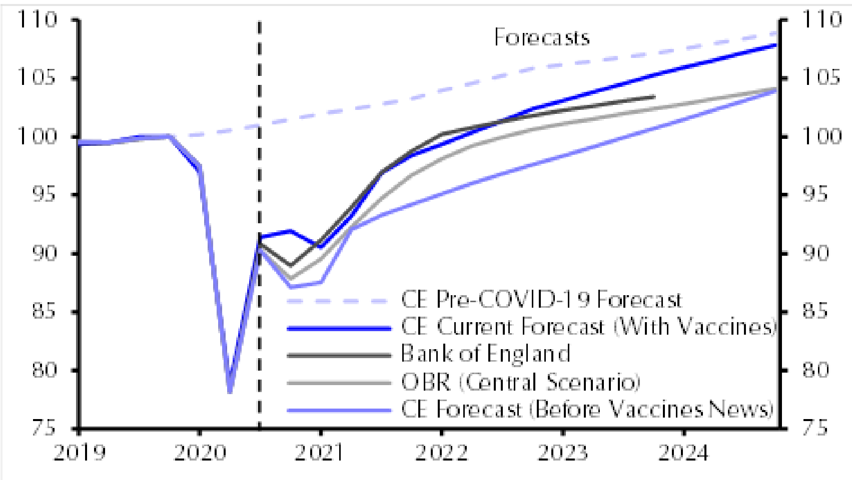
- **UK.** The key quarterly meeting of the Bank of England Monetary Policy Committee kept **Bank Rate** unchanged on 5.11.20. However, it revised its economic forecasts to take account of a second national lockdown from 5.11.20 to 2.12.20 which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of **quantitative easing (QE) of £150bn**, to start in January when the current programme of £300bn of QE, announced in March to June, runs out. It did this so that "announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target".
- Its forecasts appeared, at that time, to be rather optimistic in terms of three areas:
    - The economy would recover to reach its pre-pandemic level in Q1 2022
    - The Bank also expected there to be excess demand in the economy by Q4 2022.
    - CPI inflation was therefore projected to be a bit above its 2% target by the start of 2023 and the "inflation risks were judged to be balanced".
- Significantly, there was no mention of **negative interest rates** in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it "stands ready to adjust monetary policy", the MPC this time said that it will take "whatever additional action was necessary to achieve its remit". The latter seems stronger and wider and may indicate the Bank's willingness to embrace new tools.
- One key addition to **the Bank's forward guidance in August** was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. Our Bank Rate forecast currently shows no increase, (or decrease), through to quarter 1 2024 but there could well be no increase during the next five years as it will take some years to eliminate spare capacity in the economy, and therefore for inflationary pressures to rise to cause the MPC concern. **Inflation** is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor due to base effects from twelve months ago falling out of the calculation, and so is not a concern. Looking further ahead, it is also unlikely to be a problem for some years as it will take a prolonged time for spare capacity in the economy, created by this downturn, to be used up.

- **Public borrowing** was forecast in November by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.
- Overall, **the pace of recovery** was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp after quarter 1 saw growth at -3.0% followed by -18.8% in quarter 2 and then an upswing of +16.0% in quarter 3; this still left the economy 8.6% smaller than in Q4 2019. While the one month second national lockdown that started on 5th November caused a further contraction of 5.7% m/m in November, this was much better than had been feared and showed that the economy is adapting to new ways of working. This left the economy 'only' 8.6% below the pre-crisis level.

- **Vaccines – the game changer.** The Pfizer announcement on 9th November of a successful vaccine has been followed by approval of the Oxford University/AstraZeneca and Moderna vaccines. The Government has a set a target to vaccinate 14 million people in the most at risk sectors of the population by 15th February; as of mid-January, it has made good, and accelerating progress in hitting that target. The aim is to vaccinate all adults by September. This means that the national lockdown starting in early January, could be replaced by regional tiers of lighter restrictions, beginning possibly in Q2. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines have radically improved the economic outlook so that it may now be possible for GDP to recover to its pre-virus level as early as Q1 2022. These vaccines have enormously boosted confidence that **life could largely return to normal during the second half of 2021**. With the household saving rate having been exceptionally high since the first lockdown in March, there is plenty of pent-up demand and purchasing power stored up for when life returns to normal.

