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Agenda

Audit Committee

Date: Thursday, 26 January 2017

Time: 5.00 pm

Venue: Committee Room 1 - Civic Centre

To: Councillors Mr J Baker (Chair), R Bright, D Davies, E Garland, J Guy, R Mogford, M Spencer, H Thomas and R White

Item

1 Agenda yn Gymraeg / Agenda in Welsh *(Pages 3 - 4)*

2 Apologies for Absence

3 Declarations of Interest

4 Minutes of the Meeting held on 1 December 2016 *(Pages 5 - 12)*

5 Corporate Risk Register Update *(Pages 13 - 32)*

6 Treasury Management Report *(Pages 33 - 60)*

7 Internal Audit Plan - Progress Quarter 3 *(Pages 61 - 74)*

8 Work Programme *(Pages 75 - 78)*

9 Date of Next Meeting - 30 March 2017

NB: Would members please ensure no printed copies of the agenda are left in the room at the conclusion of the meeting. Leaving paper copies of reports where they can be accessed by unauthorised persons could present a data breach.

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Date of Issue: 20 January 2017

Agenda

Pwyllgor Archwilio

Dyddiad:	Dydd Iau, 26 Ionawr 2016
Amser:	5 y.p.
Lleoliad:	Ystafell Bwyllgora 1
At:	Mr J Baker (Cadeirydd), Y Cynghorwyr: Bright, Davies, Garland, Guy, Mogford, Spencer, H Thomas a White.

Eitem

Rhan 1

1. Agenda yn Gymraeg
2. Ymddiheuriadau am absenoldeb
3. Datganiadau o fuddiant
4. Cofnodion y cyfarfod a gynhaliwyd ar 1 Rhagfyr 2016
5. Diweddariad am y Gofrestr Risg Gorfforaethol
6. Adroddiad Rheoli Trysorlys
7. Cynllun Archwilio Mewnol 2016-17 Cynnydd Chwarter 3
8. Rhaglen Waith
9. Dyddiad y cyfarfod nesaf – 30 Mawrth 2017

Person cyswllt: Meryl Lawrence
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Dyddiad cyhoeddi: 19 Ionawr 2017

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Minutes

Audit Committee

Date: 1 December 2016

Time: 5.00 pm

Present: Councillors Mr J Baker (Chair), E Garland, J Guy, R Mogford, H Thomas and R White

Owen James (Assistant Head of Finance - Technical and Development), Andrew Wathan (Chief Internal Auditor), Dona Palmer (Audit Manager) and Meryl Lawrence (Overview and Scrutiny Officer)

In Attendance:

Apologies: Councillors D Davies

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1 **Declarations of Interest**

Councillor H Thomas declared an interest as the Chair of Newport Transport, the accounts of which are included in Newport City Council's consolidated accounts.

2 **Minutes of the Meeting held on 22 September 2016**

The Minutes of the meeting held on 22 September 2016 were submitted.
A Member referred to page 5, sub paragraph 3, Brexit and asked whether this was still being monitored? – *It was clarified that Brexit remained on the Risk Register.*

Agreed

To confirm the minutes of the Meeting held on 22 September 2016.

3 **Lessons Learned 2015-16**

Members considered a report presenting the findings of an initial lessons learned review carried out by finance officers following the 2015/16 accounts closedown. It gave an assessment on the findings of the lessons learned review and the plans in place to implement for 2016/17 and the key risks to the close down process for 2016/17.

Following the closedown of the 2015/16 accounts, a lessons learned log was required to put into place improvements for the closedown of the accounts process. This lessons learned review should be taken as a matter of course, and with the issues that arose from the audit of the 2015/16 accounts, this review is of high importance to ensure improvements are delivered for 2016/17.

While there was a number of positives that came out of the closedown process in 2015/16 which can be taken forward into future years, there are a number of areas where weaknesses have been identified and improvements can be made. Processes, timetables and communication are essential in delivering these.

Discussions included the following:

- Improving the information provided.
- The future requirement to close the accounts earlier by 2018 and the need to bring the timetable forward to address and have corporate buy in to the revised process as good practice.
- The statutory requirement of an annual audit.
- A typographical error was identified on page 13, first bullet point should read "..as *capital* expenditure…".
- The request that an amendment list be provided at the time of presentation of the accounts to the Audit Committee for requested sign off.
- The need to have corporate buy in to take management with you to achieve the required early closure in July 2018 with a fully supported timetable.

Agreed

To note the lessons learned process that has been carried out to date and agree the proposed plan for 2016/17 closedown.

4 **Financial Memorandum on 2015-16 Financial Audit**

Members considered the Wales Audit Office report: Final Accounts Memorandum 2015-16 for Newport City Council, which summarised the conclusions on the audit of Newport City Council's 2015-16 financial statements and Whole of Government Accounts return and contained recommendations to Newport City Council's management and summarised performance against agreed measures.

Wales Audit Office had issued an unqualified auditor's report on the financial statements and made the following five recommendations:

1. The process for compiling of the Whole of Government Accounts needs to improve in future years.
2. A detailed review of leases should be undertaken to identify those that may meet the definition of Finance Leases.
3. A detailed review of the Provision for Landfill Capping and Aftercare costs should be undertaken.
4. Decisions regarding the approval of pay grades and market supplements of Senior Officers should be documented.
5. Procedures over the preparation of Group Accounts should be improved.

Discussions included the following:

- With regard to the approval of pay grades for senior officers, we don't want to be in the position a neighbouring Authority is in as reported in the press.
- Are the minutes the only audit trail or is there separate correspondence? – Appointment Committee is the record of an appointment. At Head of Service level, the letter of appointment indicating the level and grade would be signed off by the Head of Human Resources.
- Need an audit trail or could have criticism, or a mistake could be made. Also the Authority is paying higher pension contribution. – The Head of HR would have signed it off.
- Whether the situation had been regularised by the report to Council in September on Heads of Service Pay? – The issue was about the rate appointed at and the decision to appoint at the top of the scale as there were issues with Head of Service posts for a number of years. In order to recruit in 2016-7 offered the top of the scale, the issue is

around the minuting of the decision not the lack of decision. HR Manager fully recognised the need to minute this in future.

- This happened more than once and it needs to be documented. IT is worrying if not being minuted.
- The need to close the Group Accounts in July 2018 and the new process to close the accounts earlier.
- What happens if a body like Newport transport didn't comply with the deadlines? – Estimates could be used and can negotiate with Audit if they think its reasonable information to rely upon.
- Why would they be late and why were there a high level of adjustments? – There were errors in the draft accounts and Newport Transport work to different timescales as they area company not a Council, they work to Company deadline of December.
- If the errors are not material its not an issue, however, the Council own and control 51% Newport Transport so has to publish the accounts and should have the accounts when requested.
- Its commercially sensitive if the accounts are published too early.
- If they are not provided on time there is no time to correct by the deadline.
- To avoid a qualified audit report need to have consolidated accounts on time, don't have to be published then. If we have estimates and material errors no time to address. – In terms of practicalities, it's about the Council's Finance Team working with Newport Transport finance team and advising why we need the draft accounts and the importance of them. Although the controllors, we are still dealing with another body.
- As an Audit Committee need to ensure an unqualified audit. The Council and Newport Transport need to resolve to ensure we don't have a qualified audit.
- Is the principle that the Council has to produce the consolidated accounts.
- There is no reason why an arm's length company can still publish its accounts in December and consolidated accounts to include draft estimates in accounts in September (or in the future in July). – The main reason was the pension note didn't tie up to the balance sheet. At that point we needed to make estimates and assumptions on what we received from Newport transport. The quality of the draft accounts is really important for us to get good estimates. This is the first year and there will be improvement next year. For audit to take a view they need to see draft accounts. Will be under more time pressures in the future, with less time to improve.

Agreed

To note the Wales Audit Office Final Accounts Memorandum 2015-16.

5 **Treasury Management Report**

Members considered a report on treasury activities undertaken during the period to 30 September 2016. Treasury Management was defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

The Council continues to be both a s/t investor of cash and borrower to manage day-today cash-flow's. Current forecasts indicate that in the future, temporary borrowing will continue to be required to fund normal day to day cash flow activities and to fund borrowing for the City Centre Redevelopment. Discussions around the sale of the redevelopment are currently underway and are of a commercial and confidential nature. The successful conclusion of a sale will have a significant impact on the treasury activities of the authority. The outcome of the sales discussions will be known in the near future and the impact on treasury management will be updated for the '2017/18 Treasury Management Strategy', which will come to Audit Committee in January 2017.

Following the result of the BREXIT referendum there were no immediate changes to our advisor's credit advice on UK banks and building societies. However, the report provides a counterparty update which details the various indicators of credit risk which have reacted negatively to the result of the referendum.

The Authority measures and manages its exposures to treasury management risks using various indicators contained in Appendix B. In the main in the first half of the year the Authority had stayed within the limits set. However, due to the borrowing undertaken for Queensberry the amount of borrowing "due within 12 months" has exceeded the percentage limit set.

In setting the percentage limit for borrowing due 'within 12 months', there was the expectation that the loan outstanding from Queensberry would be repaid, therefore further borrowing in relation to this would remain under the 12 month limit. However, as the loan was not repaid earlier in the year, borrowing has still been required in relation to this as detailed earlier in the report. The level of borrowing undertaken has been taken over a short period (under 12 months), therefore exceeding the percentage limit, as there is the possibility that we would not need to re-finance the majority of these loans in the long-term therefore avoiding a cost of carry.

Audit Committee are being asked to note the request to Council to approve the requirement to increase the Percentage limit of total borrowing with a maturity date within 12 months to 80%.

