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Agenda

Audit Committee

Date: Thursday, 28 January 2016

Time: 5.00 pm

Venue: Committee Room 1

To: Mr J Baker (Chair), H Thomas, J Guy, E Townsend, R White, I Hayat, R Mogford, J Mudd, D Davies and M Spencer

Item		Wards Affected
1	Apologies for Absence	
2	Declarations of Interest	
3	Minutes from 8 December 2015 meeting *(Pages 3 - 8)*	
4	Corporate Risk Register *(Pages 9 - 24)*	
5	Treasury Management Report and Training *(Pages 25 - 50)*	
6	Internal Audit Plan 2015/16 Progress Quarter 3 *(Pages 51 - 62)*	
7	Internal Audit Unsatisfactory Audit Opinions *(Pages 63 - 72)*	
8	Financial Memorandum on the 2014-15 Financial Audit *(Pages 73 - 80)*	
9	Work Programme *(Pages 81 - 86)*	
10	Referrals to Audit Committee	
11	Date of Next Meeting - 24 March 2016	

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Date of Issue: 21 January 2016

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Minutes

Audit Committee

Date:	8 December 2015
Time:	5.00 pm
Present:	Mr J Baker (Chair), Cllrs J Guy, R White, D Davies and M Spencer
In Attendance:	A Wathan (Chief Internal Auditor) M Rushworth (Head of Finance), O James (Assistant Head of Finance (Accountancy), M Dickie (Business Service Development Manager) H Brayford (Project Manager), T Lewis (WAO) and J Ellams (Scrutiny Support and Research Officer).
Apologies:	Councillors E Townsend

1 **Minutes from 24 September 2015 meeting**

The Minutes of the meetings held on 24 September 2015 were submitted.

Re Minute 5, Statement of Accounts, the salary figures for some senior employees were incorrect and this was identified and corrected during the Audit Committee meeting. The Chairman reminded Audit Committee that he had met with the Chief Executive and expressed his concern re the “absence of matter” which was a basic accountancy/audit issue.

Agreed

That subject to the above, the Minutes of the meeting held on 24 September 2015 be confirmed.

2 **Regulatory Reports and Update following Audit Committee recommendation re Guidance to Staff re Risk Assessments**

Members considered a report detailing all of the regulatory reports that had been received by the authority from our main regulators, Wales Audit Office, Care and Social Services Inspectorate Wales (CSSIW) and Estyn.

New information contained in this report included:

- CSSIW Annual Review and Evaluation of Performance which highlighted areas for development and improvement alongside areas of good practice within social services and identified five areas for follow up by CSSIW in the next year.
- A Certificate of Compliance issued by the WAO after an audit of the Improvement Plan15/16 considered by Cabinet in May 2015.
- Upcoming WAO reviews included Financial Resilience, Waste and an Estyn Inspection March 2016.

The Business Service Development Officer reported that since the report had been completed, another Data Quality Review had been received which was very positive.

The monitoring of the proposals for improvement made by WAO were reported to Cabinet, whereas the monitoring arrangements for CSSIW and Estyn reports were through Scrutiny. Progress monitoring reports for the WAO proposals for improvement were reported to Cabinet on a quarterly basis. These quarterly reports to Cabinet included updates of the open proposals for improvement and the recommendations arising from the Corporate Assessment. The latest update on the proposals for improvement were included in appendix 2. The risk assessment table was incomplete because the column headed "Who is responsible for dealing with the risk?" had not been completed.

Members questioned the value the authority received from WAO reports? Members were advised that some of these reports compared the 22 authorities across Wales and sometimes Newport was selected as a study site. This gave a complete picture of services across Wales which would not otherwise be available. WAO had recently distributed a survey for completion by all authorities stating what councils had done with national reviews and the results would be fed back to Committee when available. Members discussed various issues such as the "all Wales" reports not being specific enough, vague recommendations following national studies and an expectation that if professional fees were paid then there should be detailed recommendations. T Lewis, WAO explained that these reviews were undertaken on behalf of the National Assembly so they were not covered by the fees paid to WAO. They helped to define good practice and examples included the Financial Resilience Study which had a national and local element and could be powerful and focussed.

M Dickie, Business Service Development Manager, reported that at the last meeting, Audit Committee had raised similar issues to those raised by WAO during their recent study regarding the identification of risk in decision–making reports. An Action Plan had been prepared to address WAO Recommendations (and the concerns raised by Audit Committee) and this had been circulated to all report authors within the authority.

Agreed

1. That the contents of the report be noted.
2. That a further update be submitted in March 2016.
3. That the detail of the Action Plan and progress made be noted.

3 **Lessons Learned - 2014/15 Accounts Close down and Financial Statements Preparation**

Members considered a report presenting the findings of an initial lessons learned review carried out by finance officers following the 2014/15 accounts closedown. It gave an assessment on the findings of this review and the plans in place to implement for 2015/16 and key risks to the closedown process for 2015/16.

The completion of the accounts closedown and preparation of the Financial Statements was a challenging one in 2014/15 with a significant number of key staff having left the authority in the preceding financial year. This meant that responsibility fell on a number of new staff members that had not been involved in the process before.

Despite these challenges both the draft accounts and final accounts were prepared and presented within the statutory deadlines.

Key themes had been identified by staff and following discussions with WAO. A timetable had been drafted with a strong emphasis on communication which was due to be finalised at the end of January followed by further talks with WAO. In addition to this all working papers were being reviewed. Agreements were being sought on methodology, judgements and estimates so that certain processes could be completed earlier and all was on target. More detail would be submitted to the next meeting. Discussions had taken place with Newport Transport regarding the timetable and the risk that they might not be able to provide timely information.

Owen James, Assistant Head of Finance, explained the proposed treatment of companies that the authority had an interest in, subject to further discussion with Wales Audit Office on smaller bodies. Newport Transport would be consolidated in Group Accounts. Others bodies were very small and would require a lot more work and were immaterial so it was proposed that they would not be consolidated. He explained that he had sent an email to A Barrett, WAO, asking if this issue could be looked at across Wales and was still waiting for a response.

T Lewis confirmed that this was being looked at and he would take on board the comments made regarding the amount of work required for smaller bodies which were immaterial.

The Chair stated that it would be helpful for clarification from WAO well before year end and both sides would benefit from this.

Members raised a number of issues:

- Quality Assurance appeared to be one of the problems in the past and the timetable should take this into account.
- Had the concerns raised with WAO been confirmed in writing? They had been confirmed in writing and there were regular discussions and quarterly meetings regarding progress.
- Improvements had already been made to the timetable and this progress was positive. It was a concern that when staff left, it was not always possible to use working files and even though improvements had been made, there were still problems. There should be instructions linked to the working papers so it was clear how officers arrived at a certain figure. Senior officers should step in and help out on these occasions. The timetable should be tiered and reviewed regularly by the Head of Finance. M Rushworth, Head of Finance explained that there were weekly meetings when they talked through issues and what work was outstanding. In terms of staffing, there was not a great deal of resilience which made the process more challenging.

Agreed

1. That the lessons learned process that has been carried out to date and the proposed plan for 2015/16 closedown be noted.

2. That the proposed treatment of companies that we have an interest in, subject to further discussion with Wales Audit Office, be noted.

4 Treasury Management Report

Members considered a report on treasury activities undertaken during the period to 30 September 2015. Treasury management was defined as “The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions.

Members discussed training on Treasury Management as agreed at a previous meeting and decided to defer the training to the January meeting when it would be delivered with the Treasury Management Strategy.

In April 2015 the Council undertook a re-scheduling of a number of debts relating to PWLB. A much improved lower average interest rate was taken out and even though a premium was payable on redemption, this allowed the authority to make significant annual savings on the interest payable on the loans.

Additional long-term borrowing was undertaken associated with the city centre redevelopment and apart from these, no further long term loans had been taken out.

Members raised a number of issues:

- Members asked how the figure for the Queensbury Real Estate Debt was calculated and what would happen after year end.
- Members discussed low interest rates, the benefits of paying off more debt and the level of debt that was reasonable for the Council.
- Operational boundaries were discussed and the powers of Cabinet, Council and Audit Committee when setting the levels.

Agreed

That the report on treasury management activities for the period to 30 September 2015 be noted.

5 **Internal Audit Plan 2015/16 - Progress Quarter 2**

Members considered a report on the Internal Audit Section's progress against the 2015/16 agreed audit plan for the first six months of the year and information on audit opinions given to date and progress against key performance targets.

The team currently operated with an establishment of 10 audit staff. At the start of the year there were 8 audit staff with two vacancies in the team. A Senior Auditor also left during the quarter who hasn't yet been replaced. One Auditor left the team and a new Auditor started with the team during quarter 2. The relationship with Monmouthshire County Council (for sharing of the Chief Internal Auditor) continued.

The section had already been involved with 8 special investigations which could have an impact on this year's achievement of the audit plan; so far there had been no unplanned reviews,

The performance for Qtr 2 2015/16 was compared to the same period of the previous year.

- 32% (31%) of the audit plan had been achieved so far which was just above last year's performance but in line with the profiled target of 30%;
- The promptness of issue of draft report (comparing timescale between finalising all fieldwork and issuing the draft report to management) averaged at 10 days (7 days) which was in line with the target time of 10 days;
- The promptness of report finalisation (comparing timescale from meeting with client to discuss issues raised in the draft report to issue of finalised report to management) averaged at 3 days (2 days) which was within the target time of 5 days.
- Coverage of the plan at this stage of the year was above expectations; the target being 30%.

- 51 (34) days had been spent finalising 15 (20) 2014/15 audit reviews; 11 of which had been finalised. 88 days had already been spent on 8 special investigations.
- A vacancy / secondment provision was taken into account in the planning stage which related to the Chief Internal Auditor's work with Monmouthshire and the senior auditor vacancy.
- Generally, there had been positive feedback from service managers via the evaluation questionnaires and these would continue to be collated throughout the year and fed into the annual audit report for 2015/16.
- 10 jobs completed to at least draft report stage by 30 June 2015 warranted an audit opinion: 3 x Good, 6 x Reasonable and 1 Unsatisfactory but no Unsounds. Of the 5 community centre accounts undertaken, 2 were Qualified. Other reports have been completed which did not warrant an audit opinion or related to audit certification work. Other work completed related to the Annual Governance Statement, the Council's performance indicators, grant claims, provision of financial advice and external clients.

A Wathan, Chief Internal Auditor explained the background to revised Audit Opinions 2015/16 and the new report format due to be delivered during 2015/16.

Members requested more information regarding the unsatisfactory opinion given to the Looked After Children Team (16). A Wathan explained the nature of the issues raised and agreed to email further information to Members.

The recruitment process was discussed including the use of agency staff. Members were advised that officers were working with Grant Thornton towards a possible secondment in the 4th quarter. There were a number of reasons for staff leaving including Total Reward and better opportunities elsewhere.

Agreed

That the Internal Audit Section's progress against the 2015/16 agreed audit plan for the second three months of the year, be noted.

6 **Internal Audit Charter**

Members considered a report on the revised and updated Internal Audit Charter. The purpose of the Charter was to define what Internal Audit was and to explain its purpose, authority and responsibility. The Charter would be maintained as a working document to be refreshed and updated and approved by Audit Committee and Senior Management Team biannually.

Agreed

That the Internal Audit Committee Charter be approved.

7 **Audit Committee Self Evaluation Exercise**

Members considered a summary of the self evaluation exercise and questionnaire responses from June 2015 with a view to agreeing an action plan to improve the way Audit Committee operated. Only four responses were received and there was generally positive feedback. Members agreed that they would look at the Action Sheet at the March 2016 meeting to consider each point in more detail and agree a training programme.

Agreed

That the Action Plan be considered at the March 2016 meeting together with a programme for training.

8 **SO24/Waiving of Contract Standing Orders: Quarter 1 and 2, April to September**

Members considered a report on the use of Standing Order 24 and the Waiving of Contract Standing Orders in recent decisions taken by Cabinet and Cabinet Members. Members were asked to consider whether the reasons for the urgency/waiving of contract standing orders were properly reflected in the documentation supporting each decision.

The Cabinet Member for Adult and Community Services took an urgent decision on 15 June 2015 which meant the decision was not subject to the "call in" process. The decision, (Housing (Wales) Act 2015 – Test of Intentionality (Homelessness) was taken previously with full member consultation per the report; the subsequent decision taken was the same one on a more recent date post the legislation date providing the respective power.

Agreed

The report contained sufficient justification for the urgent decision.

9 **Work Programme**

Members agreed that:

- the Action Plan resulting from the Audit Committee Self Evaluation Process would be considered at the March 2016 meeting.
- Training on Treasury Management would be given at the January 2016 meeting.

Agreed

That subject to the above, the Work Programme be noted.

10 **Referrals to Audit Committee**

None

11 **Date of Next Meeting - 28 January 2016**

Report

Audit Committee

Part 1

Date: 28th January 2016

Item No: 04

Subject **Corporate Risk Register Update**

Purpose To present an updated Corporate Risk Register

Author Debra Wood-Lawson, Head of People and Business Change
Hannah Brayford, Project Manager, Business Improvement and Performance
Mike Dickie, Business Service Development Manager

Ward All

Summary This report contains the latest update of the Corporate Risk Register. There are seven risks identified in the register, 1 high risk and 5 medium risks and 1 low risk.
Since the last update 5 risks remain unchanged and 2 are reduced.

