



To: Members of the Corporate
Governance Committee

Date: 28 August 2012

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Dear Councillor

You are invited to attend a meeting of the **CORPORATE GOVERNANCE COMMITTEE** to be held at **9.30 am** on **WEDNESDAY, 5 SEPTEMBER 2012** in **COUNTY HALL, RUTHIN.**

Yours sincerely

G. Williams
Head of Legal and Democratic Services

AGENDA

PART 1 - THE PRESS AND PUBLIC ARE INVITED TO ATTEND THIS PART OF THE MEETING

1 APOLOGIES

2 DECLARATION OF INTERESTS

Members to declare any personal or prejudicial interests in any business identified to be considered at this meeting.

3 URGENT MATTERS

Notice of items, which in the opinion of the Chair should be considered at the meeting as a matter of urgency pursuant to Section 100B(4) of the Local Government Act 1972.

4 MINUTES (Pages 5 - 16)

To receive the minutes of the Corporate Governance Committee meeting held on 11th July 2012 (copy enclosed).

9.35am – 9.40am

5 APPOINTMENT OF REPRESENTATIVE ON CORPORATE EQUALITIES GROUP

To appoint a representative and named substitute on the Corporate Equality Group.

9.40am – 9.50am

6 INTERNAL AUDIT PROGRESS REPORT (Pages 17 - 26)

To consider a report by the Head of Internal Audit (copy enclosed) which provides an update on the latest progress of the Internal Audit Service in terms of its service delivery, assurance provision, reviews completed, performance and effectiveness in driving improvement.

9.50am – 10.05am

7 CORPORATE GOVERNANCE COMMITTEE WORK PROGRAMME (Pages 27 - 30)

To consider the committee's forward work programme (copy enclosed).

10.05am – 10.15am

COMFORT BREAK - 10.15AM - 10.30AM

8 TREASURY MANAGEMENT REPORT (Pages 31 - 60)

To consider a report by the Lead Member for Finance and Assets (copy enclosed) to note the Annual Treasury Management Report 2011/12 regarding the Council's investment and borrowing activity during 2011/12 together with the details of the economic climate and compliance with Prudential Indicators. Also to note the Treasury Management Update Report of the activities during 2012/13.

10.30am – 12.00pm

MEMBERSHIP

Councillors

Raymond Bartley
Stuart Davies
Martyn Holland

Gwyneth Kensler
Jason McLellan
David Simmons

Lay Member

Paul Whitham

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CORPORATE GOVERNANCE COMMITTEE

Minutes of a meeting of the Corporate Governance Committee held in Conference Room 1b, County Hall, Ruthin on Wednesday, 11th July, 2012 at 9.30 a.m.

PRESENT

Councillors M.L. Holland, G.M. Kensler, J.M. McLellan, D. Simmons and Mr P. Whitham (Lay Member).

Councillors C. Hughes and J. Thompson-Hill attended as Observers.

ALSO PRESENT

Head of Legal and Democratic Services (GW), Head of Internal Audit Services (IB), Business Transformation and ICT Manager (CW), Corporate Improvement Manager (TW), Audit Manager (BS), Wales Audit Office Representative (AV & GB) and Committee Administrator (CIW).

1. APPOINTMENT OF CHAIR

RESOLVED – that Councillor J.M. McLellan be appointed Chair of the Corporate Governance Committee for the ensuing year.

2. APPOINTMENT OF VICE CHAIR

RESOLVED – that Councillor G.M. Kensler be appointed Vice Chair of the Corporate Governance Committee for the ensuing year.

3. APOLOGIES

Councillors J.R Bartley and S.A. Davies.

4. DECLARATIONS OF INTEREST

RESOLVED – that no Members declared any personal or prejudicial interests in any business identified to be considered at this meeting.

5. URGENT MATTERS AS AGREED BY THE CHAIR

No items were raised which in the opinion of the Chair, should be considered at the meeting as a matter of urgency pursuant to Section 100B(4) of the Local Government Act, 1972.