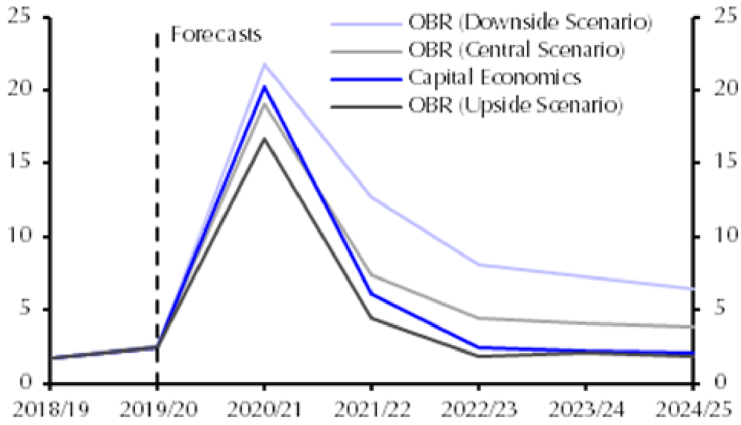
- Provided that both monetary and fiscal policy are kept loose for a few years yet, then it is still possible that in the second half of this decade, the economy may be no smaller than it would have been if COVID-19 never happened. The significant risk is if another mutation of COVID-19 appears that defeats the current batch of vaccines. However, now that science and technology have caught up with understanding this virus, new vaccines ought to be able to be developed more quickly to counter such a development, and vaccine production facilities are being ramped up around the world.

Chart: Level of real GDP (Q4 2019 = 100)



This recovery of growth which eliminates the effects of the pandemic by about the middle of the decade, would have major repercussions for public finances as it would be consistent with the government deficit falling to around 2.5% of GDP without any tax increases. This would be in line with the OBR's most optimistic forecast in the graph below, rather than their current central scenario which predicts a 4% deficit due to assuming much slower growth. However, Capital Economics forecasts assumed that politicians do not raise taxes or embark on major austerity measures and so, (perversely!), depress economic growth and recovery.

Chart: Public Sector Net Borrowing (as a % of GDP)



- There will still be some **painful longer term adjustments** as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever, even if vaccines are fully successful in overcoming the current virus. There is also likely to be a **reversal of globalisation** as this crisis has exposed how vulnerable long-distance supply chains are. On the other hand, **digital services** are one area that has already seen huge growth.

- **Brexit.** The final agreement of a trade deal on 24.12.20 has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. As the forecasts in this report were based on an assumption of a Brexit agreement being reached, there is no need to amend these forecasts.

- **Monetary Policy Committee meeting of 17 December.** All nine Committee members voted to keep interest rates on hold at +0.10% and the Quantitative Easing (QE) target at £895bn. The MPC commented that the successful rollout of vaccines had reduced the downsides risks to the economy that it had highlighted in November. But this was caveated by it saying, “Although all members agreed that this would reduce downside risks, they placed different weights on the degree to which this was also expected to lead to stronger GDP growth in the central case.” So, while vaccines are a positive development, in the eyes of the MPC at least, the economy is far from out of the woods in the shorter term. The MPC, therefore, voted to extend the availability of the Term Funding Scheme, (cheap borrowing), with additional incentives for small and medium size enterprises for six months from 30.4.21 until 31.10.21. (The MPC had assumed that a Brexit deal would be agreed.)

- **Fiscal policy.** In the same week as the MPC meeting, the Chancellor made a series of announcements to provide further support to the economy: -
  - An extension of the COVID-19 loan schemes from the end of January 2021 to the end of March.
  - The furlough scheme was lengthened from the end of March to the end of April.
  - The Budget on 3.3.21 will lay out the “next phase of the plan to tackle the virus and protect jobs”. This does not sound like tax rises are imminent, (which could hold back the speed of economic recovery).

- The **Financial Policy Committee** (FPC) report on 6.8.20 revised down their expected credit losses for the banking sector to “somewhat less than £80bn”. It stated that in its assessment, “banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC’s central projection”. The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC’s projection, with unemployment rising to above 15%.

- **US.** The Democrats gained the presidency and a majority in the House of Representatives in the November elections: after winning two key Senate seats in Georgia in elections in early January, they now also have a very slim majority in the Senate due to the vice president’s casting vote. President Biden will consequently have a much easier path to implement his election manifesto. However, he will not have a completely free hand as more radical Democrat plans may not be supported by all Democrat senators. His initial radical plan for a fiscal stimulus of $1.9trn, (9% of GDP), is therefore likely to be toned down in order to get through both houses.

- **The economy** had been recovering quite strongly from its contraction in 2020 of 10.2% due to the pandemic with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter 4, to the highest level since mid-August, suggests that the US could be in the early stages of a fourth wave. The latest upturn poses a threat that the recovery in the economy could stall. This is **the single biggest downside risk** to the shorter term outlook – a more widespread and severe wave of infections over the winter months, which is compounded by the impact of the regular flu season and, as a consequence, threatens to overwhelm health care facilities. Under those circumstances, individual states might feel it necessary to return to more draconian lockdowns.

- The restrictions imposed to control the spread of the virus are once again weighing on the economy with employment growth slowing sharply in November and declining in December, and retail sales dropping back. The economy is set for further weakness into the spring. **GDP growth** is expected to rebound markedly from the second quarter of 2021 onwards as vaccines are rolled out on a widespread basis and restrictions are loosened.