Proposal Note the contents of the Corporate Risk Register

Action by Chief Executive, Strategic Directors and Heads of Service

Timetable Immediate

This report was prepared after consultation with:

- Cabinet
- Deputy Leader
- Audit Committee
- Corporate Management Team
- Head of Law and Standards
- Head of People and Business Change
- Head of Finance

Signed

Background

1. **Corporate Assessment**

As part of its governance arrangements the Council has a risk management strategy and a corporate risk register is monitored twice a year. Through the Corporate Assessment these documents were recognised by the Wales Audit Office although the conclusions of the Corporate Assessment were that risk management arrangements within the organisation are in need of improvement.

2. **Risk Management Strategy**

The Risk Management Strategy was agreed by Cabinet in September 2014. It was updated to reflect a revised approach to risk management and improved processes for identifying and escalating risk. Potential benefits of an improved risk management approach are improved decision making, avoidance of shocks and the ability to mitigate threats and take advantage of opportunities.

The strategy includes six key areas where risks are identified and managed:

- Decision Making Process
- Revenue and Capital Monitoring
- Change and Efficiency Programme
- Service and Improvement Planning
- Horizon Scanning Activities
- Information Risk Management

3. **Role of Audit Committee**

Since the introduction of the Local Government Measure 2011 the local authority's Audit Committee have a role in reviewing and assessing the risk management, internal control and corporate governance arrangements of the authority. Processes and Strategies about risk management should be reviewed by the Committee however the content of the risk register including setting and changing risks included in the register is *not* the role of the Audit Committee.

4. **Risks updated in this report**

Six of the seven risks included in the Corporate Risk Register have been updated for this report. TH safeguarding risk is assessed every six months and so will be included in the March 2016 update.

5. Closed Risks

The table below details the following closed risks from the Corporate Risk Register

Date	Risk	Closure Details
September 2014 - April 2015	*Risk Title: Delivering a Balanced Budget* *Risk Description: That the savings required to deliver a balanced budget in the following year cannot be achieved*	In November 2014 this risk was scored as probability 1 and impact 1. This was because a balanced budget was drafted and being progressed through the council's decision making hierarchy. A balanced budget was approved by Cabinet and Council in February 2015 and this risk is now considered to be closed.
September 2014 - June 2015	*Risk Title: Total Reward* *Risk Description: That the complex and contentious tensions inherent to the Single Status pay and grading review delay the project implementation.*	The Total Reward project has now been implemented and any remaining issues and risks can now be managed at a service area level
September 2014 - June 2015	*Risk Title: Information Governance* *Risk Description: That the council does not have adequate arrangements in place to protect the data in holds and that this results in significant fines and reputational damage*	This risk can now be managed at a service area level.

Financial Summary

- There are no direct costs associated with this report

Risks

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
That the strategy and process are not robust enough to capture all high risks	M	L	Reviewing, testing and embedding processes to ensure that they are fit for purpose	Heads of Service and Performance Team

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

Robust risk management practices increase the chances that all of the council's priorities and plans will be implemented successfully

Comments of Chief Financial Officer

There are no direct financial implications arising from this report. The corporate risk register forms an important part of the governance and budget setting arrangements for the council and the risk register is used to guide the internal audit plan

Comments of Monitoring Officer

The Council's corporate governance arrangements are an integral part of the risk management strategy, in ensuring that all decisions are made lawfully and constitutionally and that all risks are identified, assessed and mitigated. The absence of successful call-in and legal challenges demonstrates that these arrangements are robust. However, as part of the review of the Constitution, improvements in the Report templates will be considered to further embed risk management principles within the decision-making processes. The Local Government (Wales) Measure 2011 required the Council to establish a stand-alone Audit Committee with statutory responsibility for reviewing and assessing the risk management, internal control and corporate governance arrangements of the authority. However, the identification of corporate risks, for inclusion within the risk register, is an executive decision for Cabinet.

Staffing Implications: Comments of Head of People and Business Change

There are no direct staffing implications arising from this report.
Risk management is a key element of the Council's improvement programme and the Administration's commitment to ensuring strong corporate governance and robust performance management.

Comments of Cabinet Member

Report author to confirm that the Cabinet Member has approved the report for consideration by cabinet.

Local issues

none

Scrutiny Committees
The Risk register is also considered by Audit Committee. Meetings with the committee have resulted in some changed in format and layout of the register.

Equalities Impact Assessment
Not applicable.

Children and Families (Wales) Measure
Not applicable.

Consultation
As above, the Risk Register is also considered by Audit Committee

Background Papers
Corporate Assessment, Cabinet 21st October 2013
Corporate Risk Register, Cabinet 13th January 2014, Audit Committee 30th January 2014.
Draft Corporate Risk Management Strategy, Cabinet, 12th May 2014
Draft Corporate Risk Management Strategy Audit Committee 29th May 2014
Corporate Risk Management Strategy and Register, Cabinet, 8th September 2014
Corporate Risk Management Strategy and Register, Audit Committee, 18th September 2014
Corporate Risk Register, Cabinet, 8th December 2014
Corporate Risk Register, Audit Committee, 22nd January 2015
Corporate Risk Register, Cabinet, 13th April 2015
Corporate Risk Register, Audit Committee, 28th May 2015
Corporate Risk Register, Cabinet 8th June 2015
Corporate Risk Register, Audit Committee, 16th July 2015
Corporate Risk Register, Cabinet, 8th September
Corporate Risk Register, Audit Committee, 24th September 2015
Corporate Risk Register, Cabinet 18th December 2015
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Dated: 14th January 2016

Risk Management Roles and Responsibilities

The roles and responsibilities of individuals and groups are set out below:

Role	Responsibility
Cabinet and Cabinet Members	To work with Strategic Directors and Heads of Service to define, assess and manage corporate risks. To work with Heads of Service to manage risks within their service delivery portfolios To consider corporate risks as part of the decision making process
Members	To be aware of the corporate risks and to consider risk management in scrutiny meetings and regulatory committees
Audit Committee	To take an overview of the processes involved in managing risk in the council To receive regular reports on the corporate risk register and risk management processes
Strategic Leadership Team	To work with Cabinet Members and Heads of Service to define, assess and manage corporate risks To monitor risks in the risk register To recommend additions and revisions to the risk register To initiate mitigating action for escalating risks To ensure risks are assessed accurately
Heads of Service	To work with Cabinet Members and Strategic Directors to define, assess and manage corporate risks To work with the Cabinet Member to manage risks To implement mitigating action for escalating risks To recommend mitigating action for corporate risks to the appropriate decision making body To ensure risks are assessed accurately
Senior Information Risk Owner (SIRO)	To leading and foster a culture that values, protects and uses information for the success of the organisation and benefit of its customers To own the organisation's overall information risk policy and risk assessment processes and ensuring they are implemented consistently by Information Asset Owners (IAO's) To advise the Chief Executive or relevant accounting officer on the information risk aspects of the Council's annual governance statement To own the organisation's information incident management framework
Report Authors / Project Managers / Officers	To be aware of corporate risks and the service area risks the impact on their areas of work To consider the risk register when preparing project documentation and recommending action through decision making processes To recommend mitigating action for escalating risks To implement mitigating action for risks arising through the course of normal service delivery To ensure risks are assessed accurately

Assessing Risk

An assessment of the likelihood and impact of risk is important to measure, compare and monitor risks to ensure efficient use of resources and effective decision making. This assessment is carried out using the risk matrix as described below.

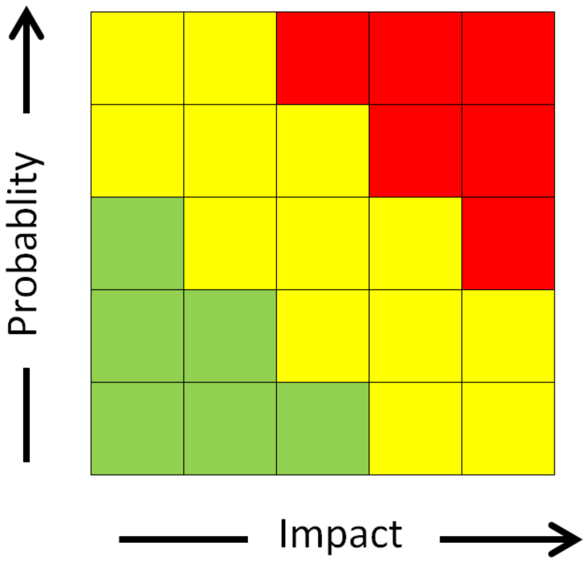
Risk Assessment Matrix

A Corporate Risk Register will contain the high level risks for the whole authority. In order to differentiate between these high level risks a 5x5 risk assessment matrix will be applied. The matrix is shown below and further detail is included in appendix one.
Risks are scored using the scoring system for probability and impact and assigned a rating based on the tolerances set out in the matrix below

Risk Scoring

Probability description	**Score**
Very Low probability	1
Low probability	2
Medium probability	3
High probability	4
Very high probability	5
Impact description	**Score**
Negligible	1
Low	2
Medium	3
High	4
Very High	5

Risk Matrix

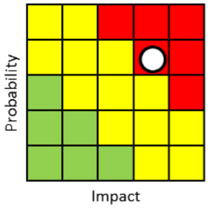


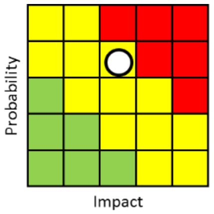
Impact Matrix

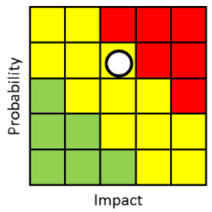
RATING	SEVERITY OF IMPACT	GENERAL DESCRIPTION	IMPACT FACTORS						
			Strategic	Operational	Financial Management	Resources	Governance	Health & Safety	Reputation
1	Negligible	Low impact. Localised effect		Minor disturbance of non-key area of operations	Unplanned budgetary disturbance <£100k	Loss of asset/money with value >£2k		Reportable (non-serious) accident affecting one employee/member of public/service user	Isolated complaint(s)
2	Low	Low impact for organisation as a whole. Medium localised impact		Minor disruption of a key area of operations or more significant disruption to a non-key area of operations	Unplanned budgetary disturbance £100-£500k	Loss of asset/money with value £2-10k	Mild WAO criticism in report. Mild criticism from a legal/regulatory authority. Isolated fraud	Reportable (non-serious) accident affecting small number of employees/members of public/service users	Formal complaints from a section of stakeholders or an institution
3	Medium	Medium impact for organisation as a whole	Noticeable constraint on achievement of a key strategic objective	Major disruption of a service area for a short period or more minor disruption of a service area for a prolonged period	Unplanned budgetary disturbance £500k-£2M	Loss of asset/money with value £10-50k	Adverse WAO report. Significant criticism from a legal/regulatory authority requiring a change of policy/procedures. Small-scale fraud relating to a number of people or more significant fraud relating to one person	Reportable (non-serious) accident(s) affecting a significant number of employees/members of public/service users or a serious injury to a single employee/member of public/service user	Formal complaints from a wide range of stakeholders (eg several institutions), adverse local press, complaint/s upheld by Ombudsman
4	High	High impact for organisation as a whole	Severe constraint on achievement of a key strategic objective	Major disruption of a service area for a prolonged period or major disruption of several service areas for a shorter period	Unplanned budgetary disturbance £2-5M	Loss of asset/money with value £50-100k	Qualified account. Severe criticism from WAO/legal/regulatory authority requiring major overhaul of policy/procedures, Significant fraud relating to several employees	Serious injury of several employees/members of public/service users	Significant loss of confidence amongst a key stakeholder group. Adverse national press
5	Very High	Catastrophic	Failure of a key strategic objective	Major disruption of several key areas of operations for a prolonged period	Unplanned budgetary disturbance >£5M	Loss of asset/money with value >£100k	Severe service failure resulting in WAG intervention/special measures Widespread significant fraud	Death of employee(s)	Severe loss of confidence amongst several key stakeholder groups. Damning national press

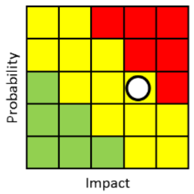
Probability

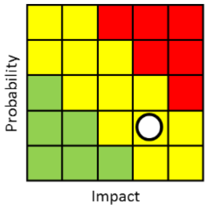
Score	General Description	Definition
1	Very Low probability	2% chance of occurrence
2	Low probability	5% chance of occurrence
3	Medium probability	10% chance of occurrence
4	High probability	20% chance of occurrence
5	Very high probability	50% chance of occurrence

RISK 1: Legislative Requirements						
That new legislative requirements potentially place significant duties on the Authority that it cannot fulfil (resulting in adverse judgements from regulators, significant fines and potential court proceedings and/or existing services are compromised)						
Present Matrix	**Assessment Date**	**Present Risk Score**	**Present Score Breakdown**		**Direction of Risk**	**Review Date**
			Probability	**Impact**		
	December 2015	16	4	4	Unchanged	March 2016
	August 2015	*16*	High probability	High Governance impact	*The is continued pressure on the council to implement the new duties detailed by new legislation*	
Current Action Status / Control Strategy	• Specific details and guidance for the Act is being produced. Officers are participating in Working Groups with Welsh Government to formulate and influence the guidance. • Work is being undertaken on eligibility criteria • Staff are being regularly informed of progress • Possible implementation of the Act is planned for March 2015 onwards • Big emphasis on prevention and early intervention • Possible funding and support available for Welsh authorities for Social Services Act and Future Generations Act • Strategic equalities group now overseeing implementation • Project plan agreed and in place • Translator employed and based with Caerphilly CBC to enable both authorities to work in partnership • Extended provision of Welsh language courses provided by Caerphilly CBC • Early engagement with Welsh Language groups in the area, providing support and expertise for the development of the Welsh Language Standards action plan (in development) • Welsh Language included in Service Plans • Increasing awareness of the Welsh Language Standards across the authority • Cabinet report in September to become an early adopter of Future Generations Act • Public Services Board development group in place					
Responsible Officer: Chief Executive						
Responsible Cabinet Member: Cabinet Member for Social Care and Wellbeing, Cabinet Member for Human Resources and Assets						
Scrutiny Committee(s): (1) Community Planning and Development and (2) Learning, Caring and Leisure						