Discussions included the following:

- Bank of Scotland performance got worse. – It was clarified that any changes after the half year won't be reflected. There are very few investments and short term investments and receive regular and daily or weekly emails from the Authority's Treasury advisors.
- How quickly do the advisors react to changes? – If the Chancellor says something in the morning, advisors email that afternoon.
- The Strategy will be presented to Audit Committee in the January Meeting and before we get the report please bear in mind that we would like to know what the strategy is and what happens if we don't agree the strategy. – Can take on board views on percentages.
- It could be that the strategy is we have no debt. – The parameters are taken to Corporate Management Team to see if they agree.
- Who decides who we borrow from and how much? - How much we borrow is a Cabinet budget discussion. Treasury Management and Public loan board, what's safe and what's low e.g. local authorities are safe as a public body, which will be in the Strategy.
- Selecting a single "A" rated body if that's cheaper is part of the policy but on a wider basis: should we have debt and how much debt. If we are asked to agree a strategy need more than the previous report statements that "We are borrowing x".
- With regard to Queensberry there is a focus on getting the loan paid, but perhaps if its such a good investment the Authority should keep it. Don't know if that's in the business case but there are other examples where Local Authorities have done similar.

Agreed

1. To note the report on treasury management activities for the period to 30 September 2016.

2. To note the request to Council to approve the increase in the percentage limit of total borrowing with maturity date within 12 months to 80%.

6 **Internal Audit Plan 2016-17 Progress Quarter 2**

Members considered a report on the Internal Audit Section's progress against the 2016/17 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 9 audit staff. At the start of the year there were 5 audit staff with 4 vacancies in the team. An Auditor was appointed and started in the team during Quarter 1, a Principal Auditor was appointed in Quarter 2. In order to take account of the budget savings contribution and the delayering exercise required by senior management following the job evaluation exercise, the Internal Audit team was restructured during Quarter 1. The previous and the revised organisation charts were shown in Appendix A. The relationship with Monmouthshire County Council (for sharing of the Chief Internal Auditor)
continues.

The performance for Quarter 2 2016/17 has been compared to the same period of the previous year (shown in brackets). The figures (**Appendix B**) are cumulative and show that:

- 35% (32%) of the audit plan has been achieved so far which is slightly better than last year's performance and higher than 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) averages at 9 day (10 days) which is within 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) averages 3.5 days (3 days) which is within the target time of 5 days.
- Coverage of the plan at this stage of the year is above expectations; the target being 30% for Quarter 2.
- 50 (51) days have been spent finalising 18 (15) 2015/16 audit reviews; 17 of which have been finalised.
- 80% positive feedback has been received from service managers via evaluation questionnaires and these will continue to be collated throughout the year and fed into the annual audit report for 2016/17.
- 6 financial training sessions were delivered to 83 delegates up to and including Quarter 2. The training programmes will continue throughout the year.
- 12 jobs completed to at least draft report stage by 30 September 2016 warranted an audit opinion: 2 x *Good*; 8 x *Reasonable, 1* x *Unsatisfactory and 1 x Unsound.* Of the 1 community centre accounts undertaken, the opinion was *Unqualified.* 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.

Discussions included the following:

- The Streetscene qualified opinions and overtime. Whether it's worth altering the Audit Plan to do more work on the area? – Would need to consider along with what's already in the plan and other Heads of Service views.
- Why only 2 Community Centres accounts audited? – They don't all submit them, the onus is on them to supply and some are supplied late. The accounts are quite low risk and only involvement is historical, the accounts are prepared by volunteers so a pack has been developed to help them build the accounts.
- *There was concern that Community Centres will not bother to submit their accounts and that they needed auditing to ensure accuracy and that as a Council we should be doing this. The Audit Committee would support a letter to Community Centres to say please supply accounts. – It was clarified that Community Centres are supported by another service area of the Council who could be contacted and the Internal Audit Team are better placed working on other priorities. It was suggested that the issue could be referred to the Regeneration Investment and Housing Service Area to raise at a General*

Community Centres Committee (which comprises the Chair and another Member of each Community Centre.)

Agreed

To note the progress against the 2016-17 Audit Plan for the first six months of the year.

7 **SO24 / Waiving of Contract Standing Orders: Quarterly report reviewing Cabinet / Cabinet Member urgent decisions or waiving Contract Standing Orders (Quarter 2, July to September 2016)**

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 the decision.

The Cabinet Member for Adult and Housing Services took an urgent decision relating an application for Capital Grant Funding for the Gypsy and Traveller site on 5 September 2016, which meant that the decision was not subject to “call-in”.

The comments of the Chief Internal Auditor stated that his further enquiries with Officers involved had identified the timing of events and that given the timing would also have been during the Members’ summer recess, it would have been reasonable to apply Standing Order 24 - Urgent Decision.

In addition, a Member commented that the planning permission had not been granted until mid-August.

Agreed

To confirm that there was reasonable justification for the urgent decision.

8 **Audit Committee Self Evaluation Exercise**

The Chief Internal Auditor gave a presentation upon the previous self evaluation exercise responses to 46 questions and demonstrated the hyperlinks to key documents including: the Council’s Constitution and the Committee’s Terms of Reference, the report establishing Audit Committee, the Anti-Fraud and Corruption Policy and the contact details for the Chief Internal Auditor and Wales Audit Office.

Following the meeting, the paper would be circulated to Members electronically so that hyperlinks contained within the document could be viewed. Due to changes in the membership of the Committee, the questionnaire would be issued to Members in the coming year for completion.

Agreed

To note the self evaluation exercise update.

9 **Work Programme**

Agreed

To note the Work Programme.

The meeting terminated at Time Not Specified

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NEWPORT CITY COUNCIL
CYNGOR DINAS CASNEWYDD

Report

Audit Committee

Part 1

Date: 26 January 2017

Subject **Corporate Risk Register Update**

Purpose To present an updated Corporate Risk Register

Author Rhys Cornwall, Head of People and Business Change
Mike Dickie, Business Service Development Manager
Rachel Kalahar, Senior Performance Management Officer

Ward All

Summary This report contains the latest update of the Corporate Risk Register. There are eight risks identified in the register, and all are medium risks. Since the last update all risk scores remain unchanged actions have been updated below.

Proposal To 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 Transformation
- Head of Finance

Background

1. Corporate Assessment

As part of its governance arrangements the Council has a risk management strategy and a corporate risk register is monitored quarterly. Through the Corporate Assessment Review 2014 the WAO noted that "*The Council has improved its approach to and presentation of its corporate risk register. The risk register now includes a before and after mitigation risk score at an assessed date and a breakdown of the probability and impact of that risk. The register includes current actions to address each risk and assigns responsibility to senior officers, cabinet member and scrutiny committee*".

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

A full review of the Corporate Risk Register was undertaken during August 2016 and reported to the September 2016 Cabinet meeting.

5. New Risks

The following risk was added in this revision of the Corporate Risk Register

- RISK 8: Brexit

6. 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 delays 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	*Risk Title: Information Governance* *Risk Description: That the council does not*	This risk can now be managed at a service area level.

2015	*have adequate arrangements in place to protect the data in holds and that this results in significant fines and reputational damage*	
September 2015 – June 2016	*Risk Title: Legislative Requirements (Social Services)* *That new legislative requirements of the Social Services act potentially place significant duties on the Authority that it cannot fulfil*	Specific details and guidance for the Act now produced. Work across region to develop solutions to the challenges and locally we have a project team working on implementation of all regulations Big emphasis on prevention and early intervention – reshaping front door services in Adult Social Care – close working with Health Board – redistributed teams to be coterminous with Health Board Neighbourhood Care Networks

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

Options Available and considered

1. To note the contents of the Corporate Risk Register.
2. Not to note the contents of the Corporate Risk Register.

Preferred Option and Why

1. To note the contents of the Corporate Risk Register.

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.

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. The risk

strategy and register allow the council to consider the longer term overarching risks to the council fulfilling its objectives and obligations and take action to mitigate the impact and probability of those risks.

Local issues
None

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

Equalities Impact Assessment
Not applicable.

Children and Families (Wales) Measure
Not applicable.

Wellbeing of Future Generations (Wales) Act 2015
The guidance on the Act is clear – it requires public bodies to maximise their contribution to improving the wellbeing of Wales. The Act provides a framework for better decision making by ensuring public bodies take account of the ***long term***, focus on ***prevention***, take an ***integrated*** and ***collaborative*** approach, and ***involve*** people in policy making and planning and delivery of services.

The Act places a duty on the public sector to:
- Adopt the Sustainable Development Principle
- Work towards 7 national wellbeing goals
- Focus work on future generations
- Take a central role in the establishment and scrutiny of a Public Services Board (PSB)
- Take a central role in the development of a Wellbeing Plan based on a long term needs assessment
- Respond to a new accountability framework including reporting and review by the Auditor General Wales

The Act has implications for how the local authority will work in future and Part 2 of the Act places an individual wellbeing duty on public bodies. Key areas where change needs to happen include:
- Corporate Planning
- Risk Management
- Workforce Planning
- Performance Management
- Financial Planning
- Procurement
- Assets

The Wellbeing of Future Generations Act 2015 which came into force in April 2016 sets the context for the move towards long term planning of services. A programme of training for senior management and elected members is underway so that the wide-ranging and transformational implications of the Act are understood and can be embedded in the Council's ways of working.

Key documents and processes have been revised so that they incorporate sustainable development and wellbeing principles. Over the last three years extensive public engagement has been undertaken in relation to setting service delivery priorities and identifying which services matter most to people, and contribute to their wellbeing. This will continue to inform future planning.