- After Chair Jerome Powell unveiled the **Fed's adoption of a flexible average inflation target** in his Jackson Hole speech in late August 2020, the mid-September meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech - that *"it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time."* This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. The FOMC's updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.

- The Fed's meeting on **5 November** was unremarkable - but at a politically sensitive time around the elections. At its **16 December** meeting the Fed tweaked the guidance for its monthly asset quantitative easing purchases with the new language implying those purchases could continue for longer than previously believed. Nevertheless, with officials still projecting that **inflation** will only get back to 2.0% in 2023, the vast majority expect the Fed funds rate to be still at near-zero until 2024 or later. Furthermore, officials think the balance of risks surrounding that median inflation forecast are firmly skewed to the downside. The key message is still that policy will remain unusually accommodative – with near-zero rates and asset purchases – continuing for several more years. This is likely to result in keeping Treasury yields low – which will also have an influence on gilt yields in this country.

- **EU**. In early December, the figures for Q3 GDP confirmed that the economy staged a rapid rebound from the first lockdowns. This provides grounds for optimism about growth prospects for next year. In Q2, GDP was 15% below its pre-pandemic level. But in Q3 the economy grew by 12.5% q/q leaving GDP down by "only" 4.4%. That was much better than had been expected earlier in the year. However, growth is likely to stagnate during Q4 and in Q1 of 2021, as a second wave of the virus has seriously affected many countries. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support, and quickly enough, to make an appreciable difference in the countries most affected by the first wave.

- With **inflation** expected to be unlikely to get much above 1% over the next two years, **the ECB** has been struggling to get inflation up to its 2% target. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. The ECB's December meeting added a further €500bn to the PEPP scheme, (purchase of government and other bonds), and extended the duration of the programme to March 2022 and re-investing maturities for an additional year until December 2023. Three additional tranches of TLTRO, (cheap loans to banks), were approved, indicating that support will last beyond the impact of the pandemic, implying indirect yield curve control for government bonds for some time ahead. The Bank's forecast for a return to pre-virus activity levels was pushed back to the end of 2021, but stronger growth is projected in 2022. The total PEPP scheme of €1,850bn of QE which started in March 2020 is providing protection to the sovereign bond yields of weaker countries like Italy. There is therefore unlikely to be a euro crisis while the ECB is able to maintain this level of support. However, as in the UK and the US, the advent of highly effective vaccines will be a game changer, although growth will struggle before later in quarter 2 of 2021.

- **China.** After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and then into Q3 and Q4; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies. However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns in the longer term. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

- **Japan.** A third round of fiscal stimulus in early December took total fresh fiscal spending this year in response to the virus close to 12% of pre-virus GDP. That's huge by past standards, and one of the largest national fiscal responses. The budget deficit is now likely to reach 16% of GDP this year. Coupled with Japan's relative success in containing the virus without draconian measures so far, and the likelihood of effective vaccines being available in the coming months, the government's latest fiscal effort should help ensure a strong recovery and to get back to pre-virus levels by Q3 2021 – around the same time as the US and much sooner than the Eurozone.

- **World growth.** World growth will has been in recession in 2020 and this is likely to continue into the first half of 2021 before recovery in the second half. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

- 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.

Summary

Central banks are, therefore, likely to support growth by maintaining loose monetary policy through keeping rates very low for longer. Governments could also help a quicker recovery by providing more fiscal support for their economies at a time when total debt is affordable due to the very low rates of interest. They will also need to avoid significant increases in taxation or austerity measures that depress demand and the pace of recovery in their economies.

If there is a huge surge in investor confidence as a result of successful vaccines which leads to a major switch out of government bonds into equities, which, in turn, causes government debt yields to rise, then there will be pressure on central banks to actively manage debt yields by further QE purchases of government debt; this would help to suppress the rise in debt yields and so keep the total interest bill on greatly expanded government debt portfolios within manageable parameters. It is also the main alternative to a programme of austerity.

INTEREST RATE FORECASTS

Brexit. The interest rate forecasts provided by Link in paragraph 3.3 were predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the EU by 31.12.20. There is therefore no need to revise these forecasts now that a trade deal has been agreed. Brexit may reduce the economy's potential growth rate in the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID crisis.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is still subject to some uncertainty due to the virus and the effect of any mutations, and how quick vaccines are in enabling a relaxation of restrictions.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

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

- **UK government** takes too much action too quickly to raise taxation or introduce austerity measures that depress demand and the pace of recovery of the economy.
- **UK - 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.** The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for "weaker" countries. In addition, the EU agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next two or three years. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.
- Weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- **German minority government & general election in 2021.** 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. Angela Merkel has stepped down from being the CDU party leader but she will remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- **Other minority EU governments.** Italy, Spain, Austria, Sweden, Portugal, Netherlands, Ireland 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, and they had threatened to derail the 7 year EU budget until a compromise was thrashed out in late 2020. There has also been a rise in anti-immigration sentiment in Germany and France.
- **Geopolitical risks,** for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

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

- **UK -** a significant rise in inflationary pressures e.g. caused by a stronger than currently expected recovery in the UK economy after effective vaccines are administered quickly to the UK population, leading to a rapid resumption of normal life and return to full economic activity across all sectors of the economy.
- 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 rapid series of increases in Bank Rate to stifle inflation.