RISK 2:Increasing Ageing Population						
That an increasing percentage of the population are over 65 are this puts an increasing strain on demand led services, particularly those that are statutory in nature and significant budgetary overspends						
Present Matrix	**Assessment Date**	**Present Risk Score**	**Present Score Breakdown**		**Direction of Risk**	**Review Date**
			Probability	**Impact**		
	December 2015	12	4	3	Unchanged *Budget monitoring shows an overspend in homecare and residential care due to increased demand that is above the trends planned for in MTFP.*	March 2016
	August 2015	*12*	High probability	Medium Financial Management Impact		
	May 2015	*12*				
	March 2015	*12*				
	August 2014	*8*				
Current Action Status / Control Strategy	• Focussing on preventative measures and developing resources for prevention and early intervention with colleague agencies to reduce pressure on more acute statutory services • Transforming existing services to provide an optimal care pathway for older people focussing on independence and re-ablement • Implementing through project management approach with strong management and performance monitoring • Development of a long term dialogue with communities aiming to strengthen community resilience and capability • Development of a whole council approach to building community resilience					
Responsible Officer: Strategic Director People						
Responsible Cabinet Member: Cabinet Member for Social Care and Wellbeing						
Scrutiny Committee: Community Planning and Development						

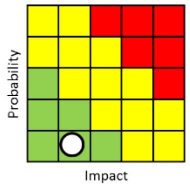
RISK 3: Capacity and capability to meet the councils objectives						
That there are not skills and or capacity within the workforce to deliver both operational services and also the pace of change needed to modernise services and balance the budget.						
Present Matrix	**Assessment Date**	**Present Risk Score**	**Present Score Breakdown**		**Direction of Risk**	**Review Date**
			Probability	**Impact**		
	December 2015	12	4	3	Unchanged *Work continues in this area*	March 2016
	August 2015	*12*	High Probability	Medium Operational Impact		
Current Action Status / Control Strategy	• Development of the workforce plan • Investment in Project Management and business change resources • More effective use of central support resource • Training Master classes developed • Use of external resource / experts • Coaching, shadowing and mentoring opportunities					
Responsible Officer: Chief Executive						
Responsible Cabinet Member: Cabinet Member for Human Resources and Assets						
Scrutiny Committee: Community Planning and Development						

RISK 4: Budget Challenge						
That the continuing need for significant annual savings is increasingly difficult to achieve and that could compromise organisational capacity and service delivery including statutory services						
Present Matrix	**Assessment Date**	**Present Risk Score**	**Present Score Breakdown**		**Direction of Risk**	**Review Date**
			Probability	**Impact**		
	December 2015	12	3	4	*Reduced* *Increase certainty for 16/17 but the medium term requires further work*	March 2016
	August 2015	*16*	Medium probability	High Financial Management impact		
Current Action Status / Control Strategy	• Business planning process identifies impact of all savings including impact on statutory services • Agreed financial strategy • Robust and early work on the financial strategy and budget • Medium term outlook within the financial strategy • 2016/17 budget resolved subject to consultation and final decisions • Business cases 2016/17 and 2017/18 developed and reviewed • MTFP still required balancing over the medium term					
Responsible Officer: Chief Executive						
Responsible Cabinet Member: Leader						
Scrutiny Committee: Community Planning and Development						

<table>
<tr><td colspan="7">RISK 5: Safeguarding</td></tr>
<tr><td colspan="7">That the arrangements and the implementation of policies and procedures by the council (and its partners) are not adequate to protect vulnerable adults and children who may be at risk of significant harm</td></tr>
<tr><td rowspan="2">Present Matrix</td><td rowspan="2">Assessment Date</td><td rowspan="2">Present Risk Score</td><td colspan="2">Present Score Breakdown</td><td rowspan="2">Direction of Risk</td><td rowspan="2">Review Date</td></tr>
<tr><td>Probability</td><td>Impact</td></tr>
<tr><td rowspan="3"></td><td>August 2015</td><td>8</td><td>2</td><td>4</td><td rowspan="3">Unchanged
There are no significant changes affecting the level of risk in this area of work. Current actions and control strategies remain effective and in place</td><td rowspan="3">March 2016</td></tr>
<tr><td>March 2015</td><td>8</td><td rowspan="2">Low Probability</td><td rowspan="2">High Governance Impact</td></tr>
<tr><td>August 2014</td><td>8</td></tr>
<tr><td>Current Action Status / Control Strategy</td><td colspan="6">Safeguarding Action Plan agreed and implementation underway
Continuous review of policies and procedures
Partnership working
Raising awareness of policies and procedures with staff
Service Manager for Safeguarding is in place
New Safeguarding role in Education</td></tr>
<tr><td colspan="7">Responsible Officer: Strategic Director - People</td></tr>
<tr><td colspan="7">Responsible Cabinet Member: Cabinet Member for Education and Young People, Cabinet Member for Social Care and Wellbeing</td></tr>
<tr><td colspan="7">Scrutiny Committee: Learning, Caring and Leisure</td></tr>
</table>

RISK 6: Investment in Friars Walk Development

That the development does not realise its target value and the developer is unable to sell or re-finance the scheme to repay the loan

Present Matrix	Assessment Date	Present Risk Score	Present Score Breakdown		Direction of Risk	Review Date
			Probability	Impact		
	December 2015	2	1	2	Reduced	March 2016
	August 2015	4	Very Low Probability	Low Financial Management Impact	*Centre now open and let at over 80% with significant work in place to increase further over the next 6 months* *Developers are now actively marketing the development*	
	May 2015	*6*				
	March 2015	*8*				
	November 2014	*12*				
	August 2014	*12*				

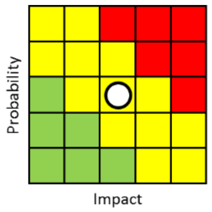
Current Action Status / Control Strategy

- Financial Appraisals independently verified by Deloittes
- Financial modelling undertaken based on different yields, voids rates and rental levels
- Retail and Leisure anchor stores secured (Debenhams and Cineworld) and other major store units now leased.
- Robust and tested Funding Agreement, Development Agreement and Lease
- Safeguards built in to mitigate financial risks
- Council able to exercise step-in rights
- Monthly meetings with Developers to monitor progress
- (See Council Report 26th November 2013)

Responsible Officer: Strategic Director – Place

Responsible Cabinet Member: Cabinet Member for Regeneration and Development

Scrutiny Committee: Streetscene, Regeneration and Safety

RISK 7: City Deal						
That the SE Wales region, which includes Newport CC, cannot conclude a city deal within the timescales and as a result misses the opportunity to secure investment to improve economic outcomes for the communities of the city						
Present Matrix	**Assessment Date**	**Present Risk Score**	**Present Score Breakdown**		**Direction of Risk**	**Review Date**
			Probability	**Impact**		
	December 2015	9	3	3	Unchanged *A submission was made by 4th September which was the initial deadline* *Discussions have continued since that date with both UK and Welsh Governments* *A positive reference to concluding a Cardiff City deal was made in the spending review document in Nov 15* *We are now continuing with the detailed negotiations*	March 2016
	August 2015	*9*	Medium Probability	Medium Strategic Impact		
Current Action Status / Control Strategy	• Governance arrangements are in place to provide oversight at a regional level. The initial submission will set out the parameters of the deal we are seeking to make and will provide the foundations for the detailed work which needs to be done over the autumn.					
Responsible Officer: Chief Executive,						
Responsible Cabinet Member: Leader of the Council						
Scrutiny Committee: Community Planning and Development						

NEWPORT CITY COUNCIL
CYNGOR DINAS CASNEWYDD

Report

Audit Committee

Part 1

Date: 28 January 2016

Item No: 05

Subject Indicators

Purpose This report considers the Council's 2016/17

- Treasury Management Strategy,
- Prudential Indicators,
- Investment Strategy; and
- Minimum Revenue Provision (MRP) policy

The Prudential Code requires these items to be reviewed and considered by the Audit Committee prior to their approval by full Council.

Author Assistant Head of Finance

Ward General

Summary

Both the Prudential Code and the Welsh Government require the Audit Committee to have reviewed and considered the Council's Treasury Management Strategy and Prudential Indicators before they are approved by full Council.

The strategies within this report set the Council's approved borrowing and investment limits, based on planned capital spending. This report has been prepared in line with the Council's draft Medium Term Revenue Plan, and will be presented to full Council as part of the overall budget report for approval in March 2016.

During 2015/16 the Council has undertaken to date an additional £48 million of long term borrowing, of which £43 million relates to activities related to the Friars Walk Development. New temporary borrowing of approximately £8 million is anticipated to be required before the end of the 2015/16 financial year, of which the majority relates to the Friars Walk Development.

In December 2013 the Council approved a loan of up to £89.1million to Queensbury Real Estates (Newport) Ltd (QRE) to fund the building of the Friars Walk Development. The Council's own borrowing to make the onward loan is kept separate from the Council's other borrowing requirements and is incurred, as needed, up to a maximum of £89.1million. A further £5million will likely be required by the end of the 2015/16 financial year to cover Friars Walk capital spending. The loan is required to be paid off during 2016/17 via a capital receipt, which is likely to require surplus cash to be invested over a period of time, before the Council's own loans for this purpose can be redeemed.

Proposal To recommend to Cabinet for approval the Prudential Indicators, Minimum Revenue Provision Policy, the Treasury Management Strategy and the Annual Investment Strategy as detailed in the report.

Action by Head of Finance – prepare budget papers for Cabinet in line with recommendations from this Committee

Timetable Immediate

This report was prepared after consultation with:

- The Council's Treasury Advisors
- Accountancy Staff
- Heads of Law and Standards and HR/Policy

Background

1. The Council is involved in two types of treasury activity:

   - Borrowing long-term for capital purposes and short term for temporary cash flow
   - Investment of surplus cash

2. These activities are controlled primarily via the Council's Treasury Management Strategy and various measures and limits set via its Prudential Indicators to regulate/control the implementation of that strategy.

3. CIPFA requires local authorities to determine their Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) on an annual basis. This requires approval by full Council following a recommendation from the Cabinet. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the Welsh Government's (WG's) Investment Guidance.

4. Our detailed Treasury strategies for 2016/17 are included at Appendix 1. In addition, planned strategies to 2019/20 are also included, in line with the Council's 5 year Medium Term Plan. Key points of interest are summarised below.

Borrowing Strategy

5. The Council has significant long term borrowing requirements but in recent years, the strategy has been able to fund its capital expenditure from reducing investments rather than undertaking more expensive new borrowing i.e. using 'surplus cash'. This is because the rates achievable on the Council's investments are lower than the rates that would be payable on long-term borrowing and therefore this strategy is more cost effective.

6. In terms of the revenue budget, the Council must ensure it sets aside sums to repay capital expenditure funded from borrowing (irrespective of whether the borrowing itself is undertaken externally or through dis-investing). This is done via the 'Minimum Revenue Provision' (MRP). In addition, a budget is also needed to fund actual interest payable on loans taken out, which are based on predictions of actual external borrowing. Both are discrete budget lines in the Council's overall revenue budget.

7. Local Authorities measure their underlying need for long-term borrowing through their 'Capital Financing Requirement' (CFR). This takes into account the amount of capital expenditure that needs to be funded through borrowing, (as opposed to external funding - from cash grants, capital receipts or S106 contributions for example) irrespective of whether the borrowing itself is undertaken externally or through dis-investing.

8. In addition to normal planned capital expenditure, in December 2013 the Council approved a loan of up to £89.1million to Queensbury Real Estates (Newport) Ltd (QRE) to fund the building of the Friars Walk Development. The Council's own borrowings to make the onward loan are kept separate from the Council's other borrowing requirements as these loans are relatively short term given the loan is anticipated to be paid off in full via a capital receipt by November 2016, when the Council's own borrowings for this will then be redeemed as soon as is possible. On this basis, the Council will not be required to make MRP charges to the revenue budget in relation to the Friars Walk Development loan as the borrowing will be paid off in full at the end of the scheme via the repayment of the loan by QRE (Newport) Ltd. Loans in relation to the Friars Walk development have been taken at various stages throughout the scheme, therefore have variable dates in which the loans are redeemable. £40 million of loans are redeemable in July 2017, with the balance being taken over shorter terms, currently up to the end of April 2016. This would mean if the loan by QRE (Newport) Ltd is repaid before July 2017 the Council will have surplus funds to invest, unless we are able to redeem early at nil or minimal cost.

9. The table overleaf shows the estimated Capital Financing Requirement/ New Net Borrowing Requirement position for Newport City Council for 2015/16 to 2018/19:

Table 1: Newport City Council – CFR

	31.3.15 Actual £m	31.3.16 Estimate £m	31.3.17 Estimate £m	31.3.18 Estimate £m	31.3.19 Estimate £m
CFR	321.1	360.2	280.6	283.7	283.5
Less: Other long-term liabilities *	-51.6	-49.3	-47.4	-45.5	-43.8
Borrowing CFR	**269.5**	**310.9**	**233.2**	**238.2**	**239.7**
Less: External borrowing **	-190.3	-235.8	-246.6	-205.6	-204.5
Internal (over) borrowing	**79.2**	**75.1**	**-13.4**	**32.6**	**35.2**
Less: Usable reserves	-89.8	-83	-78	-74.2	-73.6
Less: Working capital	8	8	8	8	8
Investments / (New Borrowing)	**2.6**	**-0.1**	**83.4**	**33.6**	**30.4**

*finance leases and PFI liabilities that form part of the Authority's debt
** shows only loans to which the Authority is committed and excludes optional refinancing

10. As the table shows, the inherent 'need to borrow' as shown by the CFR is predicted to be £280.6 million in 2016/17. The significant reduction in the CFR between 2015/16 and 2016/17 is due to the anticipated repayment of the loan in relation to the Friars Walk development.