6. MINUTES

The Minutes of a meeting of the Corporate Governance Committee held on Wednesday, 28th March, 2012 were submitted. It was explained that the membership of the Committee had now changed and none of the Members of the Committee present on the 28th March, 2012 were present at this meeting.

RESOLVED – *that Minutes be received.*

7. WALES AUDIT OFFICE REGULATORY PROGRAMME FOR PERFORMANCE AUDIT 2012/13

A report by the Corporate Improvement Team Manager, on the Regulatory Programme for Performance Audit 2012/13 for the Wales Audit Office (WAO) had been circulated with the papers for the meeting.

The report provided details of the performance audit work to be carried out at Denbighshire by the WAO during 2012-13. The regulatory programme outlined work to be delivered by and on behalf of the Auditor General under the Local Government (Wales) Measure 2009 (the Measure), the Local Government Act 1999 and Parts 2 and 3A of the Public Audit (Wales) Act 2004. It summarised the planned activity for 2012-13, roles and responsibilities of relevant WAO staff and fees for the Auditor General's performance audit work.

The Draft Regulatory Programme had been discussed with relevant officers, including the Head of Business Planning & Performance and the Corporate Improvement Team Manager, prior to approval by the Chief Executive. The outputs from performance audit work included reports from regulatory bodies, such as the WAO, and "the risk of significantly negative reports from external regulators" had been identified as a risk on the Council's Corporate Risk Register. The Corporate Performance Management Framework being the main control in place to manage the risk, and the following actions had been identified as being required to further reduce the residual risk:-

- Develop a more formal framework for co-ordinating self-assessments to support regulatory activities.
- Implement new approach to target setting, as agreed by SLT, for the 2012-13 Service Plans.
- Deliver performance management training for new Members, including target setting.

The WAO Representative (GB) introduced the report and provided background information pertaining to the Performance Audit and Financial aspects of the work undertaken WAO in respect of Denbighshire. He outlined the key areas to note which included:-

- Provision of Reassurance
- Suggestions for Areas of Improvement
- Identifying Good Practice

- Requirements under the Welsh Government Measures

A detailed summary of the Regulatory Programme for Performance Audit 2112-13 was provided and included the following main areas:-

- Performance audit work at Denbighshire, under the Local Government (Wales) Measure 2009.
- The Improvement Assessment, examining the Corporate Plan.
- Other work the Audit General uses to inform his performance audit work at the Council.
- The financial audit work of the Appointed Auditor.
- The work of relevant regulators.
- The Auditor General's programme of local performance audit work at individual NHS bodies.
- The Auditor General's programme of value-for-money studies.

Proposals for this year's local work had been set out in Exhibit 1 of the report and particular attention had been invited to issues relating to Collaboration, Homelessness and Review of arrangements by the Council to deliver services that were efficient and well-managed.

A summary of the following Appendices was provided by the WAO Representative (GB)

- Appendix 1 - Wales Audit Office performance work planned for 2012/13.
- Appendix 2 - Roles and Responsibilities.
- Appendix 3 - Audit General's performance audit team.
- Appendix 4 - Fees.
- Appendix 5 - Audit General's programme of value-for-money studies.

The following issues were raised by Members of the committee and responses provided:-

- With regard to Appendix 1, it was explained that ideally that the delivery of the annual work programme should be completed by the 31st March. However, certain aspects were governed by outside influences where other areas were statutory governed.
- The WAO were currently not aware of any planned Estyn Inspections.
- Reference was made to the WAO's responsibility to audit of the Statutory Statement of Accounts. It was explained that it would be important that the Corporate Governance Committee were fully aware of the whole package of work present by the WAO.
- A report in respect of the work undertaken by the WAO for the Auditor General could be presented to the Corporate Governance Committee for information purposes. It was confirmed that certain aspects of the work would be a statutory programme of work which would feature in the forward work programme.
- It was explained that the work undertaken by the WAO provided both the Authority and the tax payer with assurances in respect of performance and financial management arrangements.