Crime and Disorder Act 1998
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 2015
Corporate Risk Register, Audit Committee, 24th September 2015
Corporate Risk Register, Cabinet, 18th December 2015
Corporate Risk Register, Audit Committee, 28th January 2016
Corporate Risk Register, Cabinet, 14th March 2016
Corporate Risk Register, Audit Committee, 24th March 2016
Corporate Risk Register, Cabinet, 6th June 2016
Corporate Risk Register, Audit Committee, 23rd June 2016
Corporate Risk Register, Cabinet, 12th September 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 lead 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 ensure 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 that 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

Probablity					
5	5	10	15	20	25
4	4	8	12	16	20
3	3	6	9	12	15
2	2	4	6	8	10
1	1	2	3	4	5
	1	2	3	4	5
			Impact		

Impact Matrix

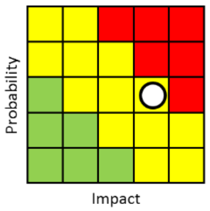
RATING	SEVERITY OF IMPACT	GENERAL DESCRIPTION	IMPACT FACTORS						
			Strategic	Operational	Financial Management	Resources	Governance	Health & Safety	Reputation
1	Negligible	Low impact. Localised effect		Minor disturbance of non-key area of operations	Unplanned budgetary disturbance <£100k	Loss of asset/money 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 (e.g. 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)

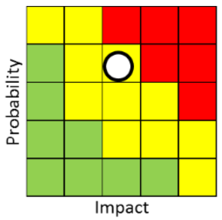
Present Matrix	**Assessment Date**	**Present Risk Score**	**Present Score Breakdown**		**Direction of Risk**	**Review Date**
			Probability	**Impact**		
	December 2016	12	3	4	Unchanged	February 2017
	August 2016	*12*	Medium probability	High Governance impact	There is continued pressure on the council to implement the new duties detailed by new legislation. Whilst significant work is underway, there remain major risk factors.	
	May 2016	*16*				
	February 2016	*16*				
	December 2015	*16*				
	August 2015	*16*				

Current Action Status / Control Strategy		
	Welsh Language Act	• Strategic equalities group monitors implementation supported by Welsh Language group. • Action plans in place and being monitored. This has shown significant progress. • This includes increasing awareness of the Welsh Language Standards across the authority. Leaflets, posters, desk prompts and video available. • Partnership arrangements with another Council now in place and £280k budget allocated to 2016/17 budget, additional resources now available to support service areas and work such as web site development now underway. • Although significant work is ongoing, gaps in service provision remain, and this remains a reputational risk for the Council this is evidenced by correspondence with the Welsh Language Commissioner.
	Future Generations Act	• Cabinet reports updating on progress and approach. Members training session completed and work with consultants to establish organisational readiness for the Act. • A number of sessions with Service Areas, and managers completed to raise awareness. • Currently developing an impact assessment template that incorporates the sustainability principles. Formal report templates are being updated to ensure the principles of the Act are reflected in all decision making. • Public Services Board established with agreed Terms of Reference, formal meetings held quarterly from May 2016. • Project Plan in place for the Wellbeing Assessment and this is being taken forward in conjunction with the assessment required for the Social Services and Wellbeing Act. Work being undertaken on a Gwent basis to inform the Wellbeing Assessment - funding secured from Welsh Government to support this work. • Development of wellbeing objectives underway along with other development work.

Responsible Officer: Chief Executive

Responsible Cabinet Member(s): Leader of the Council, Deputy Leader, Cabinet Member for Community Work and Skills, Cabinet Member Finance and Resources

Scrutiny Committee(s): (1) Community Planning and Development and (2) Street Scene, Regeneration and Safety

<table>
<tr><th colspan="7">RISK 2: Increasing Ageing Population</th></tr>
<tr><td colspan="7">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</td></tr>
<tr><th rowspan="2">Present Matrix</th><th rowspan="2">Assessment Date</th><th rowspan="2">Present Risk Score</th><th colspan="2">Present Score Breakdown</th><th rowspan="2">Direction of Risk</th><th rowspan="2">Review Date</th></tr>
<tr><th>Probability</th><th>Impact</th></tr>
<tr><td rowspan="9"></td><td>December 2016</td><td>12</td><td rowspan="5">4</td><td rowspan="5">3</td><td rowspan="9">Unchanged

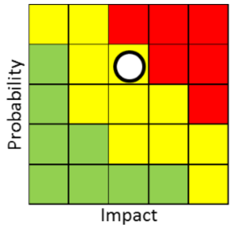
Demographic Pressures indicate a 14% rise in the number of adults over 70yrs of age by 2020. There are also increasing numbers of older people with complex health conditions and national research indicates that local authority adult services budgets need a 3% year on year real terms increase in budgets to manage this challenge. The economic climate makes this rate of budget increase extremely unlikely, thereby indicating increasing unmet need.</td><td rowspan="9">February 2017</td></tr>
<tr><td>August 2016</td><td>12</td></tr>
<tr><td>May 2016</td><td>12</td></tr>
<tr><td>February 2016</td><td>12</td></tr>
<tr><td>December 2015</td><td>12</td></tr>
<tr><td>August 2015</td><td>12</td><td rowspan="4">High probability</td><td rowspan="4">Medium Financial Management Impact</td></tr>
<tr><td>May 2015</td><td>12</td></tr>
<tr><td>March 2015</td><td>12</td></tr>
<tr><td>August 2014</td><td>8</td></tr>
<tr><th>Current Action Status / Control Strategy</th><td colspan="6">

Focussing on preventative measures and developing resources for prevention and early intervention with colleague agencies to reduce pressure on more acute statutory services – community and carers connectors
Recommissioning voluntary sector services to align to principles of the Social Services and Wellbeing Act 2014.
Transforming existing services to provide an optimal care pathway for older people focussing on independence and re-ablement
Pioneering and, ’In-Reach multi-agency team to visit wards in Royal Gwent on a daily basis to streamline decision making on discharge from hospital
Implementing transformation 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

</td></tr>
<tr><td colspan="7">Responsible Officer: Strategic Director People</td></tr>
<tr><td colspan="7">Responsible Cabinet Member: Cabinet Member for Adult Social Services and Housing</td></tr>
<tr><td colspan="7">Scrutiny Committee: Community Planning and Development</td></tr>
</table>

RISK 3: Capacity and capability to meet the councils objectives

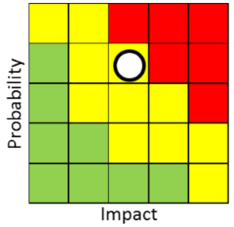
That there are not skills and or capacity within the workforce to deliver both operational services and also the pace of change needed to modernise services and balance the budget.

Present Matrix	Assessment Date	Present Risk Score	Present Score Breakdown		Direction of Risk	Review Date
			Probability	Impact		
	December 2016	12	4	3	Unchanged Work continues in this area	February 2017
	August 2016	*12*				
	May 2016	*12*				
	February 2016	*12*	High Probability	Medium Operational Impact		
	December 2015	*12*				
	August 2015	*12*				

Current Action Status / Control Strategy

- The 2015/16 Workforce Plan was designed and published. The 2016/17 Workforce Plan is to be published in August and all Service Areas have identified their objectives for future planning.
- People and Business Change will pilot career pathway planning in Autumn 2017 to role model to other service areas
- Creation of an apprenticeship scheme was approved in June 2016 and recruitment is underway to the first cohort of apprentices due to start in September 2016, with a possible second intake due to start in January 2017.
- Pilot taking place in Education Services for the roll out of greater NVQ/ILM opportunities for those in the workplace wanting to enhance current skill level. Intention to offer to wider workforce in 2017 linked to workforce planning for each service area
- Mandatory training will be identified for each post and linked to job descriptions to set out the expectation of ability, skill and experience at the point of recruitment and to form a development path throughout induction, probation and longer term
- Additional Investment in Project Management and business change resources
- Coaching, shadowing and mentoring opportunities delivered as part of the change programme
- Specific business support and training provided for business case development and project management.
- More effective use of central support resource
- Training Master classes developed and number of managers attending measured green for 2015 with over 80% attending training to upskill
- ILM opportunities in coaching have been sourced and will be promoted to managers from September 2016 onwards
- Action Learning Sets have been practised at Senior Management Forum and OD are collating requests from managers to create networks of peer coaching through the use of ALS. HR and Finance partners will be trained as facilitators to enable greater support to managers in identifying problems and creating their own solutions.
- Use of external resource / experts
- Performance management process is currently being reviewed with a key objective for 2016/17 to be the roll out of a revised scheme
- Sampling of My Review has taken place in August 2016 by the HR/OD team and feedback will be provided to managers in

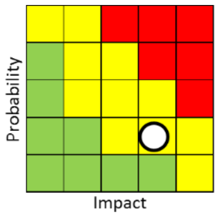
	September with a refreshed roll out of training on how to conduct appropriate appraisals between October and March 2017 in time for the next annual appraisal • OD strategy devised to enable the organisation to achieve faster cultural change and improved performance – due to be signed off July 2016 for implementation on new OD practices • People service plan to heavily focus on workforce planning and OD for next 12 months • Potential new performance management system to be piloted early 2017 to assess whether appropriate for organisation roll out • New cohort of managers undertaking ILM level 5 in Coaching and Mentoring to start in January 2017 • New cohort of senior leaders undertaking Executive Coaching
Responsible Officer: Chief Executive	
Responsible Cabinet Member: Cabinet Member for Finance and Resources	
Scrutiny Committee: Community Planning and Development	

<table>
<tr><td colspan="7">RISK 4: Budget Challenge</td></tr>
<tr><td colspan="7">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</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="6">
</td><td>December 2016</td><td>12</td><td rowspan="2">4</td><td rowspan="2">3</td><td rowspan="6">Unchanged