11. Given **current** borrowing levels no additional long term borrowing is likely to be required during 2016/17. However, the Authority will be required to be flexible to borrow up to the Authorised Limit, as there will be uncertainty to timing of repayment of the outstanding loan.

12. The Authority will adopt a flexible approach to any borrowing necessary in consultation with its treasury management advisers, Arlingclose Ltd. The following issues will be considered prior to undertaking any external borrowing:

- Affordability
- Maturity profile of existing debt
- Interest rate and refinancing risk
- Borrowing source

Investment Strategy

13. The Authority holds minimal invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £0m and £25 million. In 2016/17, the investment balances could increase significantly dependent on the timing of the repayment of loans in relation to Queensberry, where a substantial receipt may be achieved in advance of borrowing required to be repaid.

14. **Objectives:** Both the CIPFA Code and the WG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses.

15. Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority aims to diversify into more secure and/or higher yielding classes during 2016/17. This is especially the case for any surplus funds available for investment following the repayment of the Queensberry loan, before it is used to repay its own loans for this purpose.

16. **Approved Counterparties:** Whilst investment funds remain available and based on the treasury management advice from Arlingclose; the Authority may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown will invest in the following areas:

Table 2: Approved Investment Counterparties and Limits

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	Not applicable	Not applicable	£ Unlimited 50 years	Not applicable	Not applicable
AAA	£5m 2 years	£10m 2 years	£10m 2 years	£5m 2 years	£5m 2 years
AA+	£5m 2 years	£10m 2 years	£10m 2 years	£5m 2 years	£5m 2 years
AA	£5m 2 years	£10m 2 years	£10m 2 years	£5m 2 years	£5m 2 years
AA-	£5m 2 years	£10m 2 years	£10m 2 years	£5m 2 years	£5m 2 years
A+	£5m 2 years	£10m 2 years	£5m 2 years	£5m 2 years	£5m 2 years
A	£5m 13 months	£10m 2 years	£5m 2 years	£5m 2 years	£5m 2 years
A-	£5m 6 months	£10m 13 months	£5m 2 years	£5m 13 months	£5m 2 years
BBB+	£2.5m 100 days	£5m 6 months	£2.5m 2 years	£2.5m 6 months	£2.5m 2 years
BBB	£2.5m overnight	£5.0m 100 days	Not applicable	Not applicable	Not applicable
None	£1m 6 months	Not applicable	£10m 25 years	Not applicable	Not applicable
Pooled funds	Not applicable				

17. Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. Whilst the credit ratings score drives the approved listing, the day-to-day operational counterparties are generally limited to named counterparty listing as documented in Appendix C. However, where it is prudent to do so the Authority may also use other approved investments based on the approved credit ratings as documented in the table above.

18. A more detailed explanation of the different approved counterparty types are included in Appendix 1 but for the sake of clarity, the Council's investment strategy will, as per the Welsh Governments Investment Guidance, give priority to security and liquidity and will aim to achieve a yield commensurate with these principles. Due to the expected increase in levels of surplus funds during 2016/17, the total amount invested in any individual counterparty has been increased to £10m, and the time limit increased from 6 moths to 2 years. This is in line with the limits provided by our treasury advisers.

Prudential Indicators

19. The Council must establish certain 'checks' required by CIPFA to ensure that its Treasury Management Strategy is operating effectively. These are known as Prudential Indicators, and they will be reported to the Council on a 6 monthly basis.

20. Examples of our key indicators are noted below; again more detail is supplied at Appendix 1

Net Borrowing/Capital Financing Requirement
The Council's net borrowing should not exceed its Capital Financing Requirements as outlined earlier. This ensures that borrowing is only used to finance capital over the long term. The Council does not note any difficulty in meeting this requirement.

Financing Costs to Net Revenue Stream
This ratio shows how much of the Council's total revenue budget is used for capital financing costs, as a percentage. The ratio for 2016/17 is 8.8%.

21. We recommend that the Audit Committee scrutinise the 2016/17 Treasury Management Strategy and Prudential Indicators detailed in Appendix 1 and recommend to Cabinet for approval.

Risks

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Investment counterparty not repaying investments	High but depending on investment value	Low	The Council only invests with Institutions with very high credit scores. It employs advisors to monitor moneymarket movements and changes to credit scores and acts immediately should things change adversely. The lower levels of funds/duration available for relatively higher risk investment as measured by 'credit ratings' will also alleviate the risk.	Members, Head of Finance, Treasury staff, based on advice from treasury advisors
Interest Rates moving adversely against expectations	Low	Low	Base and short-term Interest rates are expected to remain at current levels until the second half of 2016. The Treasury strategy approved allows for the use of short term borrowing once investment funds are exhausted to take advantage of these low rates.	Head of Finance, Treasury staff, treasury advisors

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

22. It is the Council’s policy to ensure that the security of the capital sums invested is fully recognised and has absolute priority. The Council follows the advice of the Welsh Assembly Government that any investment decisions take account of security, liquidity and yield in that order.

Options Considered/Available

23. The Prudential Code and statute requires that, during and at the end of each financial year, reports on these matters are presented to Cabinet/Council for approval. Best practice is for the reports to be scrutinised by the Audit committee prior to Council approval. Thus the only option available is to consider this report.

Preferred Choice and Reasons

24. The preferred choice is to receive and scrutinise the contents of the report.

Comments of Monitoring Officer

25. There are no legal implications. The in year and annual treasury management report is consistent with relevant Chartered Institute of Public Finance and Accountancy Guidance, Treasury Management principles and the Council’s Investment Strategy.

Comments of Head of Human Resources and Policy

26. There are no human resources implications within the report

Appendix 1

Prudential Code Indicators, Minimum Revenue Policy, Treasury Management and Investment Strategy Statements 2016/17

Introduction

In June 2009 the Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year.

In addition, the Welsh Government (WG) issued revised Guidance on Local Authority Investments in April 2010 that requires the Authority to approve an investment strategy before the start of each financial year.

This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the WG Guidance.

The Authority borrows/invests substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

External Context

Economic Background

Domestic demand has grown robustly, supported by sustained real income growth and a gradual decline in private sector savings. Low oil and commodity prices were a notable feature of 2015, and contributed to annual CPI inflation falling to 0.1% in October. Wages are growing at 3% a year, and the unemployment rate has dropped to 5.4%. Mortgage approvals have risen to over 70,000 a month and annual house price growth is around 3.5%. These factors have boosted consumer confidence, helping to underpin retail spending and hence GDP growth, which was an encouraging 2.3% a year in the third quarter of 2015. Although speeches by the Bank of England's Monetary Policy Committee (MPC) members sent signals that some were willing to countenance higher interest rates, the MPC held policy rates at 0.5% for the 81st consecutive month at its meeting in November 2015. Quantitative easing (QE) has been maintained at £375bn since July 2012.

The outcome of the UK general election, which was largely fought over the parties' approach to dealing with the deficit in the public finances, saw some big shifts in the political landscape and put the key issue of the UK's relationship with the EU at the heart of future politics. Uncertainty over the outcome of the forthcoming referendum could put downward pressure on UK GDP growth and interest rates.

China's growth has slowed and its economy is performing below expectations, reducing global demand for commodities and contributing to emerging market weakness. US domestic growth has accelerated but the globally sensitive sectors of the US economy have slowed. Strong US labour market data and other economic indicators however suggest recent global turbulence has not knocked the American recovery off course. The Federal Reserve did not raise policy rates at its meetings in October and November, but a rate hike was made in December 2015. In contrast, the European Central Bank finally embarked on QE in 2015 to counter the perils of deflation.

Credit outlook:
The varying fortunes of different parts of the global economy are reflected in market indicators of credit risk. UK Banks operating in the Far East and parts of mainland Europe have seen their perceived risk increase, while those with a more domestic focus continue to show improvement. The sale of most of the government's stake in Lloyds and the first sale of its shares in RBS have generally been seen as credit positive.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and Germany. The rest of the European Union will follow suit in January 2016, while Australia, Canada and Switzerland are well advanced with their own plans. Meanwhile, changes to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain stubbornly low.

Interest rate forecast:
The Authority's treasury advisor Arlingclose projects the first 0.25% increase in UK Bank Rate in the third quarter of 2016, rising by 0.5% a year thereafter, finally settling between 2% and 3% in several years' time. Persistently low inflation, subdued global growth and potential concerns over the UK's position in Europe mean that the risks to this forecast are weighted towards the downside.

A shallow upward path for medium term gilt yields is forecast, as continuing concerns about the Eurozone, emerging markets and other geo-political events weigh on risk appetite, while inflation expectations remain subdued. Arlingclose projects the 10 year gilt yield to rise from its current 2.0% level by around 0.3% a year. The uncertainties surrounding the timing of UK and US interest rate rises are likely to prompt short-term volatility in gilt yields.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at ***Appendix A***.

Local Context
The Authority currently has £227.8 million of borrowing and £7.4 million of investments. This is set out in further detail at Appendix B. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below:

Table 1: Balance Sheet Summary and Forecast

	31.3.15 Actual £m	31.3.16 Estimate £m	31.3.17 Estimate £m	31.3.18 Estimate £m	31.3.19 Estimate £m
CFR	321.1	360.2	280.6	283.7	283.5
Less: Other long-term liabilities *	-51.6	-49.3	-47.4	-45.5	-43.8
Borrowing CFR	**269.5**	**310.9**	**233.2**	**238.2**	**239.7**
Less: External borrowing **	-190.3	-235.8	-246.6	-205.6	-204.5
Internal (over) borrowing	**79.2**	**75.1**	**-13.4**	**32.6**	**35.2**
Less: Usable reserves	-89.8	-83	-78	-74.2	-73.6
Less: Working capital	8	8	8	8	8
Investments / (New Borrowing)	**2.6**	**-0.1**	**83.4**	**33.6**	**30.4**

*finance leases and PFI liabilities that form part of the Authority's debt
** shows only loans to which the Authority is committed and excludes optional refinancing

Capital Financing Requirement

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The Authority has an increasing CFR during 2015/16 due to the capital programme and the on-going loan to Queensbury Real Estates (Newport) Ltd, but holds minimal investments and will therefore be required to borrow up to £50m during 2015/16. However, during 2016/17 the sale of the development will reduce the CFR significantly and dependent on timing of loan re-payments and capital receipts, significant investments are likely to be required over the forecast period.

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2016/17.

Borrowing Strategy

The Authority currently holds £227.8 million of loans as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Authority does not expect to need to borrow in 2016/17. The Authority may however borrow to pre-fund future years' requirements, providing this does not exceed the recommended authorised limit for borrowing of £397 million.

The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2016/17 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, the Authority may arrange forward starting loans during 2016/17, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Authority may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.

The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board and any successor body
- UK local authorities
- any institution approved for investments (see below)
- any other bank or building society authorised by the Prudential Regulation Authority to operate in the UK
- UK public and private sector pension funds

- capital market bond investors
- Special purpose companies created to enable joint local authority bond issues.

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

The Authority has previously raised the majority of its long-term borrowing from the Public Works Loan Board, but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

The Authority holds £35m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the automatic option to either accept the new rate or to repay the loan at no additional cost. £30m of these LOBOS have options during 2016/17, and although the Authority understands that lenders are extremely unlikely to exercise their options in the current low interest rate environment, there remains a remote element of refinancing risk. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

Short-term and variable rate loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

Debt Rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Some bank lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall saving or reduction in risk.

Annual Investment Strategy

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £0 million and £25 million. In 2016/17, the investment balances could increase significantly dependent on the timing of the repayment of loans in relation to Queensberry, where a substantial receipt may be achieved in advance of borrowing required to be repaid. As per the strategy, balances could first be used to reduce levels of borrowing required before the Authority invests funds, this is in relation to long term loans which become redeemable.

Both the CIPFA Code and the WG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.

Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority aims to diversify into more secure and/or higher yielding classes during 2016/17. This is especially the case for any surplus funds available for investment following the repayment of the Queensberry loan.

There is no intention to restrict investments to bank deposits, and investments may be made with any public or private sector organisations that meet the required credit rating criteria. This reflects a lower likelihood that the UK and other governments will support failing banks as the bail-in provisions in the

Banking Reform Act 2014 and the EU Bank Recovery and Resolution Directive are implemented. The Authority may invest its surplus funds with any of the counterparties that meet the definition and credit type as documented in table 2 and additional explanation are:

- **Credit Rating:** Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit level is used.

- **Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and designated building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB are restricted to overnight deposits.

- **Current Account Bank**: The banking contract with Santander UK PLC was renewed for a further three years from 1st April 2013. Santander UK PLC is currently rated above the minimum required A-rating. Should the credit ratings fall below A-, the Authority may continue to deposit surplus cash with Santander UK PLC providing that investments that can be withdrawn on the next working day, and that the bank maintains a credit rating no lower than BBB (the lowest investment grade rating).

- **Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and designated building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be *u*sed to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

- **Government:** Loans, bonds and bills issued or guaranteed by UK government, regional and local authorities. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Government may be made in unlimited amounts for up to 50 years.

- **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

- **Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services they retain a high likelihood of receiving government support if needed. The Authority will consider investing with unrated Registered Providers with adequate credit safeguards, subject to receiving independent advice.

- **Pooled Funds:** Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

- **Bond, equity and property** funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly. It is not envisaged that the Authority will use the facility of pool funds in the in the short term.