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

ATODIAD 4 / APPENDIX 4

Rhagolygon Graddfeydd Llog 2021/2024
Interest Rate Forecasts 2021/2024

The PWLB rates below are based on the new margins over gilts announced on 26th November 2020.
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 Group Interest Rate View 9.11.20							(The Capital Economics forecasts were done 11.11.20)						
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20													
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60
Bank Rate													
Link	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Capital Economics	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
5yr PWLB Rate													
Link	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
Capital Economics	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	-	-	-	-	-
10yr PWLB Rate													
Link	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
Capital Economics	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	-	-	-	-	-
25yr PWLB Rate													
Link	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
Capital Economics	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	-	-	-	-	-
50yr PWLB Rate													
Link	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60
Capital Economics	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	-	-	-	-	-

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

DADANSODDIAD BENTHYCIADAU PWLB YN AEDDFEDU 2021/22 YMLAEN / PWLB LOANS MATURITY ANALYSIS 2021/22 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 %**
2021/22	0	14	0	0	14	0.0
2022/23	2,285	15	0	0	2,300	1.9
2023/24	1,854	16	0	0	1,870	1.5
2024/25	0	18	0	0	18	0.0
2025/26	0	20	0	0	20	0.0
2026/27	1,381	22	0	0	1,403	1.2
2027/28	2,165	24	0	0	2,189	1.8
2028/29	263	26	0	0	289	0.2
2029/30	1,538	21	0	0	1,559	1.3
2030/31	451	15	0	0	466	0.4
2031/32	1,941	9	0	0	1,950	1.6
2032/33	315	8	0	0	323	0.3
2033/34	637	0	0	0	637	0.5
2034/35	624	0	0	0	624	0.5
2035/36	611	0	0	0	611	0.5
2036/37	599	0	0	0	599	0.5
2037/38	587	0	0	0	587	0.5
2038/39	225	0	0	0	225	0.2
2039/40	5,000	0	0	0	5,000	4.1
2040/41	3,500	0	0	0	3,500	2.9
2042/43	1,000	0	0	0	1,000	0.8
2043/44	1,020	0	0	0	1,020	0.8
2044/45	1,010	0	0	0	1,010	0.8
2045/46	11,464	0	0	0	11,464	9.4
2050/51	2,000	0	0	0	2,000	1.6
2052/53	28,238	0	0	0	28,238	23.2
2054/55	3,000	0	0	0	3,000	2.5
2055/56	3,500	0	0	0	3,500	2.9
2056/57	5,000	0	0	0	5,000	4.1
2057/58	8,513	0	0	0	8,513	7.0
2059/60	1,763	0	0	0	1,763	1.4
2064/65	10,000	0	0	0	10,000	8.2
2066/67	6,200	0	0	0	6,200	5.1
2068/69	15,000	0	0	0	15,000	12.3
	121,684	**208**	**0**	**0**	**121,892**	**100.0**
Cyfartaledd bywyd (blynyddoedd)/ Average life (years	30.62	5.28	0.00	0.00	30.57	
Cyfartaledd graddfa (%)/ Average rate (%)	4.58	9.42	0.00	0.00	4.59	

PROFFIL AD-DALU BENTHYCIADAU ERAILL 2021/22 YMLAEN / OTHER LOANS REPAYMENT PROFILE 2021/22 ONWARDS						
	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**
2021/22	16	46	64	26	199	351
2022/23	16	46	64	26	199	351
2023/24	17	46	64	26	199	352
2024/25	9	45	64	26	200	344
2025/26	0	45	64	26	200	335
2026/27	0	0	63	27	200	290
2027/28	0	0	63	27	200	290
2028/29	0	0	63	27	200	290
2029/30	0	0	0	13	200	213
2030/31	0	0	0	0	200	200
Cyfanswm / Total	**58**	**228**	**509**	**224**	**1,997**[1]	**3,016**

[1] Total amount to be repaid differs from the total amount outstanding in Table 4.1.1 due to only having received £1,614k to date, however £1,997k will be received.

APPENDIX 6

Minimum Revenue Provision Policy Statement 2021/22

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 2021/22 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 2021/22 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 8 of this strategy sets out what this Council defines as high credit quality and the associated investment criteria and limits and section 7.3 of this strategy sets out the Council's creditworthiness approach.