Whilst assumptions on WG revenue grant support has improved and therefore reduced medium term budget gap over medium term, the planning parameters still assume an annual cash reduction in grant and therefore savings required which are increasingly difficult to achieve, without cuts to service provision. Impact on organisational capacity and delivery of services therefore still significant.</td><td rowspan="6">February 2017</td></tr>
<tr><td>August 2016</td><td>12</td></tr>
<tr><td>May 2016</td><td>12</td><td rowspan="4">Medium probability</td><td rowspan="4">High Financial Management impact</td></tr>
<tr><td>February 2016</td><td>12</td></tr>
<tr><td>December 2015</td><td>12</td></tr>
<tr><td>August 2015</td><td>16</td></tr>
<tr><td>Current Action Status / Control Strategy</td><td colspan="6">
• 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
• Aligning with the 2020 strategy and plans for service areas
• Business cases 2017/18 and MTFP developed and reviewed
• MTFP still required balancing over the medium term</td></tr>
<tr><td colspan="7">Responsible Officer: Chief Executive</td></tr>
<tr><td colspan="7">Responsible Cabinet Member: Leader of the Council, Cabinet Member for Finance and Resources</td></tr>
<tr><td colspan="7">Scrutiny Committee: Community Planning and Development</td></tr>
</table>

RISK 5: Safeguarding

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

Present Matrix	Assessment Date	Present Risk Score	Present Score Breakdown: Probability	Present Score Breakdown: Impact	Direction of Risk	Review Date
	December 2016	8	2	4	Unchanged The level of risk is manageable because this is an area of absolute priority for the local authority. There are safeguarding manager roles across the council and we have strong links with national and regional safeguarding boards	March 2017
	August 2016	8				
	February 2016	*8*	Low Probability	High Governance Impact		
	August 2015	*8*				
	March 2015	*8*				
	August 2014	*8*				

Current Action Status / Control Strategy

- 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
- Safeguarding role in Education

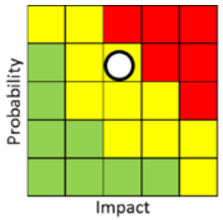
Responsible Officer: Strategic Director - People

Responsible Cabinet Member: Cabinet Member for Adult Social Services and Housing, Cabinet Member for Education and Young People

Scrutiny Committee: Learning, Caring and Leisure

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: Probability	Present Score Breakdown: Impact	Direction of Risk	Review Date
	December 2016	12	4	3	Unchanged	February 2017
	August 2016	12	Medium Probability	Medium Strategic Impact	The Developer and the Council are currently progressing a sale of the Scheme. The Scheme is c85% let by income and this should increase over the next few months. At this level of letting, the scheme has secured a sufficient rental income to generate a sale and if it can't be concluded, a reinvestment value for the Council, at least in the short term and this significantly reduces any impact.	
	May 2016	*9*				
	February 2016	*2*				
	December 2015	*2*				
	August 2015	*4*				
	May 2015	*6*				
	March 2015	*8*				
	November 2014	*12*				
	August 2014	*12*				

Current Action Status / Control Strategy

- Financial modelling undertaken to test viability of various sale and re-finance options
- Retail and Leisure anchor stores secured (Debenhams and Cineworld) and other major store units now leased.
- Safeguards built in to mitigate financial risks e.g. Friar's Walk financial reserve
- Council able to exercise step-in rights
- Monthly meetings with Developers to monitor progress

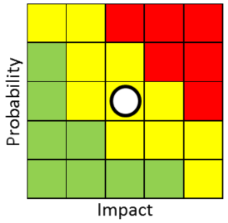
Responsible Officer: Strategic Director – Place

Responsible Cabinet Member: Cabinet Member for Regeneration and Investment

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

<table>
<tr><th rowspan="2">Present Matrix</th><th rowspan="2">Assessment Date</th><th rowspan="2">Present Risk Score</th><th colspan="2">Present Score Breakdown</th><th rowspan="2">Direction of Risk</th><th rowspan="2">Review Date</th></tr>
<tr><th>Probability</th><th>Impact</th></tr>
<tr><td rowspan="6"></td><td>December 2016</td><td>9</td><td rowspan="2">3</td><td rowspan="2">3</td><td rowspan="6">Unchanged

The initial stage of the city deal process has been completed.

We are now entering into detailed negotiations with UK and Welsh Govts. This will take the rest of 2016 to conclude so the risk assessment score remains unchanged.</td><td rowspan="6">February 2017</td></tr>
<tr><td>August 2016</td><td>9</td></tr>
<tr><td>May 2016</td><td>9</td><td rowspan="4">Medium Probability</td><td rowspan="4">Medium Strategic Impact</td></tr>
<tr><td>February 2016</td><td>9</td></tr>
<tr><td>December 2015</td><td>9</td></tr>
<tr><td>August 2015</td><td>9</td></tr>
</table>

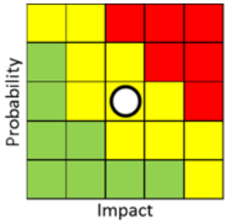
Current Action Status / Control Strategy

- The Heads of Terms document for the Cardiff Capital Region City Deal was signed on 15th March 2016. This is an agreement between the 10 local authorities of the SE Wales region, Welsh Govt and UK Govt. This is the first critical milestone for the completion of the city deal.
- The next stage is to conclude the detailed negotiations to enable the council to consider a further report by the end of 2016. This will be point at which the council will have to decide whether to formally commit to the city deal process, including ongoing financial commitments and this is progressing well.
- Formal governance structures are now being put in place, including the establishment of a Shadow Joint Cabinet of all Leaders to exercise appropriate oversight of the city deal process. We also now have a Programme Director in place to provide additional resource to complete the next phase of activity.
- The January Council meeting will consider the next steps.

Responsible Officer: Chief Executive

Responsible Cabinet Member: Leader of the Council

Scrutiny Committee: Community Planning and Development

<table>
<tr><td colspan="7">RISK 8: Brexit</td></tr>
<tr><td colspan="7">That the financial implications of leaving the European Union have a negative impact on the councils financial position</td></tr>
<tr><th rowspan="2">Present Matrix</th><th rowspan="2">Assessment Date</th><th rowspan="2">Present Risk Score</th><th colspan="2">Present Score Breakdown</th><th rowspan="2">Direction of Risk</th><th rowspan="2">Review Date</th></tr>
<tr><th>Probability</th><th>Impact</th></tr>
<tr><td rowspan="2"></td><td>December 2016</td><td>9</td><td rowspan="2">3
Medium Probability</td><td rowspan="2">3
Medium Strategic Impact</td><td rowspan="2">Unchanged
Awaiting further discussion and timescales from the Welsh Government and Central Government</td><td rowspan="2">February 2017</td></tr>
<tr><td>August 2016</td><td>9</td></tr>
<tr><td>Current Action Status / Control Strategy</td><td colspan="6">This is a new risk which will need to be monitored carefully. The result of the referendum in June 2016 has resulted in further uncertainty for the overall financial outlook for the UK. This may have an impact on future funding for the council.

A good deal of our activity is also guided by EU regulation. It is unclear at this time both when the EU will formally exit the EU and how these regulations may change

This remains uncertain, further discussion and engagement from the Welsh Government and UK Government is needed to confirm timescales</td></tr>
<tr><td colspan="7">Responsible Officer: Chief Executive</td></tr>
<tr><td colspan="7">Responsible Cabinet Member: Leader of the Council</td></tr>
<tr><td colspan="7">Scrutiny Committee: Community Planning and Development</td></tr>
</table>

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Report

Audit Committee

Part 1

Date: 26th January 2017

Item No: Insert item number here

Subject **Treasury Management Strategy 2017/18**

Purpose This report considers the Council's 2017/18

- 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 overarching recommended Treasury Strategy is unchanged from our current strategy, which, in summary:
- Limit the need to actually borrow cash by using the positive cash-flow the Council has to fund capital expenditure funded from borrowing, wherever possible
- Borrow and invest in the short-term to manage the shorter term cash-flow requirements of the Council.

In practice, the overarching strategy above limits the activities of long term borrowing and investments

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 Financial Plan, and will be presented to full Council as part of the overall budget report for approval in March 2017.

During 2016/17 the Council has repaid to date approximately £4million of borrowing, mainly relating to activities related to the Friars Walk Development, which are being kept on short-term periods and reviewed regularly – and therefore this does not represent any formal repayment but rather the management of the Council's cash-flow and limiting the external borrowing taken out at any point in time . New temporary borrowing of approximately £20 million is anticipated to be required before the end of the 2016/17 financial year.

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. Whilst kept separate, the actual borrowing is affected by the Council's overall cash-flow management. As previously reported, 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 short period of time, before the Council's own loans for this purpose can be redeemed. If a sale is not successful, the Council will need to re-finance the scheme, which would require the current borrowing which is maturing up to the end of July 2017 to be re-financed.

Included within the report is a paragraph on the 'City Deal' project. While no formal decision has been made at this stage, any agreement to enter into the 'City Deal' would have a significant impact on capital expenditure and the minimum revenue provision. Figures for this have not been included in this report, and a further report would need to be brought to Committee when a decision has been made on the scheme.

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.

To note the potential change in calculation method of MRP policy from equal instalment method to annuity method.

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

Signed

Background

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

     Within this, the overarching strategy is

     - Limit the need to actually borrow cash by using the positive cash-flow the Council has to fund capital expenditure funded from borrowing, wherever possible

     Borrow and invest in the short-term to manage the shorter term cash-flow requirements of the Council.

2. The borrowing and investment 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 2017/18 are included at Appendix 1. In addition, planned strategies to 2020/21 are also included, in line with the Council's 5 year Medium Term Plan. Key points of interest are summarised below.