- It had been reported in January, 2012 that progress in respect of the Rhyl Going Forward project would be examined in September, 2012.
- In reply to a question on Improvement Studies with regard to the effectiveness of scrutiny, it was explained that the format to be utilised would be adopted by all Authorities in Wales.
- Details in respect of examining collaborative working with outside bodies, particular reference being made to Betsi Cadwaladr, were outline with regard to the work to be scoped.

Following further discussion, it was:-

RESOLVED – *that the Corporate Governance Committee receives the report and notes the Regulatory Programme, attached at Appendix I.*

8. WALES AUDIT OFFICE TECHNOLOGY REVIEW FEEDBACK

A report by the Corporate Improvement Team Manager, which presented feedback from the Wales Audit Office following a technology review at Denbighshire County Council, had been circulated with the papers for the meeting.

The Corporate Improvement Team Manager introduced the report which provided information regarding the Technology Review Feedback. The WAO had concluded that: “The Council’s arrangements for developing, using and supporting technology were likely to support continuous improvement once the Council further strengthens its ICT governance arrangements and successfully completes Phase 1 of its ICT Strategy”. Details of the WAO’s findings, conclusions, and proposals for improvement had been outlined in the Appendix to the report.

The Corporate Risk Register included “the risk that strategic ICT does not enable improvement and support change”. The identified mitigating actions to reduce the residual level of risk, at the last review point, had been the delivery of Phase I of the ICT Strategy, now complete, and to agree and deliver Phase II of the ICT Strategy.

The Wales Audit Office Representative (GB) explained that this was the style of feedback report which would be utilised in future and it aimed to set out the WAO Feedback Review as succinctly as possible. He referred to the high Level Questions and Findings which outlined the proposals for improvement. However, it was confirmed that the WAO were generally satisfied with the findings and that there had been many positives.

In response to a question from Mr P. Whitham, regarding the Delivery of Phase 1 of the ICT Strategy having been identified as a mitigating action to reduce the residual level of risk and to agree Phase 2 of the ICT Strategy, the Business Transformation and ICT Manager explained that many of the actions pertaining to Phase 1 were now in place and operating. Phase 2 would relate to business transformation, which aligned with Corporate Priorities around modernisation, and it was anticipated that by September the priorities would be clear and this would provide guidance for the future direction of IT. Councillor M.L. Holland stressed the importance of ensuring

that the appropriate packages were procured to ensure value for money and to achieve maximum all-round value for the Authority.

RESOLVED – that the Corporate Governance Committee receives the report and notes the findings of the review.

9. REVIEW OF STRATEGIC RISK MANAGEMENT: PROJECT CLOSURE REPORT

A report by the Corporate Improvement Team Manager, which on the project closure report for the Strategic Risk Management Review Project, had been circulated at the meeting.

The Corporate Improvement Team Manager introduced the report which provided an assurance to the Committee that there was a robust process for strategic risk management. Performance Scrutiny Committee had indicated that they were satisfied with the process which was operating well and easy to follow.

The report provided information regarding the review of strategic risk management and the subsequent implementation of a new process for coordinating strategic risk management. The Council had undertaken a review of strategic risk management due to concerns about how well embedded the activity was within the organisation. The review proposed a number of changes to the current process which included a new strategic risk management policy and procedure, and moving responsibility for coordinating strategic risk management from Internal Audit Services to the Corporate Improvement Team. Following implementation of these changes, the following benefits had been realised, as detailed on page 5 of the attached Risk Review Closure Report:-