Counterparty Criteria

Category	Short Term Credit Rating (Fitch)	Short Term Credit Rating (Moody's)	Short Term Credit Rating (Standard & Poor's)	Long Term Credit Rating (Fitch)	Long Term Credit Rating (Moody's)	Long Term Credit Rating (Standard & Poor's)	Cash Limit	Time Limit
Bank and Building Societies (not nationalised or part nationalised)	**F1+**	**P-1**	**A-1+**	**AAA**	**Aaa**	**AAA**	**£10m**	**5 years**
	F1+	**P-1**	**A-1+**	**AA**	**Aa2**	**AA**	**£10m**	**3 years**
	F1+	**P-1**	**A-1+**	**AA-**	**Aa3**	**AA-**	**£10m**	**364 days**
	F1	**P-1**	**A-1**	**A**	**A2**	**A**	**£7.5m**	**6 months**
Nationalised / Part Nationalised UK Banks	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**£10m**	**364 days**
NatWest Bank (Part Nationalised)	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**£30m**	**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 Government Act 2003*

<u>Notes and Clarifications</u>

(1) <u>Cash Limit</u>

(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) <u>Time Limit</u>

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

(3) <u>Foreign Countries</u>

(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 5 January 2021]

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
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Hong Kong
- Qatar
- **U.K.**

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 2021/22

No.	Indicator					
	Affordability	**2019/20 out-turn**	**2020/21 estimate**	**2021/22 proposal**	**2022/23 proposal**	**2023/24 proposal**
1,2	Estimates of [or actual] ratio of financing costs to net revenue stream:					
	Council Fund	4.96%	4.82%	4.95%	4.89%	4.91%
	Housing Revenue Account (inclusive of settlement)	19.01%	16.34%	9.63%	13.17%	13.91%
	Total	6.62%	6.18%	5.51%	5.91%	6.04%
	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	18,203	26,806	15,842	16,380	17,221
	Housing Revenue Account	11,812	12,788	20,313	18,816	22,670
	Total	30,015	39,594	36,155	35,196	39,891
6,7	Estimates of [or actual] Capital Financing Requirement					
	Council Fund	96,906	105,955	107,932	114,005	119,621
	Housing Revenue Account	39,998	39,199	40,415	45,606	54,194
	Total	136,904	145,154	148,347	159,611	173,815
	External Debt	**£000**	**£000**	**£000**	**£000**	**£000**
8	Authorised Limit					
	: General Borrowing	175,000	175,000	178,000	190,000	204,000
	: Other long term liabilities	3,000	5,000	5,000	5,000	5,000
	: Total	178,000	180,000	183,000	195,000	209,000

9	Operational Boundary					
	: General Borrowing	170,000	170,000	173,000	185,000	199,000
	: Other long term liabilities	3,000	5,000	5,000	5,000	5,000
	: Total	173,000	175,000	178,000	190,000	204,000
10	Actual External Debt	139,232				
Treasury Management		**2019/20 out-turn**	**2020/21 estimate**	**2021/22 proposal**	**2022/23 proposal**	**2023/24 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:	155,000	155,000	158,000	170,000	184,000
	(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)					
			2021/22 upper limit		**2021/22 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	

APPENDIX 12

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 2021/22 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

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

4 & 5 Estimates of Capital Expenditure

This is the forecast Capital Expenditure from 2020/21 to 2023/24, and is based on the Capital Programme for 2020/21 and the Capital Strategy for 2021/22.

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

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

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

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

CH) External Debt

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

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

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

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Audit and Governance Committee
Date:	9 February 2021
Subject:	Internal Audit Charter
Head of Service:	Marc Jones Director of Function (Resources) and 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: The Public Sector Internal Audit Standards require the chief audit executive to produce an Internal Audit Charter, which the Audit and Governance Committee must approve. A review to ensure continued appropriateness has not identified any significant changes.	

Introduction

1. The Public Sector Internal Audit Standards provides for a periodic review of the Internal Audit Charter, with final approval of the charter residing with the Audit and Governance Committee.

2. The Audit and Governance Committee last reviewed and approved the Charter in September 2018. The Head of Audit and Risk has undertaken a review to ensure continued appropriateness, which has not identified any significant changes.

Recommendation

3. That the Audit and Governance Committee notes the review and approves the continued appropriateness of the Internal Audit Charter.

INTERNAL AUDIT CHARTER

JANUARY 2021

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

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CYNGOR SIR YNYS MÔN ISLE OF ANGLESEY COUNTY COUNCIL

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INTRODUCTION

1. The Public Sector Internal Audit Standards[1] (PSIAS) define the nature and set out basic principles for internal auditing in the UK public sector.

2. The Standards require the chief audit executive to define the purpose, authority and responsibility of the internal audit activity in an internal audit charter. Chief audit executives are also required to report conformance with the PSIAS in their annual report. Final approval of the Internal Audit Charter rests with the Audit and Governance Committee.