Risk Assessment and Credit Ratings:

Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where the Treasury advisor provides advice relating to a specific named counterparty then the Authority will act upon that advice relating to the duration of exposure and amount.

Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the Security of Investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations, in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Specified Investments: The WG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,

- a UK local authority, parish council or community council, or
- a body or investment scheme of “high credit quality”.

The Authority defines “high credit quality” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

- **Non-specified Investments**: Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement; those that are defined as capital expenditure by legislation, such as shares in money market funds and other pooled fund; and investments with bodies and schemes not meeting the definition on high credit quality. Appendix C sets out the investment limits/ maximum maturity periods for Non-specified investments.

- **Approved Instruments:** The Authority may lend or invest money using any of the following instruments:
  - interest-bearing bank accounts,
  - fixed term deposits and loans,
  - callable deposits and loans where the Authority may demand repayment at any time (with or without notice),
  - certificates of deposit,
  - bonds, notes, bills, commercial paper and other marketable instruments, and
  - shares in money market funds and other pooled funds.

- Investments may be made at either a fixed rate of interest, or at a variable rate linked to a market interest rate, such as LIBOR, subject to the limits on interest rate exposures below.

- **Liquidity management**: The Authority uses purpose-built cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority’s medium term financial plan and cash flow forecast.

Monitoring & reporting on the Treasury Management and capital Prudential Indicators

The Head of Finance will report to the Audit committee/ Cabinet/ Council on treasury management activity, performance and Treasury/Capital Prudential Indicators (set out in Appendix D) as follows:

- Half Yearly and then annually against the strategy approved for the year. The annual report will be produced normally by July of the following year but in any event no later than 30th September.
- The Audit Committee will be responsible for the scrutiny of treasury management activity and practices.

Other Items

- There are a number of additional items that the Authority is obliged by CIPFA or WG to include in its Treasury Management Strategy.

- **Policy on Use of Financial Derivatives:** In the absence of any legal power to do so, the Authority will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

- **Investment Training:** The needs of the Authority's treasury management staff for training in investment management are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

  Staff members regularly attend training courses, seminars and conferences provided by Arlingclose and other organisations.

- **Investment Advisers:** The Authority has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The service provided by Arlingclose continues to meet all expectations and the advice given especially in relation to investment counterparties and credit ratings has allowed the Council to action the changes needed, especially in removing counterparties from the approved list, in a prompt and timely manner.

Financial Implications

- The approximate debt interest of £8.8 million and principal of £1.0 million is expected to be paid in 2016/17 (this includes Queensbury interest payments and maturities) If actual levels of investments and borrowing differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

- The WG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Head of Finance believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Reduced risk of losses from credit related defaults, but any such losses will be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses will be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs will be less certain

Appendix A – Arlingclose Economic & Interest Rate Forecast November 2015

Underlying assumptions:

- UK economic growth softened in Q3 2015 but remained reasonably robust; the first estimate for the last quarter was 0.5% and year-on-year growth fell slightly to 2.3%. Negative construction output growth offset fairly strong services output, however survey estimates suggest upwards revisions to construction may be in the pipeline.

- Household spending has been the main driver of GDP growth through 2014 and 2015 and remains key to growth. Consumption will continue to be supported by real wage and disposable income growth.

- Annual average earnings growth was 3.0% (including bonuses) in the three months to August 2015. Given low inflation, real earnings and income growth continue to run at relatively strong levels and could feed directly into unit labour costs and households' disposable income. Improving productivity growth should support pay growth in the medium term. The development of wage growth is one of the factors being closely monitored by the MPC.

- Business investment indicators continue to signal strong growth. However the outlook for business investment may be tempered by the looming EU referendum, increasing uncertainties surrounding global growth and recent financial market shocks.

- Inflation is currently very low and, with a further fall in commodity prices, will likely remain so over the next 12 months. The CPI rate is likely to rise towards the end of 2016.

- China's growth has slowed and its economy is performing below expectations, which in turn will dampen activity in countries with which it has close economic ties; its slowdown and emerging market weakness will reduce demand for commodities. Other possible currency interventions following China's recent devaluation will keep sterling strong against many global currencies and depress imported inflation.

- Strong US labour market data and other economic indicators suggest recent global turbulence has not knocked the American recovery off course. Although the timing of the first rise in official interest rates remains uncertain, a rate rise by the Federal Reserve seems significantly more likely in December given recent data and rhetoric by committee members.

- Longer term rates will be tempered by international uncertainties and weaker global inflation pressure.

- **Forecast:**

- Arlingclose forecasts the first rise in UK Bank Rate in Q3 2016. Further weakness in inflation, and the MPC's expectations for its path, suggest policy tightening will be pushed back into the second half of the year. Risks remain weighted to the downside. Arlingclose projects a slow rise in Bank Rate, the appropriate level of which will be lower than the previous norm and will be between 2 and 3%.

- The projection is for a shallow upward path for medium term gilt yields, with continuing concerns about the Eurozone, emerging markets and other geo-political events, weighing on risk appetite, while inflation expectations remain subdued.

- The uncertainties surrounding the timing of UK and US monetary policy tightening, and global growth weakness, are likely to prompt short term volatility in gilt yields.

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Official Bank Rate													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.75**	**0.75**	**1.00**	**1.00**	**1.25**	**1.25**	**1.50**	**1.50**	**1.75**	**1.75**
Downside risk				-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-1.00	-1.00	-1.25	-1.25
3-month LIBID rate													
Upside risk	0.20	0.30	0.30	0.30	0.35	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	**0.55**	**0.60**	**0.70**	**0.80**	**0.95**	**1.05**	**1.15**	**1.30**	**1.40**	**1.55**	**1.65**	**1.80**	**1.85**
Downside risk		-0.20	-0.30	-0.45	-0.55	-0.65	-0.80	-0.90	-1.05	-1.10	-1.20	-1.20	-1.20
1-yr LIBID rate													
Upside risk	0.25	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.45
Arlingclose Central Case	**1.10**	**1.20**	**1.35**	**1.45**	**1.55**	**1.70**	**1.80**	**1.95**	**2.00**	**2.10**	**2.15**	**2.15**	**2.15**
Downside risk	-0.15	-0.25	-0.35	-0.50	-0.60	-0.70	-0.85	-0.95	-1.10	-1.15	-1.25	-1.25	-1.25
5-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	**1.50**	**1.55**	**1.60**	**1.70**	**1.80**	**1.90**	**2.00**	**2.10**	**2.20**	**2.25**	**2.30**	**2.35**	**2.35**
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25
10-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	**2.00**	**2.05**	**2.10**	**2.20**	**2.30**	**2.40**	**2.50**	**2.60**	**2.65**	**2.70**	**2.75**	**2.80**	**2.80**
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25
20-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	**2.45**	**2.50**	**2.55**	**2.55**	**2.60**	**2.65**	**2.70**	**2.75**	**2.80**	**2.85**	**2.90**	**2.95**	**2.95**
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.65	-0.75	-0.85	-0.95	-1.05	-1.10	-1.15	-1.20	-1.20
50-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	**2.45**	**2.50**	**2.55**	**2.60**	**2.65**	**2.70**	**2.75**	**2.80**	**2.85**	**2.90**	**2.95**	**3.00**	**3.00**
Downside risk	-0.25	-0.35	-0.45	-0.50	-0.60	-0.70	-0.80	-0.90	-1.00	-1.05	-1.10	-1.15	-1.15

Appendix B – Existing Investment & Debt Portfolio Position

	31/12/15 Actual Portfolio £m
External Borrowing:	
PWLB – Fixed Rate	74.84
Market Loans	35.00
Stock Issue	40.00
Temporary loans - Queensberry	77.98
Other Soft Loans	0.00
Total External Borrowing	**227.82**
Other Long Term Liabilities:	
PFI	51.16
Finance Leases and other	0.15
Total Gross External Debt	**279.13**
Investments:	
Short-term investments	7.39
Long-term investments	0.00
Total Investments	**7.39**
Net Debt	**271.74**

Appendix C – Operational Investment Counterparties List

COUNTERPARTY LIMITS FOR BANKING – UK INSTITUTIONS

	Unsecured Investments		**Secured Investments**	
Counterparty - Banking UK Institutions	**Maximum Counterparty Limit and Group Limit (if applicable)**	**Maximum Lending Period**	**Maximum Counterparty Limit and Group Limit (if applicable)**	**Maximum Lending Period**
Bank of Scotland	£5,000,000	13 Months	£10,000,000	2 years
Barclays Bank Plc.	£5,000,000	100 Days	£10,000,000	2 years
Close Brothers Ltd	£5,000,000	6 Months	£10,000,000	2 years
Goldman Sachs International Bank	£5,000,000	100 Days	£10,000,000	2 years
HSBC Bank Plc.	£5,000,000	13 Months	£10,000,000	2 years
Lloyds Bank Plc.	£5,000,000	13 Months	£10,000,000	2 years
National Westminster Bank Plc.	£2,500,000	35 Days	£10,000,000	2 years
Nationwide Building Society	£5,000,000	6 Months	£10,000,000	2 years
Royal Bank of Scotland	£2,500,000	35 Days	£10,000,0000	2 years
Santander UK Plc. (Banco Santander Group)	£5,000,000	6 Months	£10,000,000	2 years
Standard Chartered Bank	£5,000,000	6 Months	£10,000,000	2 years

*** based on advice from Arlingclose**

Appendix D

Prudential Indicators 2016/17 – 2018/19

1. **Background:**
   There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

2. **Gross Borrowing and the Capital Financing Requirement:**
   This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that the net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.

   If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement, which is used for comparison with gross external debt.

   The Head of Finance reports that the authority will have no difficulty meeting this requirement in 2016/17, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3. **Estimates of Capital Expenditure:**

3.1 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

Capital Expenditure	***2015/16 Estimate £m***	***2016/17 Estimate £m***	**2017/18 Estimate £m**	**2018/19 Estimate £m**
Total	***26.1***	***40.2***	***18.2***	**20.0**

3.2 Capital expenditure will be financed or funded as follows:

Capital Financing	***2015/16 Estimate £m***	***2016/17 Estimate £m***	***2017/18 Estimate £m***	***2018/19 Estimate £m***
Capital receipts	1.6	3.6	1.2	1.5
Government Grants	2.4	2.5	2.2	2.0
Other Specific Grants	9.9	14.7	1.0	5.0
S106 Contributions	2.0	0.5	0.0	0.5
Revenue contributions	0.9	0.0	0.0	0.1
Total Financing	**16.8**	**21.3**	**4.4**	**9.1**
Supported borrowing	4.0	4.0	3.6	3.6
Unsupported borrowing	5.3	14.9	10.0	7.3
Finance Leases	0.0	0.0	0.2	0
Total Funding	**9.3**	**18.9**	**13.8**	**10.9**
Total Financing and Funding	**26.1**	**40.2**	**18.2**	**20.0**

4. Ratio of Financing Costs to Net Revenue Stream:

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

4.2 The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
Total	8.7%	8.8%	9.0%	9.2%	8.4%

5. Capital Financing Requirements:

5.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and it's financing.

Capital Financing Requirement	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Total CFR	360.2	280.6	283.7	283.5

6. Actual External Debt:

6.1 This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2015	£000
Borrowing	190,400
Other Long-term Liabilities	51,160
Total	**241,560**

7. Incremental Impact of Capital Investment Decisions:

7.1 This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £
Increase in Band D Council Tax*	3.88	5.99	5.77	3.89

*Assumes a 5% increase in 16/17 and 4.0% cumulative thereafter increase in Council Tax although no decision has been taken to this effect. The Friars Walk Loan have been excluded from these calculation as it is not part of the capital programme.

8. Authorised Limit and Operational Boundary for External Debt:

8.1 The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

8.2 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external-borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long-term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

8.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

8.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	**2016/17 Estimate £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**
Borrowing	350	259	255
Other Long-term Liabilities	47	46	44
Total	**397**	**305**	**299**

8.5 The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

8.6 The Head of Finance has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported in the next regular capital/treasury monitoring report to be submitted to Cabinet/Council.

Operational Boundary for External Debt	**2016/17 Estimate £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**
Borrowing	330	239	235
Other Long-term Liabilities	47	46	44
Total	**377**	**285**	**279**

9. Adoption of the CIPFA Treasury Management Code:

9.1 This indicator demonstrates that the Council has adopted the principles of best practice.

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code at its Council meeting on 29th June 2009.

The Council has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies and procedures and will update its treasury management practice documentation in due course.

10. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

10.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on net principal outstanding sums, (i.e. fixed rate debt net of fixed rate investments)

10.2 The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises that could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments.

	Existing limit at 31/03/15 %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
Upper Limit for Fixed Interest Rate Exposure	100%	100%	100%	100%	100%
Upper Limit for Variable Interest Rate Exposure	50%	50%	50%	50%	50%

10.3 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's treasury management strategy.

11. Maturity Structure of Fixed Rate borrowing:

11.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

11.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

11.3 LOBO's are classified as maturing on the next call date i.e. the earliest date that the lender can require repayment and as most of these loans are on six monthly notice period, then they increase the under 12 months percentage accordingly, though it is considered unlikely all will be called within one financial year.

11.4 The greatest concentration of debt is in the financial year 2019/20 when the stock issue (£40m) matures. A strategy to deal with the repayment will be prepared closer to the maturity date.