Treasury Management Strategy

5. The Council's overall Treasury Management Strategy takes into account the current outstanding borrowing that is has due to capital expenditure incurred in the past and links this into the future expectations for the Council around future capital expenditure to be incurred and future cash flows. As noted, the plan aims to limit new l/t borrowing, wherever possible by using internal cash resources.

6. This Treasury Management Strategy highlights that the Council has an inherent need to borrow and therefore the borrowing strategy discussed below is an important part of the overall Treasury Management Strategy.

7. Due to the revenue implications of undertaking capital expenditure and the need to charge a Minimum Revenue Provision (MRP) for capital expenditure funded by borrowing, the strategy of the Council, is where possible, to limit increases in the capital expenditure financing costs in the Medium Term Financial Plan. 2017/18 is the final year of our current capital programme and work is continuing over the next few months to complete the next four year programme. The prudential indicators for these are shown in the appendix to this report.

8. In summary the Council does not envisage taking out further long-term borrowing over the short-term, but in conjunction with advice from our Treasury Advisors, there will become a point where current borrowing will need to be re-financed, and a decision will need to be taken as to the appropriate timing of that borrowing. There are a lot of uncertainties on the level of borrowing or investment that will be required and this is dependent on the outcome of re-payment of any loans in relation to the Queensberry development.

Borrowing Strategy

9. 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.

10. 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.

11. 2017/18 is the final year of the current four-year programme, and work has commenced on providing figures for the future programme from 2018/19 to 2021/22. Further work on this will be carried out on over the next 6-12 months to determine the priority schemes that will be emerging. . Appendix D shows the estimated capital expenditure for the Council over the medium term.

12. There are currently on-going discussions on the Council's involvement in the 'City Deal' project which would involve the Council signing up to a significant capital investment over the next 20 years. There is still a significant amount of work required to finalise the full financial implications of the project, and an update will be brought to the committee on the treasury management impact of any approval to proceed with the scheme in the future. The figures for City Deal have not been included in any estimates on capital expenditure or CFR in Appendix D, but the borrowing limits for 2017/18 are deemed sufficient if and when the Council signs up to the scheme.

13. 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.

14. 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 to be paid off via a capital receipt upon sale of the development or re-financed if a sale does not conclude. Following any sale, 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 January 2017. This would mean if the loan by QRE (Newport) Ltd is repaid before July 2017, for a short period, the Council will have surplus funds to invest, unless we are able to redeem early at nil or minimal cost.

15. The table below shows the estimated Capital Financing Requirement / New Net Borrowing Requirement position for Newport City Council for 2016/17 to 2019/20:

Table 1: Newport City Council – CFR

	31.3.16 Actual £m	31.3.17 Estimate £m	31.3.18 Estimate £m	31.3.19 Estimate £m	31.3.20 Estimate £m
CFR	230.5	233.8	238.1	241.7	243.1
Less: External borrowing *	-223.3	-187.7	-146.3	-144.9	-103.4
Internal (over) borrowing	**7.2**	**46.1**	**91.8**	**96.8**	**139.7**
Less: Usable reserves	-101.3	-92.3	-89.4	-86.7	-83.8
Less: Working capital	90.7	7.7	7.7	7.7	7.7
Investments / (New Borrowing)	**3.4**	**38.5**	**-10.1**	**-17.8**	**-63.6**
Net Borrowing Requirement	**219.9**	**149.2**	**156.4**	**162.7**	**167.0**

* shows only loans to which the Authority is committed and excludes optional refinancing

16. As the table shows, the inherent 'need to borrow' as shown by the CFR is predicted to be £64 million. The significant reduction in the CFR between 2015/16 and 2016/17, and again to 2017/18 is due to the anticipated repayment of the loan in relation to the Friars Walk development. This borrowing would need to be refinanced if the sale did not proceed.

17. Given **current** borrowing levels no additional long term borrowing is likely to be required during 2017/18. However, the Authority will be required to be flexible to borrow up to the Authorised Limit, as there will be uncertainty over the timing of the repayment of the outstanding loan in relation to Queensberry.

18. 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

19. 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 2017/18, 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.

20. **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.

21. 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 2017/18. 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.

22. **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				

23. 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.

24. 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.

Minimum Revenue Provision (MRP) Policy

25. We are currently undertaking a review of how we charge MRP in relation to unsupported borrowing. Appendix E shows the MRP Policy, and there will be no change to this policy, however we, as with the majority of local authorities, use option 3 the asset life method as a basis to charge MRP on unsupported borrowing.

26. Currently this is charge through equal instalments over the life of an asset on a straight line basis. We are currently undertaking a review to move from this method, to using the annuity method. The annuity method still has asset life as its main basis, but takes into account the time value of money. Therefore the charge in year one will be less than the charge in say 25 years time, increasing year on year.

27. This method is prudent as it still keeps asset life as its main basis, and therefore the repayment will be the same over the life of the asset in both the equal instalment and annuity methods.

28. We will be liaising with our auditors to get assurance that our application of the method is correct and will look to implement in the near future. As previously highlighted, this is not a change to the MRP policy, it is a change to a method of calculation, therefore is to be noted by Audit Committee.

Prudential Indicators

29. 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.

30. 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 2017/18 is 8.4%.

31. We recommend that the Audit Committee scrutinise the 2017/18 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 money market 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

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 Available and considered

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 and provide comments prior to Council approval.

Preferred Option and Why

The preferred choice is to receive and scrutinise the contents of the report and provide feedback and comments prior to Council approval.

Comments of Chief Financial Officer

The treasury management strategy and the treasury management and prudential indicators included within this report are an important aspect of setting a prudent financial landscape for the Council. This includes ensuring a prudent and affordable capital programme, with a sight on the level of borrowing and risks associated with this.

Within the ever reducing medium term financial landscape this is as important as ever, and the on-going revenue impact of capital decisions needs to be at the forefront of any decisions that are made.

Comments of Monitoring Officer

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 People and Business Change

There are no human resources implications within the report

Comments of Cabinet Member

N/A

Local issues

N/A

Scrutiny Committees

N/A

Equalities Impact Assessment and the Equalities Act 2010

The Equality Act 2010 contains a Public Sector Equality Duty which came into force on 06 April 2011. The Act identifies a number of ‘protected characteristics’, namely age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; sexual orientation; marriage and civil partnership. The new single duty aims to integrate consideration of equality and good relations into the regular business of public authorities. Compliance with the duty is a legal obligation and is intended to result in better informed decision-making and policy development and services that are more effective for users. In exercising its functions, the Council must have due regard to the need to: eliminate unlawful discrimination, harassment, victimisation and other conduct that is prohibited by the Act; advance equality of opportunity between persons who share a protected characteristic and those who do not; and foster good relations between persons who share a protected characteristic and those who do not. The Act is not overly prescriptive about the approach a public authority should take to ensure due regard, although it does set out that due regard to advancing equality involves: removing or minimising disadvantages suffered by people due to their protected characteristics; taking steps to meet the needs of people from protected groups where these differ from the need of other people; and encouraging people from protected groups to participate in public life or in other activities where their participation is disproportionately low.

Children and Families (Wales) Measure

N/A.

Wellbeing of Future Generations (Wales) Act 2015

The Wellbeing of Future Generations (Wales) Act 2015 is taken into account when looking at the long-term impact of treasury management and capital decisions. The Council has a prudent Minimum Revenue Provision Policy and abides by the treasury management and prudential indicators detailed in the report.

Crime and Disorder Act 1998

Section 17(1) of the Crime and Disorder Act 1998 imposes a duty on the Local Authority to exercise its various functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent, crime and disorder in its area.

Consultation

N/A

Background Papers

Report on Treasury Management for the period to 30 September 2016 – Audit Committee 01/12/2016

Dated:

Appendix 1

Prudential Code Indicators, Minimum Revenue Policy, Treasury Management and Investment Strategy Statements 2017/18

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 March 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.

Revised Strategy: In accordance with the WG Guidance, the Authority will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, or in the Authority's capital programme or in the level of its investment balance.

External Context

Economic Background

The major external influence on the Authority's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets, wrong-footed by the referendum outcome, have since been weighed down by uncertainty over whether leaving the Union also means leaving the single market. Negotiations are expected to start once the UK formally triggers exit in early 2017 and last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.

The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017, the first time since late 2013, but the Bank is expected to look through inflation overshoots over the course of 2017 when setting interest rates so as to avoid derailing the economy.

Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to lower GDP growth. However, the prospect of a leaving the single market has dented business confidence and resulted in a delay in new business investment and, unless counteracted by higher public spending or retail sales, will weaken economic growth in 2017/18.

Looking overseas, with the US economy and its labour market showing steady improvement, the market has priced in a high probability of the Federal Reserve increasing interest rates in December 2016. The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further quantitative easing.

The impact of political risk on financial markets remains significant over the next year. With challenges such as immigration, the rise of populist, anti-establishment parties and negative interest rates resulting in savers being paid nothing for their frugal efforts or even penalised for them, the outcomes of Italy's referendum on its constitution (December 2016), the French presidential and general elections (April – June 2017) and the German federal elections (August – October 2017) have the potential for upsets.

Credit outlook:
Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard.

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 European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. 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 continue to fall.

Interest rate forecast:
The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.25% during 2017/18**.** The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further falls in the Bank Rate look less likely. Negative Bank Rate is currently perceived by some policymakers to be counterproductive but, although a low probability, cannot be entirely ruled out in the medium term, particularly if the UK enters recession as a result of concerns over leaving the European Union.

Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50. Long-term economic fundamentals remain weak, and the quantitative easing (QE) stimulus provided by central banks globally has only delayed the fallout from the build-up of public and private sector debt. The Bank of England has defended QE as a monetary policy tool, and further QE in support of the UK economy in 2017/18 remains a possibility, to keep long-term interest rates low.

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

Local Context

On 31 December 2016, the Authority held £215.9 million of borrowing and £8.2 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

	31.3.16 Actual £m	31.3.17 Estimate £m	31.3.18 Estimate £m	31.3.19 Estimate £m	31.3.20 Estimate £m
CFR	230.5	233.8	238.1	241.7	243.1
Less: External borrowing *	-223.3	-187.7	-146.3	-144.9	-103.4
Internal (over) borrowing	**7.2**	**46.1**	**91.8**	**96.8**	**139.7**
Less: Usable reserves	-101.3	-92.3	-89.4	-86.7	-83.8
Less: Working capital	90.7	7.7	7.7	7.7	7.7
Investments / (New Borrowing)	**3.4**	**38.5**	**-10.1**	**-17.8**	**-63.6**

Net Borrowing Requirement	**219.9**	**149.2**	**156.4**	**162.7**	**167.0**

* 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 2017/18.

Borrowing Strategy

The Authority currently holds £215.9 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 2017/18, but this is dependent on the outcome of the repayment or refinancing of the Queensberry loan. The Authority may however borrow to pre-fund future years' requirements, providing this does not exceed the recommended authorised limit for borrowing of £354 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 modestly. 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 £30m 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. £25m of these LOBOS have options during 2017/18, and although the Authority understands that lenders <u>are extremely unlikely</u> 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.

<u>Investment Strategy</u>

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 2017/18, the investment balances could, for a short period, 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. Where balances are expected to be invested for more than a year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sums invested.

Given the increasing risk and falling returns from short-term unsecured bank investments, the Authority aims to diversify into more secure and/or higher yielding classes during 2017/18. This is especially the case for any surplus funds available for investment following the repayment of the Queensberry loan.

- **Credit Rating:** Investment limits are set 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. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

- **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.

- **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 the 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.

- **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.

<u>Monitoring & reporting on the Treasury Management and capital Prudential Indicators</u>

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.

<u>Other Items</u>

- 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 £8.6 million and principal of £1.3 million is expected to be paid in 2017/18. In addition to this, principal of c£69m in relation to Queensberry loans (as detailed in Appendix B) will be paid or re-financed in 2017/18 depending on the status of the sale. 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 2016

Underlying assumptions:

- The medium term outlook for the UK economy is dominated by the negotiations to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.

- The global environment is also riddled with uncertainty, with repercussions for financial market volatility and long-term interest rates. Donald Trump's victory in the US general election and Brexit are symptomatic of the popular disaffection with globalisation trends. The potential rise in protectionism could dampen global growth prospects and therefore inflation. Financial market volatility will remain the norm for some time.

- However, following significant global fiscal and monetary stimulus, the short term outlook for the global economy is somewhat brighter than earlier in the year. US fiscal stimulus is also a possibility following Trump's victory.

- Recent data present a more positive picture for the post-Referendum UK economy than predicted due to continued strong household spending.

- Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment.

- The currency-led rise in CPI inflation (currently 1.0% year/year) will continue, breaching the target in 2017, which will act to slow real growth in household spending due to a sharp decline in real wage growth.

- The depreciation in sterling will, however, assist the economy to rebalance away from spending. The negative contribution from net trade to GDP growth is likely to diminish, largely due to weaker domestic demand. Export volumes will increase marginally.

- Given the pressure on household spending and business investment, the rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes to the negative effects of Brexit on economic activity and, ultimately, inflation.

- Bank of England policymakers have, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further monetary loosening looks less likely

Forecast:

- Globally, the outlook is uncertain and risks remain weighted to the downside. The UK domestic outlook is uncertain, but likely to be weaker in the short term than previously expected.

- The likely path for Bank Rate is weighted to the downside. The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a 25% possibility of a drop to close to zero, with a very small chance of a reduction below zero.

- Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	**0.12**
Arlingclose Central Case	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**
Downside risk	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	**0.40**
3-month LIBID rate														
Upside risk	0.05	0.05	0.10	0.10	0.10	0.15	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.18**
Arlingclose Central Case	**0.25**	**0.25**	**0.25**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.29**
Downside risk	0.20	0.25	0.25	0.25	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.34**
1-yr LIBID rate														
Upside risk	0.10	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	**0.23**
Arlingclose Central Case	**0.60**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.60**	**0.70**	**0.85**	**0.90**	**0.90**	**0.90**	**0.65**
Downside risk	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	**0.24**
5-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**0.50**	**0.40**	**0.35**	**0.35**	**0.35**	**0.40**	**0.40**	**0.40**	**0.45**	**0.50**	**0.55**	**0.60**	**0.65**	**0.45**
Downside risk	0.30	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	**0.47**
10-yr gilt yield														
Upside risk	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**1.15**	**0.95**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.90**	**0.95**	**1.00**	**1.05**	**1.10**	**1.15**	**0.96**
Downside risk	0.30	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	**0.47**
20-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**1.70**	**1.50**	**1.40**	**1.40**	**1.40**	**1.40**	**1.40**	**1.45**	**1.50**	**1.55**	**1.60**	**1.65**	**1.70**	**1.75**
Downside risk	0.40	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	**0.57**
50-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**1.60**	**1.40**	**1.30**	**1.30**	**1.30**	**1.30**	**1.30**	**1.35**	**1.40**	**1.45**	**1.50**	**1.55**	**1.60**	**1.41**
Downside risk	0.40	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	**0.57**

Appendix B – Existing Investment & Debt Portfolio Position

	31/12/16 Actual Portfolio £m
External Borrowing:	
PWLB – Fixed Rate	71.79
Market Loans	35.00
Stock Issue	40.00
Temporary loans - Queensberry	69.08
Other Soft Loans	0.00
Total External Borrowing	**215.87**
Other Long Term Liabilities:	
PFI	49.51
Finance Leases and other	0.13
Total Gross External Debt	**265.51**
Investments:	
Short-term investments	8.20
Long-term investments	0.00
Total Investments	**8.20**
Net Debt	**257.31**

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	Suspended		£10,000,000	2 years

*** based on advice from Arlingclose**

Appendix D

Prudential Indicators 2017/18 – 2019/20

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 2017/18, 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	***2016/17 Estimate £m***	***2017/18 Estimate £m***	**2018/19 Estimate* £m**	**2019/20 Estimate* £m**	**2020/21 Estimate* £m**
Total	***37.3***	***33.1***	***12.9***	**12.0**	**11.9**

** The Capital Programme for 2018/19 to 2021/22 is currently being assessed and compiled. The estimated capital expenditure included in the figures above, give an indication of the level of capital expenditure that could be allowed in the financial year which will keep the revenue costs within the current MRP headroom. The estimated capital expenditure does not currently include, as shown in the table 3.2 below, any estimates for specific grants (which could be significant) or any revenue contributions, which would have no impact on the CFR or borrowing.*

3.2 Capital expenditure will be financed or funded as follows:

Capital Financing	***2016/17 Estimate £m***	***2017/18 Estimate £m***	**2018/19 Estimate £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**
Capital receipts	3.0	7.3	0.0	0.7	0.6
Government Grants	2.5	2.5	2.2	2.0	2.0
Other Specific Grants	16.1	12.7	0.0	0.0	0.0
S106 Contributions	2.6	0.1	0.0	0.0	0.0
Revenue contributions	1.8	0.0	0.0	0.0	0.0
Total Financing	**26.0**	**22.6**	**2.2**	**2.7**	**2.6**
Supported borrowing	4.1	4.0	4.0	3.2	3.2

Unsupported borrowing	7.2	6.3	6.7	6.1	6.1
Finance Leases	0.0	0.2	0.0	0.0	0.0
Total Funding	**11.3**	**10.5**	**10.7**	**9.3**	**9.3**
Total Financing and Funding	**37.3**	**33.1**	**12.9**	**12.0**	**11.9**

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	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %
Total	8.6%	8.4%	8.4%	7.8	7.8%

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 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Total CFR	230.5	233.8	238.1	241.7	243.1

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 31/03/2016	£000
Borrowing	230,008
Other Long-term Liabilities	49,656
Total	**279,664**

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	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £
Increase in Band D Council Tax*	1.93	3.18	-2.78	3.43

*Assumes a 4% 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	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Borrowing	308	276	283	287
Other Long-term Liabilities	46	44	43	42
Total	**354**	**320**	**326**	**329**

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	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Borrowing	288	256	263	267
Other Long-term Liabilities	46	44	43	42
Total	**334**	**300**	**306**	**309**

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 31/03/16 %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %	2020/21 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 31/12/16 %	Lower Limit for 2017/18 %	Upper Limit for 2017/18 %
under 12 months	46%	0%	80%
12 months and within 24 months	0%	0%	70%
24 months and within 5 years	21%	0%	70%
5 years and within 10 years	17%	0%	50%
10 years and within 20 years	6%	0%	30%
20 years and within 30 years	0%	0%	20%
30 years and within 40 years	6%	0%	20%

40 years and within 50 years	2%	0%	20%
50 years and above	2%	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.

Upper Limit for total principal sums invested over 364 days	**2017/18 Estimate £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**
	5	**5**	**5**	**5**

Appendix E – Minimum Revenue Provision (MRP) Statement 2017/18

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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Report

Audit Committee

Part 1

Date: 26 January 2017

Subject **Internal Audit – Progress against audit plan 2016/17 Quarter 3**

Purpose To inform Members of the Council's Audit Committee of the Internal Audit Section's progress against the 2016/17 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 good progress against the 2016/17 audit plan 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

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 9 audit staff. At the start of the year there were 5 audit staff with 4 vacancies in the team. An Auditor was appointed and started in the team during Q1, a Principal Auditor was appointed in Q2 and started in Q3.