3. The internal audit charter establishes:

   - internal audit's purpose within the Council
   - internal audit's authority and its access records, personnel and physical properties relevant to the performance of its work
   - internal audit's responsibilities
   - reporting lines and the nature of the chief audit executive's relationship with senior management and the board
   - the scope of internal audit's work, including the nature of its assurance role and consultancy services
   - the role of internal audit in fraud-related work
   - arrangements for resourcing the internal audit service
   - the safeguards to limit impairments of independence or objectivity.

4. The PSIAS use generic terms that, in the Isle of Anglesey County Council's case, are translated as:

Public Sector Internal Audit Standards	Isle of Anglesey County Council
Chief audit executive	Head of Audit & Risk
Senior management	Senior Leadership Team
The board	The Executive

[1] Public Sector Internal Audit Standards, Issued by the Relevant Internal Audit Standard Setters, March 2017

INTERNAL AUDIT'S PURPOSE

5. A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector.

6. The provision of assurance services is the primary purpose for internal audit. Through our annual internal audit opinion and other reports, we give assurance to elected and lay members and management, highlighting areas for improvement.

7. The PSIAS define internal audit 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.*

8. Our role is unique; it provides effective challenge and acts as a catalyst for positive change and continual improvement in governance in all its aspects. Our role is particularly important when the Council is facing uncertain and challenging times.

9. To provide optimum benefit to the organisation, we work in partnership with management to assist the organisation in achieving its objectives.

10. Our main objectives are to:

    - Provide independent assurance and advice to management and lay and elected members on risk management, governance and internal control
    - Develop and promote our role to make a significant contribution to the Council's priority to modernise and deliver efficiencies and improve services for our customers
    - Add value in all areas of our work, providing excellent service to our customers.

INTERNAL AUDIT'S AUTHORITY

11. Internal audit is a statutory requirement for local authorities and obtains its authority and obligations from two pieces of legislation:

12. Part 3, Regulation 7 of the Accounts and Audit (Wales) Regulations 2014[2] states that "a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance".

13. Section 151 of the Local Government Act 1972 requires every authority to make arrangements for the administration of its financial affairs and to ensure that one of the officers has responsibility for the administration of those affairs. CIPFA has defined 'proper administration' in that it should include 'compliance with the statutory requirements for accounting and internal audit'.

14. In addition, the CIPFA statement on the Role of the Chief Financial Officer in Local Government states that the Chief Financial Officer (CFO) must:

    - ensure an effective internal audit function is resourced and maintained
    - ensure that the authority has put in place effective arrangements for internal audit of the control environment
    - support the authority's internal audit arrangements
    - ensure that the Audit Committee receives the necessary advice and information, so that both functions can operate effectively.

15. The Council's Financial Procedure Rules also provide for the maintenance of a continuous internal audit under independent supervision, overseen by the Council's Audit and Governance Committee, and subject to professional audit standards (4.8.5.3.1).

Internal audit's rights of access

16. The Council's Financial Procedure Rules (4.8.5.3.2) provide for internal audit's rights of access, providing the service with authority to:

    - enter at all reasonable times Council premises, land or contract sites;
    - have access to all records, documents or correspondence relating to any financial and other transactions of the Council;
    - require and receive such explanations as are necessary from employees of the Council;
    - require employees of the Council to produce cash, stores or any other property of the Council under their control for examination.

[2] The Accounts and Audit (Wales) (Amendment) Regulations 2018 amend the 2014 Regulations but do not affect this requirement.

Scope of internal audit's work

17. The internal audit service is proactive and innovative, constantly aiming to improve. We have a customer-focused approach to audit planning, project scoping and service delivery, involving elected members, senior management and operational staff.

18. Our strategy takes account of the corporate risk register and other assurances that the Council may receive, internal or external, to prevent duplication and co-ordinate regulatory work. It also takes account of discussions with senior management.

19. Our work provides a risk-based approach that allows the Head of Audit and Risk to form and evidence her opinion on the control environment to support the Council's Annual Governance Statement.

20. Internal Audit may occasionally provide guidance and advice, e.g. on new systems or may help to develop new processes using our specific skills. Services may also occasionally ask us to carry out specific projects on a consultancy basis. On these occasions, we make it clear from the outset that we are working on a consultancy basis rather than internal audit basis and are not giving audit assurance on these occasions.

Independence

21. The PSIAS require that the chief audit executive must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities; reporting to the board or its delegated equivalent is the generally accepted method of helping to ensure the achievement of organisational independence.

22. The Head of Audit and Risk has direct access to the Audit and Governance Committee and is free to report directly to any member of the senior leadership team or head of service.

23. Although functionally reporting to the Director of Resources and Section 151 Officer, the Head of Audit and Risk has direct access to the Chief Executive Officer and Monitoring Officer, which is provided for in the Council's Financial Procedure Rules (4.8.5.3.5).

24. These extended reporting lines provide internal audit with sufficient independence of the activities that it reviews to enable its auditors to perform their duties objectively, allowing them to make impartial and effective professional judgements and raise issues for improvement.