Maturity structure of fixed rate borrowing (Newport CC debt)	Existing level at 31/12/15 %	Lower Limit for 2016/17 %	Upper Limit for 2016/17 %
under 12 months	18%	0%	40%
12 months and within 24 months	18%	0%	20%
24 months and within 5 years	19%	0%	70%
5 years and within 10 years	14%	0%	50%
10 years and within 20 years	7%	0%	30%
20 years and within 30 years	7%	0%	20%
30 years and within 40 years	3%	0%	20%
40 years and within 50 years	7%	0%	20%
50 years and above	7%	0%	20%

12. Credit Risk:

12.1 The Council considers security, liquidity and yield, in that order, when making investment decisions.

12.2 Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

12.3 The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP;
- Corporate developments, news, articles, markets sentiment and momentum;
- Subjective overlay.

12.4 The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

13. Upper Limit for total principal sums invested over 364 days:

13.1 The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested. For 2016/17, this is expected to be significant due to the sale of Friars Walk, however risks will be reduced by using only the approved investment counterparties limits.

Upper Limit for total principal sums invested over 364 days	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
	100	5	5	5

Appendix E – Minimum Revenue Provision (MRP) Statement 2016/17

1. The Welsh Government's Guidance on Minimum Revenue Provision (issued in 2010) places a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Welsh Ministers and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

2. The four MRP options available are:
    - Option 1: Regulatory Method
    - Option 2: CFR Method
    - Option 3: Asset Life Method
    - Option 4: Depreciation Method

3. MRP in 2016/17: Options 1 and 2 may be used only for supported (i.e. financing costs deemed to be supported through Revenue Support Grant from Central Government) Non-HRA capital expenditure funded from borrowing. Methods of making prudent provision for unsupported Non-HRA capital expenditure include Options 3 and 4 (which may also be used for supported Non-HRA capital expenditure if the Authority chooses). There is no requirement to charge MRP in respect of HRA capital expenditure funded from borrowing.

4. The MRP Statement will be submitted to Council before the start of the 2016/17 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to Authority at that time.

5. The Authority will apply Option 1/Option 2 in respect of supported Non-HRA capital expenditure funded from borrowing and Option 3/Option 4 in respect of unsupported Non-HRA capital expenditure funded from borrowing.

6. MRP in respect of leases and Private Finance Initiative schemes brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

7. In December 2013 the Council approved a loan of up to £89.1million to Queensbury Real Estates (Newport) Ltd (QRE) to fund the building of the Friars Walk Development. The loan is anticipated to be paid off in full via a capital receipt at the end of the three-year period. On this basis, the Council will not be required to make MRP charges to the revenue budget in relation to the Friars Walk Development loan as the borrowing will be paid off in full at the end of the scheme.

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Agenda Item 6

Report

Audit Committee

Part 1

Date: 28 January 2016

Item No: 06

Subject **Internal Audit – Progress against audit plan 2015/16 Quarter 3**

Purpose To inform Members of the Council's Audit Committee of the Internal Audit Section's progress against the 2015/16 agreed audit plan for the first nine months of the year and for information on audit opinions given to date and progress against key performance targets.

Author Chief Internal Auditor

Ward General

Summary The attached report identifies that the Internal Audit Section is making reasonable progress against the 2015/16 audit plan although just below expectations and internal performance indicators.

Proposal 1) The report be noted by the Council's Audit Committee

Action by The Audit Committee

Timetable Immediate

This report was prepared after consultation with:

- Chief Financial Officer
- Monitoring Officer
- Head of People and Business Change
-
-
-

Please list here those officers and members you have consulted on this report.

Signed

Background

1. This report aims to inform Members of the Audit Committee of progress of work undertaken by the Internal Audit Section of the Council against the agreed audit plan. Progress against the audit plan for the first nine months of the year will be reported.

2. The report gives Members assurance (or otherwise) on the adequacy of the internal control environment operated within the Council by providing the audit opinions on work undertaken at the end of Q3.

Internal Audit Staffing

3. The team currently operates with an establishment of 10 audit staff. At the start of the year there were 8 audit staff with two vacancies in the team. A Senior Auditor also left during quarter 1 who hasn't yet been replaced. One Principal Auditor and one Auditor left the team during Quarter 3.

4. The relationship with Monmouthshire County Council (for sharing of the Chief Internal Auditor) continues.

Audit Plan

5. The Public Sector Internal Audit Standards (PSIAS) (IIA) came into force from April 2013 which the team will need to ensure it is compliant with. These standards replace the former Code of Practice for Internal Audit within Local Government (CIPFA).

Performance

6. The Audit Section's performance is measured against planned work, which incorporates externalities like special investigations, financial advice and financial regulations training. Where actual time taken for the review exceeds planned time there will be an impact on the audit plan. Ad-hoc reviews requested by management cannot be planned for but will have an immediate impact on the achievement of the audit plan; we will endeavour to minimise these throughout the year.. The section has already been involved with 9 special investigations which could have an impact on this year's achievement of the audit plan; so far there have been no unplanned reviews.

7. The section's performance is measured against performance indicators set and agreed by the Welsh Chief Auditors' Group. Performance against these indicators is reported to the Audit Committee on a quarterly basis; the targets for each of the indicators are set internally by the Chief Internal Auditor.

8. The performance for Quarter 3 2015/16 has been compared to the same period of the previous year (shown in brackets). The figures (**Appendix A**) are cumulative and show that:

    a. 43% (51%) of the audit plan has been achieved so far which is below last year's performance and the profiled target of 50%;

    b. The promptness of issue of draft report (comparing timescale between finalising all fieldwork and issuing the draft report to management) averages at 15 days (13 days) which is outside the target time of 10 days;

c. The promptness of report finalisation (comparing timescale from meeting with client to discuss issues raised in the draft report to issue of finalised report to management) averages 3 days (2 days) which is within the target time of 5 days.

9. Coverage of the plan at this stage of the year is just below expectations; the target being 50%. This is mainly due to insufficient audit resource in the team available to undertake planned audit work, although this is better than expected given the team has not been so involved with special investigations as planned. Although performance may dip throughout the year, historically things have picked up in the final quarter; this year will depend on sufficient audit resources being available to complete the audit plan. All key financial systems will be reviewed by the year end. Audit Management have been involved with special investigations during the year. This has impacted on the timeliness of reviewing audit work and getting draft reports sent out post completion of the work.

10. To try and achieve as much of the plan as possible in the last quarter, we have taken on board a secondment from one of the firms, have explored the use of agency staff and are hoping to fill the auditor vacancies as soon as possible.

11. Given the current level of vacancies in the team, we are forecasting to achieve 70% of the audit plan by the 31st March 2016, against a target of 75%.

12. 52 (34) days have been spent finalising 15 (20) 2014/15 audit reviews; 13 of which have been finalised. 132 days have already been spent on 9 special investigations.

13. A vacancy / secondment provision was taken into account in the planning stage which related to the Chief Internal Auditor's work with Monmouthshire and the senior auditor vacancy.

14. Inevitably there will be some overruns on reviews undertaken within the team which may result in not as many reviews being undertaken as were planned for the year, but there has been a significant improvement in this over previous years. As at 31 December 2015 audit jobs had overrun by 71 days, primarily due to issues identified during the audit.

<u>Quality Control</u>

15. On completion of all audit reviews, an evaluation questionnaire is sent out to the service manager with the final report. This gives the manager who has been audited an opportunity to comment on the audit review itself, confirming (or not) that it was of benefit to their service and that the main risks had been covered; the staff, their approach, constructiveness and helpfulness; the report, covering the benefits of discussing the draft report, whether the balance was right via the inclusion of strengths and weaknesses, whether management comments were correctly reflected and if the report format was easy to follow. These questionnaires are returned in confidence to the Chief Internal Auditor who will assess the comments and address any criticisms. Generally, there has been positive feedback from service managers via these questionnaires; this will continue to be collated throughout the year and fed into the annual audit report for 2015/16.

<u>Financial Training</u>

16. In the Audit Section's continued efforts to ensure that Council's assets are safeguarded and to provide assurance to management that their internal controls are robust, further training specifically on financial regulations and contract standing orders is offered to all service areas. An overview of financial management is also part of the Corporate Induction Programme and the course is also available on a self nomination basis, quarterly, as part of the Corporate

Training Programme. Feedback from staff who have attended courses has been positive. During this year the financial training is continuing to be targeted to areas of previous poor performance, in line with the agreed protocol for dissemination of good practice.

17. The training programmes continue with 6 sessions delivered to 88 delegates up to 31 December 2015; these will continue to be provided as the year progresses.

Audit Opinions 2015/16

18. Audit opinions issued so far in 2015/16 are shown at **Appendix B.** Definition of audit opinions currently given is shown at **Appendix C**.

19. 19 jobs completed to at least draft report stage by 31 December 2015 warranted an audit opinion: 4 x *Good*, 12 x *Reasonable* with 3 x *Unsatisfactory and no Unsounds.* Of the 6 community centre accounts undertaken, 3 were *Qualified*. Other reports have been completed which did not warrant an audit opinion or related to audit certification work. Other work completed related to the Annual Governance Statement, the Council's performance indicators, grant claims, provision of financial advice and external clients.

20. The audit opinion relates to the adequacy of internal controls within the system or establishment being reviewed. The opinion is derived from the balance of strengths and weaknesses identified from evidence obtained, and testing undertaken, during the audit. Where the auditor believes that any issues identified are the result of a deliberate action and may be in breach of the Disciplinary Code or Employee Code of Conduct, further investigations will be carried out and action taken as appropriate.

Service Management Responsibilities

21. Heads of Service and service managers are responsible for addressing any weaknesses identified in internal systems and demonstrate this by incorporating their agreed actions into the audit reports. When management sign off the reports they are accepting responsibility for addressing the issues identified within the agreed timescales.

22. Although Heads of Service are responsible for implementing and maintaining adequate internal controls within service areas, operational managers are responsible for working within those controls and for ensuring compliance with Council policies and procedures. All reports, once finalised, are sent to the respective Heads of Service for information and appropriate action where necessary.

Follow up audit reviews

23. Where unsatisfactory and unsound opinions are issued, they are followed up within a twelve month timescale to ensure that the agreed actions have been taken by management and that the internal control systems are improved. These are reported separately to this Audit Committee on a six-monthly basis.

Financial Summary

24. There are no financial issues related to this report.

Risks

25.

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Audit Plan not completed	M	H	Taken on board a secondment from an accountancy firm; Continually exploring the use of agency staff to support the workload; minimising the volume of ad-hoc / unplanned work.	Chief Internal Auditor

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

26. Giving management assurance on systems in operation gives them confidence that there is sound financial management in place, that more effective services can be provided and the risk of theft, fraud and corruption is minimised. Better service provision, looking after the public pound makes our City a better place to live for all our citizens.

- To make our city a better place to live for all our citizens
- To be good at what we do
- To work hard to provide what our citizens tell us they need

Options Available

27. This is a factual progress report and therefore there are no specific options, as suchThe quarterly reports provide a mechanism for monitoring the performance and progress of the Internal Audit team and the adequacy of the Council’s internal control environment to ensure the public pound is spent wisely and appropriately and that fraud, theft and corruption is minimised

28. The Audit Committee is asked to note progress on delivery of the audit plan and audit opinions given to date and ask questions, make observations and recommendations, as necessary.

Preferred Option and Why

29. N/A

Comments of Chief Financial Officer

30. I can confirm that I have been consulted and have no additional comments.

Comments of Monitoring Officer

31. There are no legal implications. The Report has been prepared in accordance with the Council's internal audit procedures and the Performance Management framework. The progress made to date in delivering the objectives set out in the approved Audit Plan highlights the effectiveness of the work undertaken by this service area in ensuring that adequate and effective internal financial controls are in place.

Staffing Implications: Comments of Head of People and Business Change

32. There are no direct Human Resources issues arising from this report, other than the on-going resource issues highlighted. In terms of Corporate Policy & Performance, the report presents a review of audit activity during the period concerned and is set out in the context of performance framework. Clearly the work of the audit team is critical in giving assurance that the work of the Council is being undertaken within the set policies and procedures.