- A modernised, more integrated and effective Risk Management system which would be fit for purpose and simple to understand.
- A clear template had contributed to the reduction in the size of the risk registers, as indicated in Appendix making the registers easier to follow and allowing for savings in printing across the authority.
- A significant reduction in the number of objective traps and issues from 172 to 30, Appendix III. All 35 instances of duplication had been eliminated from the registers. A definition of 'objective traps' was provided for the Committee.
- A proactive and continuous risk aware culture across all parts of the Council, which reduced the possibility of unplanned activity or financial costs and their effect on the Council's reputation, and maintained and improved customer confidence in the Council's ability to deliver on its commitments.
- Clear accountability and reporting procedures in place.
- Services encouraged to take a whole-service approach to their registers, allowing for greater focus, less duplication and fewer issues being reported.
- A dedicated team in the Corporate Improvement Officers that coordinate risk consistently throughout the Council. Staffing details provided at the meeting.
- Resources, including member and officer time, could be used more effectively.

- The relationship between the Corporate Risk Register and the service risk registers had been better defined, aligning more clearly the responsibility for those risks with Director and Cabinet portfolios.
- A system which mirrored that used by Conwy County Borough Council, which made for easier planning where joint services were concerned.

Details of the provision of Member training were provided by the Corporate Improvement Team Manager. A Performance Management Training session would be held on the 23rd July, 2012 which would encompass Risk Management and the Performance Management Framework.

In response to a question from Mr Whitham relating to the Corporate Risk Register, it was explained that risks could be identified at service level as risks across the organisation or a service level risk one service. Some higher level risks might be identified by the Corporate Executive Team and be considered as principle risks to the Authority.

In response to a suggestion by Councillor M.L. Holland that documentation should be more user friendly in terms the use of plain English, the Corporate Improvement Team Manager agreed with the sentiments of the views expressed and explained that the Appendices to the report had been produced for submission to the Business Transformation Board.

Following further discussion, it was:-

RESOLVED – *that the Corporate Governance Committee receives the report and notes the project closure report, Appendix A.*

10. ANNUAL GOVERNANCE STATEMENT REPORT 2011/2012

A report by the Head of Internal Audit Services, which presented the annual Governance Statement (AGS) for 2011/12, had been circulated with the papers for the meeting.

The Head of Internal Audit Services introduced the report which had been developed by a team of senior officers. He explained that the Chair and Vice Chair of the Corporate Governance Committee would be invited to join the team

A brief summary of the Annual Governance Statement 2011/12, which was now a statement of Corporate Governance, was provided by the Head of Internal Audit Services and the key areas included:-

- Scope of Responsibility
- The Purpose of the Governance Framework
- Key Elements of Our Governance Framework
- The Six Key Principles of the Code of Corporate Governance
- Review of Effectiveness
- Significant Governance Issues

The Head of Internal Audit Services provided the following responses to issues and questions from Members:-

In respect of timescales and expectancy for addressing matters identified as red, it was explained that in cases of urgent matters where there was a significant risk the expectancy would be to address the issue as a matter of urgency. However, in the case of Information Governance there was no quick fix and there would be varying timescales depending on the issue involved. With regard to projects to scope there would be a project plan which would have relevant timescales. The importance of identifying mitigating actions against risks was highlighted taking into consideration issues such as financial implications, internal and external factors, and although the colour coding was helpful it would be important to look at the context of the risk. It was explained that the AGS formed part of the Council's Annual Statement of Accounts.

In response to a question from Councillor G.M. Kensler, the Head of Legal and Democratic Services outlined the work carried out in examining the policies and procedures with regard to managing information in relation to the Data Protection and Freedom of Information Acts. He referred to the work undertaken to ensure that Members were registered with the Information Commissioner, and the Head of Internal Audit Services confirmed that this service was currently undertaking a review of data protection and freedom of information that included an assessment of staff awareness in these areas.

RESOLVED – *that the Corporate Governance Committee receives the report and recommends adoption of the Annual Governance Statement as part of the Council's Statement of Accounts.*

11. DRAFT INTERNAL AUDIT ANNUAL REPORT 2011/2012

A report by the Head of Internal Audit Services, which presented the Head of Internal Audit's Annual Report for 2011/12, had been circulated with the papers for the meeting.