25. The Director of Resources and Section 151 Officer annually appraises the Head of Audit and Risk's performance with input and feedback from the Chief Executive Officer and the Chair of the Audit and Governance Committee. This ensures that the Head of Audit and Risk's opinion and scope of work cannot be limited or affected by her functional line management position within the Council.

INTERNAL AUDIT'S RESPONSIBILITIES

26. In maintaining internal audit activity, the chief audit executive takes account of the mandatory elements of the PSIAS:

    - Core Principles for the Professional Practice of Internal Auditing
    - Code of Ethics
    - Standards
    - Definition of Internal Auditing.

27. All members of the internal audit team are required to comply with the PSIAS, including its Code of Ethics. In addition, all auditors sign an annual declaration stating that we will respect the confidentiality of information we access during our work, declare any interests we may have in any services that we review, and have read the PSIAS, Code of Ethics and Council's Code of Conduct for Officers.

28. All internal auditors must:

    - work with others to promote and demonstrate the benefits of good governance throughout the Council
    - promote the highest standards and ethics across the Council based on integrity, objectivity, competence and confidentiality
    - exercise sound judgement in identifying weaknesses in the Council's control environment and provide a balanced view on how significant these are
    - be committed to continuous improvement
    - demonstrate integrity
    - report on what is found, without fear or favour
    - give clear, professional and objective advice
    - hold an appropriate qualification and have an active programme for personal professional development.

29. In addition, the Head of Audit and Risk must:

    - be a senior manager with regular and open engagement across the Council particularly with senior management and the Audit and Governance Committee
    - be suitably qualified and experienced
    - give assurance on the control environment, including risk and information management and internal controls across the Council
    - produce an evidence-based annual internal audit opinion on the Council's control environment, reflecting the work done during the year and summarising the main outcomes and conclusions, highlighting any specific concerns
    - liaise closely with the Council's external regulators to share knowledge and use audit resources most effectively
    - determine the resources, expertise, qualifications and systems for the internal audit service that are required to meet its objectives and provide and annual audit opinion.

30. The chief audit executive also takes account of the CIPFA Statement on the Head of Internal Audit (2019), which sets out individual and organisational responsibilities, and represents best practice guidance to support internal audit effectiveness.

REPORTING

Internal Audit Strategy

31. The Head of Audit and Risk prepares the internal audit strategy in consultation with the Director of Resources and Section 151 Officer, and senior management. The Senior Leadership Team regularly reviews internal audit priorities.

32. The Head of Audit and Risk presents the strategy annually to the Audit and Governance Committee for approval and provides in-year revisions to the Committee as part of the update report presented at each meeting.

Annual Opinion

33. The Head of Audit & Risk provides the Council with an opinion on the adequacy and effectiveness of the Council's governance, risk management and control arrangements in support of the Annual Governance Statement.

34. In giving the opinion, it should be noted that assurance can never be absolute; the most that can be provided is a reasonable assurance that there are no major weaknesses in governance, risk management and control processes. The Head of Audit & Risk provides the annual opinion in the Annual Internal Audit Report after the year-end.

Assignment Reporting

35. The Internal Audit Service is fully committed to the Council's Welsh Language policy. Reporting is bilingual and the team includes bilingual staff who can undertake reviews in the language of choice of those assisting with reviews.

36. All audit reviews are the subject of formal reports. Debrief meetings are held with the managers responsible for the area under review to agree the factual accuracy of the issues and risks raised.

37. After agreement, draft reports are issued to the relevant manager who records the action that will be taken to address the issues / risks raised and the officers assigned responsibility to implement along with timescales for implementation. Once the action plan has been fully completed and agreed with the auditor, a final report is issued.

38. The Head of Audit and Risk provides a copy of every report to the Director of Resources and Section 151 Officer and presents a summary of each report to the Audit and Governance Committee at each meeting.

39. Members of the Audit and Governance Committee will also receive copies of any reports receiving a 'Limited' or 'No' assurance rating.

Assurance Rating

40. We provide an opinion on the overall level of assurance for each individual internal audit assignment. In reaching a conclusion, we use the following definitions, which the Audit and Governance Committee approved at its meeting in April 2019:

Level of Assurance	Definition
Substantial Assurance	Arrangements for governance, risk management and internal control are **good**. **We found no significant or material Risks/Issues.**
Reasonable Assurance	Arrangements for governance, risk management and/or internal control are **reasonable**. **There are minor weaknesses in the management of risks and/or controls but there are no risks to the achievement of objectives. Management and Heads of Service can address.**
Limited Assurance	Arrangements for governance, risk management and internal control are **limited**. **There are significant weaknesses in the management of risks and/or controls that put the achievement of objectives at risk. Heads of Service need to resolve and SLT may need to be informed.**
No Assurance	Arrangements for governance, risk management and internal control are **significantly flawed**. **There are fundamental weaknesses in the management of risks and/or controls that will lead to a failure to achieve objectives. The immediate attention of SLT is required, with possible Executive intervention.**

INTERNAL AUDIT'S ROLE IN FRAUD-RELATED WORK

41. Internal audit is not responsible for managing the risk of fraud – this lies with the Council's senior management.

42. The Council's policy for the Prevention of Fraud and Corruption requires managers to inform the Head of Audit and Risk of all suspected or detected fraud, corruption or impropriety, to inform her opinion on the internal control environment and internal audit's work programme, as well as to allow her to ensure the Council takes appropriate action.