4. In order to take account of the budget savings contribution and the delayering exercise required by senior management following the job evaluation exercise, the Internal Audit team was restructured during Q1. The previous and the revised organisation charts are shown at **Appendix A**.

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

Audit Plan

6. 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 as it carries out work in line with the Audit Plan. These standards replace the former Code of Practice for Internal Audit within Local Government (CIPFA).

7. A requirement of the PSIAS is for the Internal Audit team to be externally assessed once every five years to ensure compliance with these Standards. The Welsh Chief Auditors' Group proposed an option of a peer review in order to meet the requirements of this external assessment, which has been agreed by respective S151 Officers of local authorities in Wales. Newport's peer review will take place during 2017.

8. The 2016/17 Audit Plan was agreed by the Audit Committee on 26th May 2016.

Performance

9. 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 been involved with minimal special investigations so far this year but if this increases significantly it could have an impact on this year's achievement of the audit plan; so far there have been 2 unplanned reviews.

10. 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.

11. The performance for Quarter 3 2016/17 has been compared to the same period of the previous year (shown in brackets). The figures (**Appendix B**) are cumulative and show that:

    a. 50% (43%) of the audit plan has been achieved so far which is better than last year's performance and in line with 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 14 days (15 days) which is above 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 (3 days) which is within the target time of 5 days.

12. Coverage of the plan at this stage of the year is in line with expectations; the target being 50% for Quarter 3, despite there being a reduced audit resource in the team. We have started to get involved with some sensitive and time consuming special investigations. 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.

13. 53 (51) days have been spent finalising 18 (15) 2015/16 audit reviews; 17 of which have been finalised.

14. A vacancy / secondment provision was taken into account in the planning stage which related to the Chief Internal Auditor's work with Monmouthshire, a Principal Auditor post and two Auditor posts.

15. 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.

Quality Control

16. 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. 90% positive feedback has been received from service managers via these questionnaires to date; this will continue to be collated throughout the year and fed into the annual audit report for 2016/17.

Financial Training

17. 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, bi-monthly, 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.

18. 7 sessions were delivered to 87 delegates up to and including Q3. The training programmes will continue throughout the year.

Audit Opinions 2016/17

19. Audit opinions issued so far in 2016/17 are shown at **Appendix C.** Definition of audit opinions currently given is shown at **Appendix D**.

20. 21 jobs completed to at least draft report stage by 31st December 2016 warranted an audit opinion: 4 x *Good*; 13 x *Reasonable, 3* x *Unsatisfactory and 1 x Unsound.* Of the 2 community centre accounts undertaken, opinions for both were *Unqualified.* 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 and provision of financial advice.

21. 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

22. 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.

23. 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

24. 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

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

Risks

26.

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	M	Currently going through a recruitment exercise to fill the vacant posts in the team.	Chief Internal Auditor

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

27. 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

28. This is a factual progress report and therefore there are no specific options, as such. The 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.

29. 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

30. N/A

Comments of Chief Financial Officer

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

Comments of Monitoring Officer

32. 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

33. The report details a number of issues around vacancy management and structure which are being managed within the Service Area. There are no other specific HR issues arising as a result of the report. 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

34. N/A

Local issues

35. N/A

Consultation

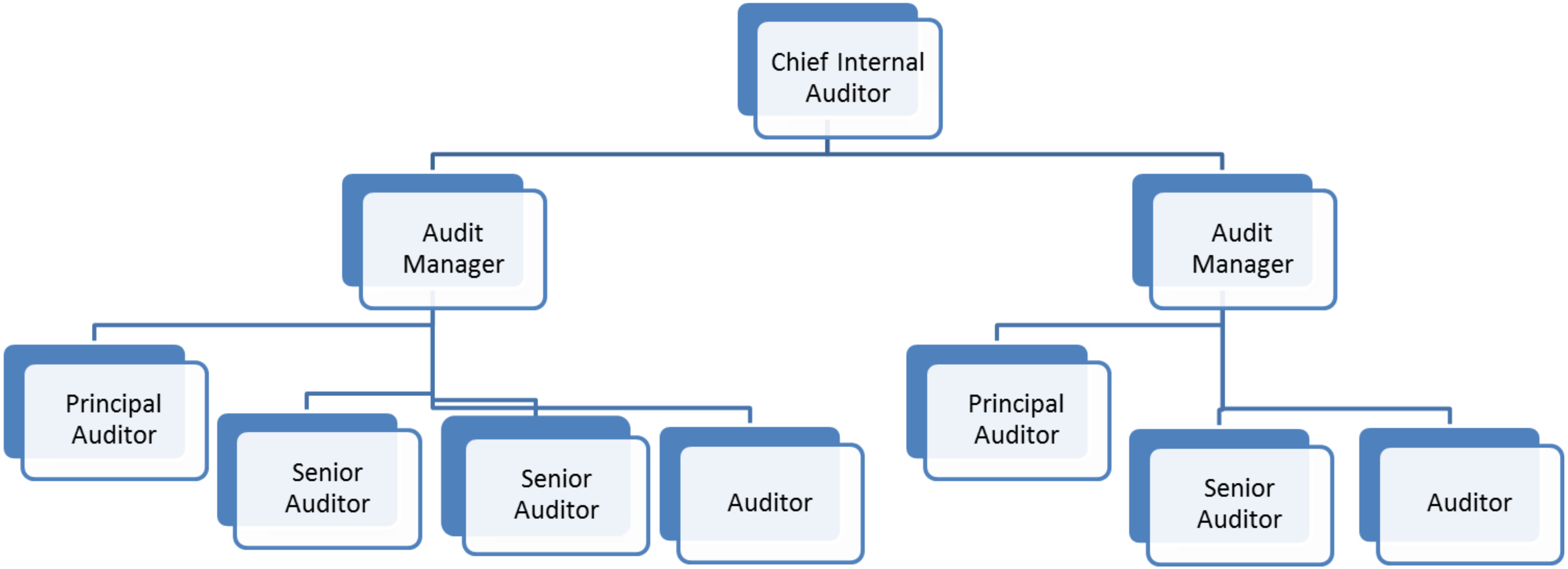
36. N/A

Background Papers

37. N/A

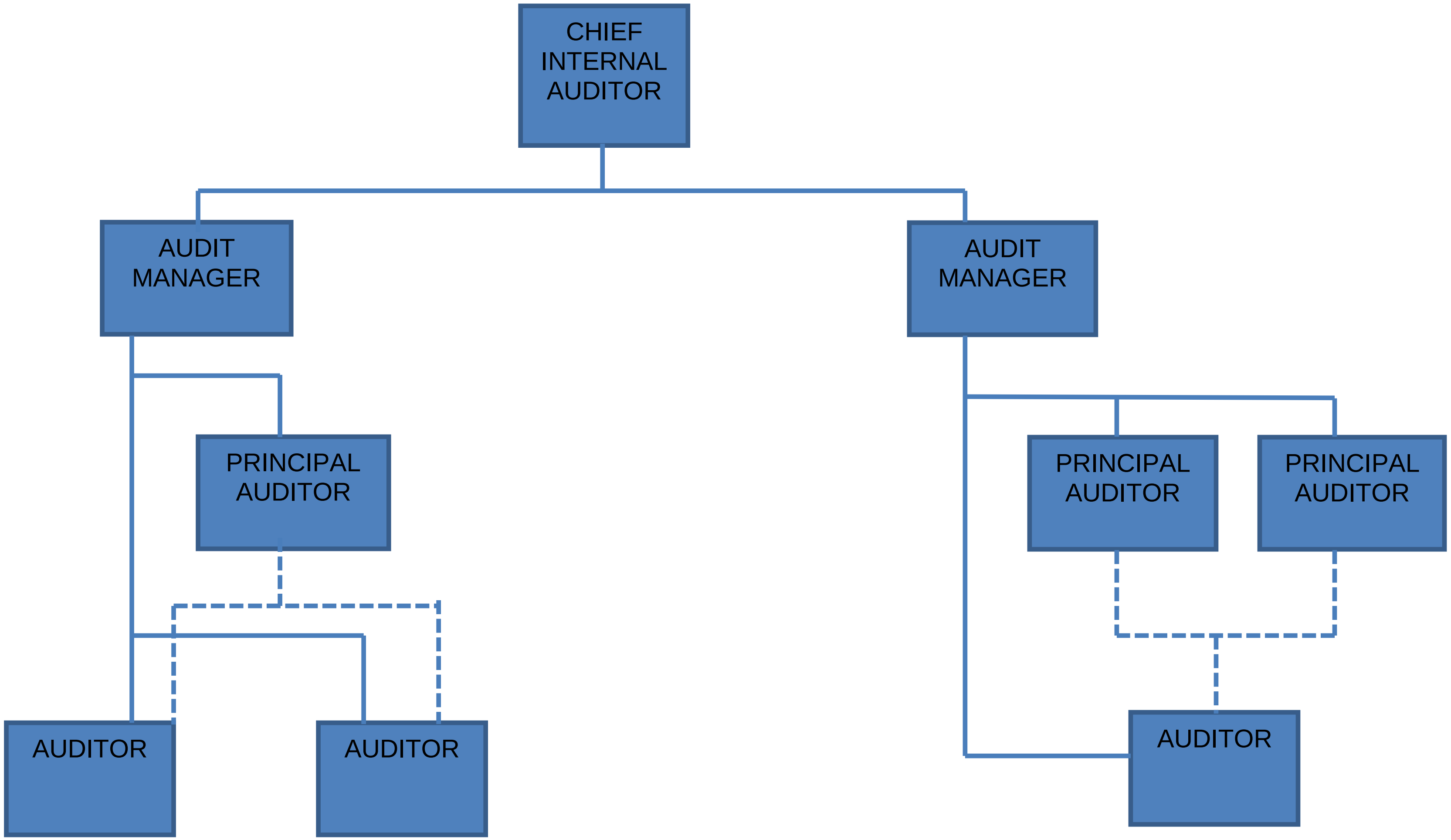
Appendix A **Newport City Council** **Internal Audit Service** **Organisation Chart**