The report presented the Head of Internal Audit's Annual Report for 2011/12 (Appendix 1). The previous Corporate Governance Committee had approved a draft version before the end of 2011/12, with final version requiring the approval of the Corporate Governance Committee.

It was explained that in accordance with the 'Code of Practice for Internal Audit in Local Government in the United Kingdom' (2006), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), the annual report should:-

- provide an opinion on the overall adequacy and effectiveness of the organisation's internal control environment;
- disclose any qualifications to that opinion, together with the reasons for the qualification;
- present a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies;

- draw attention to any issues we judge particularly relevant to the preparation of the annual governance statement; and
- comment on compliance with the standards contained in the Code of Practice and communicate the results of the internal audit quality assurance programme.

The Committee were informed that the Code required an Annual Report to the Audit Committee or its equivalent.

Appendix 1 – Annual Internal Audit Report 2011/12 included the Audit Opinion.

The overall adequacy and effectiveness of the organisation's internal control environment had been defined as the policies, procedures and operations in place and these had been identified in the report.

The Head of Internal Audit Services had based his audit opinion on the Internal Audit work carried out during 2011/12, the opinions formed in each area of review and the issues raised during our work, as shown in Appendix 1. Using the new assurance ratings from Internal Audit Reports, as shown in the table included in the report, the opinion of the Head of Internal Audit had been that, Denbighshire could have 'medium' assurance in the overall adequacy and effectiveness of its internal control environment, including its arrangements for governance and risk management.

There had been no issues relevant to the Annual Governance Statement and Management's response to issues raised by Internal Audit had been included in the report, together with, details of the Internal Audit Performance Measures. With regard to compliance with the Code of Practice Standards, the Wales Audit Office (WAO) reviewed the service annually, but did not produce a formal report. However, the WAO had raised no issues of concern with the service.

The Head of Internal Audit Services provided a brief update in respect of the one audit report issued which had a red status, which related to St Bridgets School, Denbigh. He explained that work was ongoing and a report was currently being which outlined progress in respect of the Action Plan, he also confirmed this was not a corporate issue and there were no implications for other schools in the Authority.

A breakdown of the delivery of the Internal Audit Strategy 2011/12 had been included in the report, along with assurance scores and number of issues raised for the completed reviews, definitions used to form our audit assurance and the ratings used to assess the risk-levels for issues raised.

In response to a question from the Chair, the Head of Internal Audit Services confirmed that the number of originals planned days would differ from the actual days, as the strategy was flexible and reviewed as risks and priorities change.

The Head of Internal Audit Services responded to a question from Councillor M.L. Holland regarding school budgets and the school funding formula review. He explained that work undertaken in Secondary Schools included a review of the financial management of the school generally in order to provide assurances to the Welsh Government. Due to the size of Primary Schools, the financial management

of the schools would be looked at as a subject and a sample of the schools would be looked at to examine the practices adopted.

It was explained by the Head of Internal Audit Services that a report on financial balances would be submitted to the Performance Scrutiny Committee in September, 2012. Councillor J. Thompson-Hill outlined the budget provisions for schools and highlighted that there could be disparity between large High Schools and small Primary Schools. He also explained that Denbighshire did not have a formal cap in terms of percentages of school balances.

Following a brief discussion, it was:-

RESOLVED – *that the Corporate Governance Committee approves the Internal Audit Annual Report 2011/12, including the overall Audit Opinion included within it.*

12. INTERNAL AUDIT PROGRESS REPORT

A report by the Head of Internal Audit Services, which provided an update of the Internal Audit Service in terms of its service delivery, assurance provision, reviews completed, performance and effectiveness in driving improvement, had been circulated with the papers for the meeting.