43. Although internal audit carries out proactive projects to identify potential fraud and/or corruption and can carry out special investigations into alleged irregularities, the Head of Audit and Risk retains the right to decide on an appropriate course of action, which may mean a joint investigation or investigation by the service. However, management should send the outcome of all investigation activities to the Head of Audit and Risk for inclusion in a report on fraud investigations, which the Head of Audit & Risk will make within the Internal Audit Annual Report.

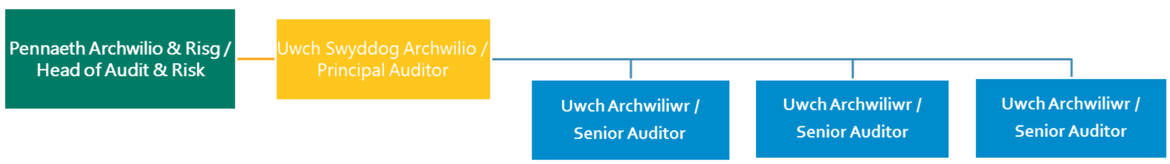
44. Where it is thought necessary, the external auditor may conduct investigations, either in liaison with internal audit or independently.

INTERNAL AUDIT RESOURCES

45. The service structure below has all posts currently filled, which equates to 1,250 days, after allowing for the Head of Audit and Risk's non-audit duties (risk management and insurance).

46. We have a well-qualified and experienced team, with a mix of relevant qualifications to reflect the varied functions of the internal audit service.

Internal Audit (January 2021)



47. The Audit and Governance Committee annually reviews the resources of the internal audit service through the acceptance of the internal audit strategy and updates on its priorities.

48. Where particular specialisms are not present, the Head of Audit and Risk will source these from outside the Council where resources are available.

49. The Standards require that internal auditors must enhance their knowledge, skills and other competencies through continuing professional development. The Head of Audit and Risk carries out a regular review of the development and training needs of all auditors through ongoing one-to-one supervision and annual appraisals.

SAFEGUARDS TO LIMIT IMPAIRMENTS OF INDEPENDENCE OR OBJECTIVITY

50. To be effective, internal audit must be independent and be seen to be independent. To ensure this, internal audit will operate within a framework that allows:

    - unrestricted access to senior management and the chair of the Audit and Governance Committee
    - reporting in its own name
    - segregation from line operations.

51. Every effort will be made to preserve objectivity by controlling the involvement of audit staff in non-audit duties in order to avoid potential conflicts of interest, specific exceptions are however acceptable in respect of participation in service improvement projects, where a ‘critical friend’ role will be held.

52. In addition, appropriate arrangements are in place to limit the impairment of independence and objectivity due to the Head of Audit and Risk’s line management of the Risk Management and Insurance service. The Head of Audit and Risk will not scope or review internal audit activity relating to this service area. The Director of Resources and Section 151 Officer will sign off reports.

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AUDIT & GOVERNANCE COMMITTEE

FORWARD WORK PROGRAMME

9 February 2021

Contact Officer:	Marion Pryor, Head of Internal Audit & Risk
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Telephone:	01248 756211

No.	Date	Subject	Reason for reporting	Responsible Officer (including e-mail address)
1	April 2021	Annual Report of the Audit & Governance Committee – Chair's Report	The Committee are asked to approve the Chair's Report for submission to full Council	Director of Function (Resources) / Section 151 Officer MarcJones@ynysmon.gov.uk
2	April 2021	Internal Audit Annual Report 2020/21	The Public Sector Internal Audit Standards requires the chief audit executive to deliver an annual internal audit opinion and report that the Council can use to inform its annual governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. The Committee is asked to note the assurance provided by the Head of Audit & Risk.	Head of Internal Audit & Risk MarionPryor@ynysmon.gov.uk
3	April 2021	Outstanding Internal Audit Issues / Risks	A report of all outstanding internal audit Issues / Risks	Head of Internal Audit & Risk MarionPryor@ynysmon.gov.uk Principal Auditor NanetteWilliams@ynysmon.gov.uk
4	April 2021	Draft Internal Audit Strategy 2021/22	The Public Sector Internal Audit Standards (2017) requires the chief audit executive to present the Internal Audit Strategy to the Audit and Governance Committee for approval.	Head of Internal Audit & Risk MarionPryor@ynysmon.gov.uk