Comments of Cabinet Member

33. N/A

Local issues

34. N/A

Consultation

35. N/A

Background Papers

36. N/A

Dated:

Appendix A **Newport City Council** **Internal Audit Service** **Performance Indicators**

2014/15	2014/15 Target	1st Qtr 14/15	2nd Qtr 14/15	3rd Qtr 14/15	4th Qtr 14/15	Comments
Proportion of planned audits complete	75%	19%	31%	51%	66%	[Profiled Target 50%]
Proportion of planned audits complete within estimated days	65%	N/A	50%	33%	50%	Cumulative figures
Directly chargeable time against total time available	61%	52%	51%	54%	54%	Quarterly performance
Directly chargeable time against planned	84%	80%	85%	87%	88%	Quarterly performance
Proportion of Special Reviews responded to within 5 working days	100%	100%	100%	100%	100%	Cumulative figures
Number of sessions provided to train staff in all Service Areas on best financial practice	11	2	5	5	9	Cumulative figures
Staff turnover rate (1 member of staff)	9%	0	0	0	2	Quarterly performance
Promptness of draft report issue (end of fieldwork to draft report issue date)	10 days	8 days	7 days	13 days	12 days	Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	2 days	2 days	2 days	2 days	Cumulative figures

2015/16	2015/16 Target	1st Qtr 15/16	2nd Qtr 15/16	3rd Qtr 15/16	4th Qtr 15/16	Comments
Proportion of planned audits complete	75%	16%	32%	43%		[Profiled Target 50%]
Proportion of planned audits complete within estimated days	65%	N/A	36%	22%		Cumulative figures
Directly chargeable time against total time available	61%	53%	53%	55%		Quarterly performance
Directly chargeable time against planned	84%	81%	77%	74%		Quarterly performance
Proportion of Special Reviews responded to within 5 working days	100%	100%	100%	100%		Cumulative figures
Number of sessions provided to train staff in all Service Areas on best financial practice	11	0	5	5		Cumulative figures
Staff turnover rate (number of staff)	1	1	1	2		Quarterly performance
Promptness of draft report issue (end of fieldwork to draft report issue date)	10 days	2 days	10 days	15 days		Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	1 day	3 days	3 days		Cumulative figures

Appendix B
Opinions as at 31 December 2015, Qtr 3

Very Good	0
Good	4
Reasonable	12
Unsatisfactory	3
Unsound	0
Total	19

Internal Audit Services - Management Information for 2015/16 Q3

Job number	Service Area	Section or Team	Job Title	Risk Rating / Priority	Complete when FINALISED	Opinion given
P1516-P6	Finance	Local Taxation	Council Tax	Medium	Finalised	Good
P1516-P31	CS & DI	Customer Service	Housing Benefits	High	Finalised	Good
P1516-P41	Res & Plan	Primary Schools	St Woolos Primary	Medium	Finalised	Good
P1516-P58	Law & Reg	Public Protection Service	Community Safety Warden Service	Medium	Finalised	Good
P1516-P2	Finance	Strategic Procurement	Corporate Procurement	High	Finalised	Reasonable
P1516-P5	Finance	Income Collection	Debtors	High	Finalised	Reasonable
P1516-P13	People & Bus Change	Business Svc Development	Performance Indicators	Medium	Finalised	Reasonable
P1516-P19	Children & Young People Serv	Resources	Forest Lodge	Medium	Draft	Reasonable
P1516-P38	Res & Plan	Nursery Schools	Fairoak Nursery	Medium	Finalised	Reasonable
P1516-P39	Res & Plan	Primary Schools	Ysgol Gymraeg Bro Teyrnon	Medium	Draft	Reasonable
P1516-P40	Res & Plan	Primary Schools	Maesglas Primary	Medium	Finalised	Reasonable
P1516-P43	Res & Plan	Primary Schools	Milton Infants & Nursery	Medium	Draft	Reasonable
P1516-P44	Res & Plan	Primary Schools	Glan Usk Primary	Medium	Draft	Reasonable

Job number	Service Area	Section or Team	Job Title	Risk Rating / Priority	Complete when FINALISED	Opinion given
P1516-P67	RI&H	CL&L	Library Service 2014/15	Medium	Finalised	Reasonable
P1516-P68	RI&H	CL&L	Adult Education Income & Enrolments	Medium	Draft	Reasonable
P1516-P79	Streetscene & City Svcs	Environmental Services	Refuse Collection 2014/15	High	Draft	Reasonable
P1516-P14	People & Bus Change	Partnership & Policy	Partnerships & Planning	Medium	Draft	Unsatisfactory
P1516-P20	Children & Young People Serv	Children's Teams	Looked After Children Team (16+)	High	Finalised	Unsatisfactory
P1516-P37	Res & Plan	Nursery Schools	Kimberley Nursery	Medium	Finalised	Unsatisfactory
P1516-P23	Adult & Comm Serv	Quality Assurance	Supporting People Grant Certification	Medium	Finalised	Unqualified
P1516-P60	Law & Reg	Trading Standards	Scambusters Grant Claim 2014/15	Medium	Finalised	Unqualified
P1516-P78	Streetscene & City Svcs	Transport Management	Bus Services Support Grant 2014/15	Medium	Finalised	Unqualified

Non Opinion work 2015/16 Q3

Job number	Service Area	Section or Team	Job Title	Opinion given
P1516-P9	Finance	General	Annual Governance Statement	Not applicable
P1516-P10	Finance	General	Financial Advice	Not applicable
P1516-P15	People & Bus Change	General	Financial Advice	Not applicable
P1516-P16	People & Bus Change	General	Financial Regulations Training	Not applicable
P1516-P21	Children & Young People Serv	General	Financial Advice	Not applicable
P1516-P28	Adult & Comm Serv	General	Financial Advice	Not applicable
P1516-P33	CS & DI	General	Financial Advice	Not applicable
P1516-P51	Res & Plan	Other School Related	CRSA's / Healthcheck - Primary/Secondary/Nursery	Not applicable
P1516-P55	Imp & Inc	General	Financial Advice	Not applicable
P1516-P61	Law & Reg	General	Financial Advice	Not applicable
P1516-P66	RI&H	Community Centres	CC Accounts	Not applicable
P1516-P71	RI&H	General	Financial Advice	Not applicable
P1516-P83	Streetscene & City Svcs	General	Financial Advice	Not applicable
P1516-P86	Ext Audits	Caldicot & Wentlooge Levels Internal Drainage Board	Caldicot & Wentlooge Levels IDB (Annual Report / Return)	Not applicable
P1516-P87	Ext Audits	Caldicot & Wentlooge Levels Internal Drainage Board	Lower Wye IDB (Annual Report / Return)	Not applicable
P1516-P88	Ext Audits	WCAG	WCAG Training Programme	Not applicable

Appendix C

INTERNAL AUDIT SERVICES – OPINIONS

VERY GOOD	Very well controlled with minimal risk and minor recommendations
GOOD	Well controlled with some risks identified which require addressing
REASONABLE	Adequately controlled although risks identified which may compromise the overall control environment; improvements required
UNSATISFACTORY	Not well controlled; unacceptable levels of risk; changes required urgently
UNSOUND	Poorly controlled; major risks exists; fundamental improvements required with immediate effect

- The Internal Audit team is in the process of revising the audit opinions in line with the level of assurance obtained from undertaking the audit work, that appropriate controls, governance arrangements and risk management are in place.
- The Internal Audit team is also piloting a new report format during 2015/16 where the Audit Opinion will be colour coded based on a traffic light system and the report will contain key issues which need to be addressed.
- This will be presented to the Audit Committee during the year.

REVISED AUDIT OPINIONS 2015/16:

	GOOD	**Well controlled with only moderate risks identified which require addressing; substantial level of assurance.**	**Green**
	REASONABLE	Adequately controlled although risks identified which may compromise the overall control environment; improvements required; reasonable level of assurance.	Yellow
	UNSATISFACTORY	Not well controlled; unacceptable level of risk; changes required urgently; poor level of assurance.	Amber
	UNSOUND	Poorly controlled; major risks exists; fundamental improvements required with immediate effect.	Red

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Report

Audit Committee

Part 1

Date: 28 January 2016

Item No: 07

Subject **Internal Audit – Progress Against Unsatisfactory Audit Opinions Previously Issued [to December 2015]**

Purpose To inform Members of the Audit Committee of the up to date position of audit reviews previously given an unsatisfactory / unsound audit opinion.

Author Chief Internal Auditor

Ward General

Summary The attached report identifies current progress of systems or establishments which have previously been given an unsatisfactory or unsound audit opinion. Although there will always be concerns over reviews given an unsatisfactory or unsound audit opinion, managers are allowed sufficient time to address the issues identified and improve the financial internal controls within their areas of responsibility.

In **2013/14**, 41 audit opinions were issued; no *Unsatisfactory* or *Unsound* opinions were issued

In July 2015 it was reported that 5 audit reviews had been given an Unsatisfactory audit opinion during **2014/15:** Amenity Funds, Financial and Administrative Procedures [Flexible Working and Travel and Subsistence Procedures] (Adult Services), CCTV / Security (Telford Depot), Discretionary Charging (Environmental Health) and SEN Assessments and Out of County Placements.

These reviews are due to be followed up during 2015/16; to date no follow ups have been undertaken.

In **2015/16**, to December 2015, 19 audit opinions had been issued; 3 were *Unsatisfactory,* no *Unsound* opinions were issued.

Proposal The report be noted and endorsed by the Council's Audit Committee

Action by Audit Committee

Timetable Immediate

Background

1. This report aims to inform Members of the Audit Committee of the current status of audit reviews previously given an *unsatisfactory* or *unsound* audit opinion and to bring to their attention any areas which have **not** demonstrated improvements within the financial control environment.

2. Since bringing this report to the Audit Committee there have been 13 reviews which had been given two consecutive *unsatisfactory* or *unsound* audit opinions and these have previously been brought to the attention of the Audit Committee by the Chief Internal Auditor; in each case the relevant Head of Service and Cabinet Member attended a meeting of the Audit Committee. The latest referrals are shown at Appendix A.

3. It is pleasing to report that improvements were made in all 13 areas. These reviews will now be picked up as part of the audit planning cyclical review and will be audited as part of that process.

4. Follow up audit work for the 5 2014/15 Unsatisfactory reviews has been planned for 2015/16 by the audit team and is recorded in the plan. Where the team come across obstacles in undertaking follow up work, for example managers stating that the issues will be addressed by the implementation of a new system, the Chief Internal Auditor will take a view as to the usefulness of a follow up review at the time and report back to the Audit Committee.

5. Definitions of the audit opinions are shown at Appendix B.

History of unfavourable audit opinions

6. In **2013/14**, 41 audit opinions were issued; no *Unsatisfactory* or *Unsound* opinions were issued.

7. In **2014/15**, 34 audit opinions were issued; 5 of which were deemed to be *Unsatisfactory* as shown in the following table. These have not yet been followed up due to insufficient resources within the audit team so we are not yet in a position to provide an update on the current audit opinion.

	Revised Opinion / Date of follow up	Current Status
Amenity Funds (Adult Services) Final	2015/16	Not yet followed up
Flexible Working and Travel and Subsistence Procedures (Adult Services) Draft	2015/16	Not yet followed up
CCTV / Security (Telford Depot) (Street Scene) Final	2015/16	Not yet followed up
Discretionary Charging (Public Protection – Environmental Health) Final	2015/16	Not yet followed up
SEN Assessments and Out of County Assessments (Education Services) Draft	2015/16	Not yet followed up

8. In **2015/16 to December 2015**, 19 audit opinions had been issued; 3 of which were deemed to be *Unsatisfactory*; a summary of the significant issues follows the table:

	Revised Opinion / Date of follow up	Current Status
Partnerships & Planning (Draft)	2016/17	
Looked After Children 16+	2016/17	
Kimberley Nursery	2016/17	

a) Partnerships & Planning (Draft)

Ref.	
1.02	Grants paid out in the current financial year (2015/16) had not been formally approved by the relevant Cabinet Member.
1.03	There were no documented and approved qualifying criteria for awarding

	discretionary grants to voluntary organisations.
1.04	There was no defined process for voluntary organisations to apply for discretionary grant funding.
1.05	Signed SLA's were not in place for all voluntary organisations that had received discretionary funding in 2015/16.
1.06	No monitoring of performance as detailed in the outline SLA's has been undertaken.

b) Looked After Children 16+

Ref.	
2.09	'Application for Financial Assistance' forms were not being scanned and indexed in the Information @ Work system in a timely manner; a significant proportion of forms were missing.
1.02	The 'Newport Aftercare Team Policy and Practice Protocols Statement' had not been reviewed since 2009.
2.10	Authorisation limits for financial assistance payments were not formally recorded.
2.11	'Application for Financial Assistance' forms were missing signatures and dates to confirm the receipt of cash by the young person and timely hand over.
2.12	Case notes were not being updated to record that financial support had been received by the young person.
2.13	Documentary proof of receipt was not always obtained / retained for purchases made on behalf of and delivered to young people, to support receipting on the iProcurement system.
2.14	Payments direct to young people's bank accounts were being made by cash deposit.

c) Kimberley Nursery

Ref.	
1.01	Receipts issued did not contain adequate detail, receipt books had been used out of sequence and there was no control record in place.
1.02	At the time of the review, the School did not have an approved safe, the Headteacher did not have independent access and there was no formal handover of cash in place between the School and the Private Kimberley Childcare facility.
1.03	For the period examined, nil returns were not being completed when no income had been received. For the sample of income returns examined, these were not always completed correctly or certified by the Headteacher. There was no independent review of the School paying-in books.
2.05	At the time of the review, when the South East Wales Framework was not used for the procurement of Supply Teachers there was no evidence of Governing Body approval to use a different supplier.

Ref.	
2.06	Electrical works had been undertaken at the School without notification to Newport Norse. A copy of the NIC-EIC Minor Electrical Installation Works Certificate was not easily located at the School.
2.07	For the period examined, a number of invoices had been processed through the non-order facility where a purchase order should have been raised.
2.08	For the sample examined, there was no evidence of having obtained value for money for purchases under £3,000.
2.09	For the sample examined, not all invoices had been certified for payment by the Headteacher.
3.05	Pre-employment checks / paperwork were not always completed prior to new employees commencing work at the School.
3.06	For the sample examined, out of date sickness absence forms were being used. The management action taken in relation to the absence was not always in strict accordance with the Management of Attendance Policy and reasons were not provided as to why the action taken was appropriate.
4.05	At the time of the review, the School did not have a copy of the current School Private Fund (SPF) bank mandate / letter from the bank confirming the signatories on the account and the fund administrator (treasurer) regularly signed cheques on behalf of the fund.
4.06	Monthly reconciliations of the SPF account were not completed and there was no evidence to support that bank statements / income records had been reviewed by the Headteacher / independent person.
4.07	At the time of the review, the SPF for the 2013/14 academic year had not been independently audited. The Annual Statement of Account for the 2013/14 academic year had not been fully completed, balanced or presented to the Governing Body for review.
5.04	At the time of the review, the School's inventory did not contain adequate information and there was no evidence of an independent check being conducted on the record held.
5.05	At the time of the review, portable electrical equipment had not been security marked as belonging to the School / NCC.
7.04	At the time of the review, the structure of the Governing Bodies Sub-Committees was non-compliant with Governor Wales's statutory guidance.

9. Internal Audit will continue to cover the service areas and specific sections identified in the 2015/16 operational plan and will endeavour to revisit any areas which have been given an unsatisfactory or unsound audit opinion within a twelve month timescale.