Previous



Revised

MAY 2016



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

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%	77%	
Proportion of planned audits complete within estimated days	65%	N/A	36%	22%	52%	Cumulative figures
Directly chargeable time against total time available	61%	53%	53%	55%	55%	Quarterly performance
Directly chargeable time against planned	84%	81%	77%	74%	71%	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	0	5	5	9	Cumulative figures
Staff turnover rate (number of staff)	1	1	1	2	4	Quarterly performance
Promptness of draft report issue (end of fieldwork to draft report issue date)	10 days	2 days	10 days	15 days	12 days	Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	1 day	3 days	3 days	3 days	Cumulative figures

2016/17	2016/17 Target	1st Qtr 16/17	2nd Qtr 16/17	3rd Qtr 16/17	4th Qtr 16/17	Comments
Proportion of planned audits complete	75%	16%	35%	50%		[Profiled Target 50%]
Proportion of planned audits complete within estimated days	65%	N/A	90%	74%		Cumulative figures
Directly chargeable time against total time available	50%	52%	54%	57%		Quarterly performance
Directly chargeable time against planned	84%	62%	66%	72%		Quarterly performance
Proportion of Special Reviews responded to within 5 working days	100%	N/A	N/A	100%		Cumulative figures
Number of sessions provided to train staff in all Service Areas on best financial practice	11	0	6	7		Cumulative figures
Staff turnover rate (number of staff)	1	0	0	0		Quarterly performance
Promptness of draft report issue (end of fieldwork to draft report issue date)	10 days	1 day	9 days	14 days		Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	4.5 days	3.5 days	3 days		Cumulative figures

Appendix C
Opinions as at 31st December 2016, Qtr 3

Good	4
Reasonable	13
Unsatisfactory	3
Unsound	1
Total	21

Internal Audit Services - Management Information for 2016/17 Q3

Job number	Service Area	Section or Team	Job Title	Risk Rating / Priority	Complete when FINALISED	Opinion given
P1617-P4	Finance	Income Collection	National Non Domestic Rates (NNDR)	Medium		Good
P1617-P46	Education Serv	Primary Schools	Mount Pleasant Primary	Medium	Finalised	Good
P1617-P49	Education Serv	Primary Schools	Crindau Primary	Medium		Good
P1617-P66	Street Scene and City Services	Customer Services	Housing Benefits	High		Good
P1617-P5	Finance	Strategic Procurement	Creditors CAAT's	Medium		Reasonable
P1617-P6	Finance	Strategic Procurement	Procure to Pay (eProcurement)	High		Reasonable
P1617-P13	People & Bus Change	Business Service Development	Performance Indicators	Medium		Reasonable
P1617-P14	People & Bus Change	Corporate HR	Payroll CAAT's	Medium		Reasonable
P16-17 P16	People & Bus Change	Corporate HR	T&S	High		Reasonable
P1617-P17	People & Bus Change	Corporate HR	Total Reward	High	Finalised	Reasonable
P1617-P31	Children & Young People Serv	Safeguarding, QA & Child Protection	Appointeeships	Medium		Reasonable
P16-17 P36	Adult & Comm Serv	Provider Services	Blaen-y-Pant	Medium		Reasonable
P16-17 P52	Education Serv	Secondary Schools	Newport High School	Medium		Reasonable

Job number	Service Area	Section or Team	Job Title	Risk Rating / Priority	Complete when FINALISED	Opinion given
P1617-P56	Education Serv	I&I - Special Educational Needs	SEN Assessments / OoCP (Follow-up)	High		Reasonable
P1617-P57	Education Serv	I&I - Inclusion Services	Safeguarding / Child Protection (2015/16)	High	Finalised	Reasonable
P16-17 P65	Streetscene & City Serv	Environmental Serv	Crematorium	Medium		Reasonable
P1617-P67	Streetscene & City Serv	General	Overtime - WDS (Follow-up)	Medium	Finalised	Reasonable
P16-17 P9	Finance	General	Highways Network Assets Valuation	High		Unsatisfactory
P1617-P18	People & Bus Change	Digital & Information	Payment Card Industry Data Security Standards	High	Finalised	Unsatisfactory
P16-17 P68	Streetscene & City Serv	General	Overtime & On Call Payments - Highways	Medium		Unsatisfactory
P1617-P69	Streetscene & City Serv	General	Agency / Overtime - Refuse (incl. Follow-up)	Medium	Finalised	Unsound
	Grant Claims					
P1617-P64	Streetscene & City Serv	Transport Management	Bus Services Support Grant (2015/16)	Medium	Finalised	Qualified
P1617-P25	Law & Regulation	Trading Standards	Scambusters Grant Claim 2015/16	Medium	Finalised	Unqualified
P1617-P35	Adult & Comm Serv	Quality Assurance	Supporting People Grant Certification	Medium	Finalised	Unqualified
P1617-P39	Adult & Comm Serv	Quality Assurance	Supporting People Grant Certification - Outcomes	Medium	Finalised	Unqualified

Non Opinion work 2016/17 Q3

Job number	Service Area	Section or Team	Job Title	Opinion given
P1617-P8	Finance	General	Annual Governance Statement	Not applicable
P1617-P10	Finance	General	National Fraud Initiative (NFI)	Not applicable
P1617-P11	Finance	General	Financial Advice	Not applicable
P1617-P20	People & Bus Change	General	Financial Advice	Not applicable
P1617-P21	People & Bus Change	General	Financial Regulations Training	Not applicable
P1617-P26	Law & Regulation	General	Financial Advice	Not applicable
P1617-P32	Children & Young People Serv	General	Financial Advice	Not applicable
P1617-P40	Adult & Comm Serv	General	Financial Advice	Not applicable
P1617-P43	Education Serv	R&P - Finance & School Resources	Education Improvement Grant (2015/16)	Not applicable
P1617-P55	Education Serv	Schools	CRSA's / Heathcheck - Nursery / Primary / Secondary	Not applicable
P1617-P58	Education Serv	General	Financial Regulations Training	Not applicable
P1617-P59	Education Serv	General	Financial Advice	Not applicable
P1617-P70	Streetscene & City Serv	General	Financial Advice	Not applicable
P1617-P78	RI&H	General	Financial Advice	Not applicable
U1617-U1	Education Service	R&P - Finance & School Resources	Pupil Deprivation Grant (15/16)	Not applicable

Community Centre	Opinion
Duffryn	Unqualified
Eveswell	Unqualified

Appendix D

INTERNAL AUDIT SERVICES – OPINIONS

	GOOD	**Well controlled with no critical 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

Unqualified	The Financial Statement is free from material misstatement and presents fairly the activities of the organisation. The terms and conditions of the grant funding have been complied with.
Qualified	There is a lack of supporting information or documentation to verify that that figures quoted in the Financial Statement fairly represent the activities of the organisation. The terms and conditions of the grant funding have not been fully complied with.

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Report

Audit Committee

Part 1

Date: 26 January 2017

Subject **Work Programme**

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

Author Overview and Scrutiny 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 meeting.

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 Appendix 1 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.

30 March 2017

Annual Audit outline for the 2015/16 Financial Audit
Internal Audit Unsatisfactory Audit Opinions (6 monthly report) - ***Deferred from January***
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
Referrals to Audit Committee

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

None.

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

26 May 2016
Appointment of Chairman
Internal Audit Annual Report 2015/16
Internal Audit Annual Plan 2016/17
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 4, Jan to March)
Corporate Risk Register Update (considered by Cabinet in March 2016)
Treasury Management Report
Referrals to Audit Committee

23 June 2016
Internal Audit Unsatisfactory Audit Opinions (6 monthly report)
Corporate Risk Register Update (Considered by Cabinet in June 2016)
Annual Governance Statement
Draft Financial Accounts 2015/16
Referrals to Audit Committee

22 September 2016
Internal Audit Plan 2016/17 – Progress (Quarter 1)
Statement of Accounts 2015-16
Audit of Financial Statements Report 2015-16
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 1, April to June)
Corporate Risk Register Update (Considered by Cabinet in September 2016)
Report on Audit Committee Self Evaluation Exercise – ***deferred to 24 November Committee Meeting***
Referrals to Audit Committee
Regulatory Reports Summary (every 6 months approx. March and September)
Internal Audit 2 Unsatisfactory Audit Opinions

1 December 2016
Internal Audit Plan 2016/17 – Progress (Quarter 2)
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 2, July to September)
Treasury Management Report
Lessons Learned 2015/16
Audit Committee Self Evaluation Exercise
Financial Memorandum on the 2015-16 Financial Audit
Referrals to Audit Committee

26 January 2017
Internal Audit Plan – Progress (Quarter 3)
Treasury Management Report
Corporate Risk Register (Considered by Cabinet in December 2016)
Referrals to Audit Committee

30 March 2017
Annual Audit outline for the 2015/16 Financial Audit
Internal Audit Unsatisfactory Audit Opinions (6 monthly report) - ***Deferred from January***
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
Referrals to Audit Committee

Unallocated work (Dates to be agreed)
Report on Risks associated with Hosting (IT)
Treasury Management Training
Issues Outstanding – Member Development Self Evaluation Exercise