10. Heads of Service and service managers are responsible for addressing any weaknesses identified in internal systems and have agreed to do this by incorporating their comments within the audit reports and taking on board the agreed management actions.

11. Internal Audit are continuing to raise the awareness of financial regulations and contract standing orders within the Council by delivering seminars to all service areas; during recent

years this training has been further targeted towards areas that have had unsatisfactory audit opinions.

12. Where managers are compliant with Council policies and procedures and sound financial management can be demonstrated then audit reviews should result in an improved audit opinion being given. If, as a result, improvements are made to internal controls then greater assurance can be given by Internal Audit to the Audit Committee, the Leader and the Chief Executive on the overall effectiveness of all the Council's internal controls.

Financial Summary, Risks and Links to Council Policies and Priorities

13. No direct financial implications for this report.

14. One of the key objectives of an audit report is to outline compliance against expected controls within a system, an establishment or the duration of a project or contract. The report should give management assurance that there are adequate controls in place to enable the system to run effectively, efficiently and economically. If adequate controls are not in place then there is greater exposure to the risk of fraud, theft, corruption or even waste.

15. Newport Internal Audit reports outline strengths of the system under review along with any weaknesses in internal control. The reports are discussed with operational management where the issues identified are agreed. The operational manager will then add his / her action plans to the report which will address the agreed issue and mitigate any further risk.

16. Reduced audit staff reduces the audit coverage across service areas which provides reduced assurance to management.

17. Risk table – N/A for this report

18. Giving management assurance on systems in operation gives them confidence that there is sound financial management in place, that more effective services can be provided and the risk of theft, fraud and corruption is minimised. Better service provision, looking after the public pound makes our City a better place to live for all our citizens

    - To make our city a better place to live for all our citizens
    - To be good at what we do
    - To work hard to provide what our citizens tell us they need

Options Considered / Available. Preferred choice and reasons

19. Not applicable

Comments of Chief Financial Officer

20. This report is compiled on behalf of the Head of Finance.

Comments of Monitoring Officer / Head of Law & Regulation

21. There are no legal implications. The report has been prepared in accordance with the Council's internal audit procedures and the Performance Management framework.

Comments of Head of People and Business Change

22. There are no direct Human Resources issues arising from this report. Internal Audit provide a critical function within the Council to provide assurance on financial systems and monitoring and to highlight weaknesses so that issues can be identified and addressed.

Local Issues and Consultation

23. Not applicable

Appendix A

INTERNAL AUDIT SERVICES

Progress of reports following call-in to Audit Committee as a result of 2 consecutive unfavourable audit opinions:

Review	Service Area	Status since Head of Service and Cabinet Member attended Audit Committee
Civic Centre Car Parking	Law & Standards	Reasonable (March 10)
Leaving care / after care	Children and Family Services	Reasonable (July 10)
Ysgol Gymraeg Casnewydd (Nov 2011)	Education Services	Reasonable (March 2013)
Recruitment & Selection (July 2012)	People & Transformation	Good (Feb 2014)

Appendix B

INTERNAL AUDIT SERVICES – OPINIONS

- The Internal Audit team is in the process of revising the audit opinions in line with the level of assurance obtained from undertaking the audit work, that appropriate controls, governance arrangements and risk management are in place.

- The Internal Audit team is also piloting a new report format during 2015/16 where the Audit Opinion will be colour coded based on a traffic light system and the report will contain key issues which need to be addressed.

- This will be presented to the Audit Committee during the year.

REVISED AUDIT OPINIONS 2015/16:

	GOOD	**Well controlled with only moderate risks identified which require addressing; substantial level of assurance.**	**Green**
	REASONABLE	Adequately controlled although risks identified which may compromise the overall control environment; improvements required; reasonable level of assurance.	Yellow
➡	UNSATISFACTORY	Not well controlled; unacceptable level of risk; changes required urgently; poor level of assurance.	Amber
	UNSOUND	Poorly controlled; major risks exists; fundamental improvements required with immediate effect.	Red

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WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Financial Accounts Memorandum - 2014-15 Audit

Newport City Council

Audit year: 2014/15

Issued: January 2016

Document reference: 148A2016

Status of report

This document has been prepared as part of work performed in accordance with statutory functions.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at info.officer@audit.wales.

The team who delivered the work comprised Anthony Barrett (Engagement Lead), Terry Lewis (Audit Manager), Jeannette Sweet (Team Leader), Jon Martin (Team Leader) and a number of support auditors

Contents

This report, on behalf of the Auditor General for Wales, summarises the issues arising from our audit of the Council's 2014-15 Financial Statements

Introduction

1. The Auditor General is responsible for providing an opinion on whether the financial statements of Newport City Council (the Council) give a true and fair view of the financial position of the Council as at 31 March 2015 and its income and expenditure for the year then ended.
2. We completed a risk assessment and targeted our audit work to enable us to fulfil this responsibility. This included the documenting the key financial systems, assessing and evaluating of the Council's internal control environment, as well as forming an opinion on whether the financial statements had been properly prepared in accordance with relevant legislation and applicable accounting standards.
3. This report summarises the findings from our work on the Financial Statements.

The Council's 2014-15 Financial Statements were materially accurate and properly prepared

4. International Standard on Auditing (ISA) 260 requires auditors to report to 'those charged with governance' the findings of the audit of the accounting statements. We presented the Auditor General's '*Audit of the Financial Statements Report'* to the Council's Audit Committee meeting held on 24 September 2015. At that point, there were some minor areas of our work to finalise and we indicated that it was the intention of the Auditor General to issue an unqualified audit opinion.

Statutory publication deadlines were met with an unqualified audit opinion issued on 30 September 2015 on behalf of the Auditor General for Wales

5. The Council published its draft financial statements by the 30 June 2015 deadline. The final audited statements were also published by the statutory deadline of 30 September 2015.
6. An unqualified audit opinion was issued on 30 September 2015. Whilst not qualified, it was modified to include an 'emphasis of matter' paragraph, drawing attention to the fact that Group Accounts had not been prepared for the financial transactions of Newport Transport Ltd. Although this company operates at 'arms length', it is nevertheless wholly owned by the Council.

Overall, we found the information provided to support the Financial Statements to be relevant, reliable, comparable and easy to understand. However, despite improvements in some areas, there are still issues that the Council should address for the 2015-16 Statements

7. Last year we reported a number of qualitative and quantitative areas where the Council needed to improve and subsequently agreed a comprehensive 'Audit Deliverables' document for 2014-15. This set out all the supporting working papers we required to support our audit work. Whilst the Council made strenuous efforts to implement these improvements, some of the problems recurred and this delayed the progress of our audit work. It meant that our work continued right through to late September, and right up until the time that the accounts had to finalised for presentation to the Audit Committee. The problems encountered can be summarised as follows:

- All the working papers requested were not made available at the scheduled start of the audit which delayed its commencement. The outstanding working papers were provided during the course of our audit work;
- Officers were sometimes slow to respond to queries and to make available some of the missing working papers; and
- The supporting information to verify existence and ownership of some of the Council's assets was not sufficient so required additional time for verification.

8. The Audit Team held a 'post project learning' session and indentified a number of areas where the process for the audit of the financial statements could be improved, both from an audit perspective and also for the Council to consider. The key themes for improvement were shared (and discussed) with the Council's Assistant Head of Finance in October 2015 and he consolidated them into a report that was presented to the Audit Committee in November 2015.

9. We will continue to liaise closely with officers to ensure that effective arrangements are put in place for the preparation and audit of the 2015-16 accounts. We are encouraged by the progress that has already been made by the Council to address these issues, with the preparation of very clear proposals and plans, in an effort to deliver significant improvement.

Recommendations to address the matters arising from the audit of the Council's 2014-15 financial statements

10. The following table sets out our recommendations for improvement to address the main issues arising from the audit of the 2014-15 financial statements.

Recommendations		Implementation
R1	Review the accounting arrangements for the Council's involvement in all Joint Committees and other Jointly Controlled operations (including Newport Norse), as set out in its Accounting Policy and as required by the Code of Audit Practice.	Accounting Statements 2015-16
R2	Incorporate the financial transactions of Newport Transport Ltd, in accordance with the requirements to account for 'group' operations.	Accounting Statements 2015-16
R3	Improve working papers and ensure they are available in a timely manner in accordance with the agreed 'Audit Deliverables' document (which will be updated early in 2016).	Accounting Statements 2015-16
R4	Make further improvements to the quality review of the working papers before they are submitted for audit, to ensure they are complete and of sufficient quality to enable the figures in the accounts to be verified.	Accounting Statements 2015-16
R5	For some capital assets, provide improved information covering their existence and ownership.	Accounting Statements 2015-16
R6	Consider the accounting arrangements for the Port Health Authority and incorporate into the financial statements.	Accounting Statements 2015-16
R7	Ensure timely publication of the 'notice of audit' to ensure the accounts are available for the 20 day period for inspection (so as to avoid re-advertisement).	Accounting Statements 2015-16
R8	Improve the process for preparation of the Whole of Government Accounts return so that it is prepared earlier (together with the supporting working papers) to ensure that there sufficient time to complete audit work and submit by the deadline set by Welsh Government.	WG Accounts 2015-16

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Report

Audit Committee

Part 1

Date: 28 January 2016

Item No: 09

Subject **Work Programme**

Purpose To report the details of this Committee's work programme.

Author Scrutiny Support & Research Officer

Ward General

Summary The purpose of a forward work programme is to help ensure Councillors achieve organisation and focus in the undertaking of enquiries through the Audit Committee function.

This report presents the current work programme to the Committee for information and details the items due to be considered at the Committee's next two meetings.

Proposal **The Committee is asked to endorse the proposed schedule for future meetings, confirm the list of people it would like to invite for each item, and indicate whether any additional information or research is required.**

Action by Audit Committee

Timetable Immediate

This report was prepared after consultation with:

- Head of Law and Standards
- Head of Finance
- Head of Human Resources and Policy

Background

The purpose of a forward work programme is to help ensure Councillors achieve organisation and focus in the undertaking of enquiries through the Audit Committee function.

Attached at Appendix1 is the forward work programme for this Committee. Below are the items scheduled to be presented at the Committee's next two meetings. Committee Members are asked to endorse this schedule, confirm the list of people they would like to invite for each item, and indicate whether any additional information or research is required.

28 January 2016

Internal Audit Plan – Progress Quarter 3
Financial Memorandum on the 2014-15 Financial Audit
Treasury Management Report
Internal Audit Unsatisfactory Audit Opinions (6 monthly report)
Corporate Risk Register (considered by Cabinet in December)

24 March 2016

Annual Audit outline for the 2015/16 Financial Audit
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 3, October to December)
WAO Annual Report on Grants Works
Regulatory Reports
Annual Governance Statement (draft statement)
Corporate Risk Register (Considered by Cabinet in March)
Member Development Self Evaluation Exercise

Financial Summary

Please see comments from Chief Financial Officer below.

Risks

If proper work programming procedures are not put in place, the organisation and prioritisation of the work programme is put at risk. The work of the Audit Committee could become disjointed from the work of the rest of the Council, which could undermine the positive contribution Audit Committee makes to service improvement.

This report is presented to each Committee every month in order to mitigate that risk. The specific risks associated with individual topics on the work programme will need to be addressed as part of the Committee's investigations.

Comments of Chief Financial Officer

There will be financial consequences for some of the reviews undertaken. These will be commented upon as the reports are presented. The preparing and monitoring of the work programme is done by existing staff for which budget provision is available.

Comments of Monitoring Officer

I have no comments, as there are no legal implications.

Staffing Implications: Comments of Head of People and Business Change

There are no staffing implications within this report. Any staffing implications of the reviews in the work programme will need to be addressed in individual reports.

Background Papers

Scrutiny Handbook (available at www.newport.gov.uk/scrutiny)

Appendix 1
(Audit Committee to meet every other month unless circumstances dictate otherwise)

28 May 2015
Appointment of Chairman
Internal Audit Annual Report 2014/15
Internal Audit Annual Plan 2015/16
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 3 and 4, Oct to March, Oct to Dec deferred from March meeting)
Corporate Risk Register Update (considered by Cabinet in March)

16 July 2015
Internal Audit Unsatisfactory Audit Opinions (6 monthly report)
Corporate Risk Register Update (Considered by Cabinet in June)
Annual Governance Statement
Draft Financial Accounts 2013/14
Treasury Management Report

24 September 2015
Internal Audit Plan 2015/16 – Progress (Quarter 1)
Statement of Accounts 2014-15
Audit of Financial Statements Report 2014-15
Corporate Risk Register Update (Considered by Cabinet in September)
Risk Assessment and information contained within reports (requested at July 2015 meeting)
Report on Audit Committee Self Evaluation Exercise
Presentation on Whistle blowing Policy
Overspend on Market Square Bus Scheme

26 November 2015
Internal Audit Plan – Progress (Quarter 2)
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 1 and 2, April to September)
Treasury Management Report (and 15 min training session, requested at July 2015 meeting)
Lessons Learned 2014/15
Regulatory Reports
Audit Committee Self Evaluation Exercise

28 January 2016
Internal Audit Plan – Progress (Quarter 3)
Financial Memorandum on the 2014-15 Financial Audit
Treasury Management Report
Internal Audit Unsatisfactory Audit Opinions (6 monthly report)
Corporate Risk Register (Considered by Cabinet in December)

24 March 2016
Annual Audit outline for the 2015/16 Financial Audit
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 3, October to December)
WAO Annual Report on Grants Works
Regulatory Reports
Annual Governance Statement (draft statement)
Corporate Risk Register (Considered by Cabinet in March)
Member Development Self Evaluation Exercise

Unallocated work **(Dates to be agreed)**
Report on Risks associated with Hosting (IT)

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