An update on the delivery of the Operational Plan for 2012/13, recent Internal Audit reports issued, management's response to issues raised and Internal Audit's performance, had been provided in the report. The Head of Internal Audit Services provided a summary of the report which included details pertaining to:-

- Delivery of the Internal Audit Strategy 2012/13
- Summary of Recent Internal Audit Reports
- Internal Audit Performance

The Head of Internal Audit Services informed Members of the Committee that in future they would receive copies of all Internal Audit final reports. Appendix 1 provided a breakdown of work undertaken during 2012/13 in comparison to the agreed Internal Audit Strategy. It included assurance scores and number of issues raised for the completed reviews, definitions used to form the audit assurance and the ratings used to assess the risk-levels for issues raised. A summary of Recent Internal Audit Reports, which use colours for assurance ratings, had been included in a table in the report.

The following list of audit reports issued since March, 2012, which included audit opinion, issues raised and comments, had been incorporated in the report:-

- Programme & Project Management - (N/A)
- Community Building Management, Rhyl Town Hall - (Yellow)
- Corporate Risk, Asset Portfolio - (N/A)
- Highways & Infrastructure, Major Projects - (Yellow)
- Financial Systems Assurance Testing (IDEA) 2011-12 - (Green)
- Welsh Government Breakfast Initiative Grant - (Green)

- Financial Services, Phase 2 (Ruthin Services) - (Green)

In response to suggestions from Members it was agreed that Head of Audit Services circulates the Audit Reports identified as yellow, Community Building Management - Rhyl Town Hall and Highways & Infrastructure - Major Projects, together with, Financial Services, Phase 2 (Ruthin Services) (Green). He also confirmed that any of the other Audit Reports which had been issued could be circulated if requested by Members.

An outline of the Internal Audit Performance – Key Measures was provided for the Committee as outlined in the report.

It was explained that most Internal Audit reports identified risks and control weaknesses and these were rated as critical, major or moderate risk. Management had agreed actions to address the risks, including responsibilities and timescales.

All instances would be reported where management failed to respond to follow up work or where, where implementation dates had been exceeded by more than three months. The Committee would decide as to whether any further action should be taken, for example, by calling the relevant people to its next meeting to explain the lack of progress. It was confirmed that there were currently no actions outstanding or exceeding the three-month deadline.

Following a brief discussion, it was:-

RESOLVED – that the Corporate Governance Committee:-

- (a) receives the report and notes Internal Audit's progress and performance to date in 2012/13
- (b) notes the recent Internal Audit reports issued and the responses to the follow up work, and
- (c) agreed that the three Audit Reports identified be circulated to Members of the Committee.

13. COMMITTEE FORWARD WORK PROGRAMME

A copy of the Corporate Governance Committee forward work programme had been circulated with the papers for the meeting.

The Committee agreed that:-

- a special meeting of the Corporate Governance Committee be convened on the 26th September, 2012 to receive the Statement of Accounts.
- a report on Homelessness be included in the Committee's Forward Work Programme for the 14th October, 2012.
- after September, 2012 the Financial Statements, Monitoring of the Budgets, be submitted to the Corporate Governance Committee on a quarterly basis.
- the item pertaining to the Governance Action Plan be scheduled in the Committee Work Programme for November, 2012.

The Head of Legal and Democratic Services referred to the report on Regulation of Investigatory Powers Act 2000 (RIPA) scheduled for the November, 2012 meeting of the Committee. The Surveillance Commissioners Office had undertaken an inspection of the Authority in June, 2012 and a report would be submitted to CET in July, 2012. Members agreed that the RIPA report be submitted to the Corporate Governance Committee in September, 2012 and not November, 2012 as scheduled.

In response to a request from Councillor M.L. Holland, the Head of Legal and Democratic Services agreed to liaise with the Member Support and Development Manager with a view to arranging Member training on financial balance sheets, prior to the special meeting of the Committee on the 26th September, 2012. He would also examine the feasibility of arranging a half day training workshop for Members in September, 2012.

At the request of Members, Councillor J. Thompson-Hill provided an outline of the Council's budget setting process and the timescales involved. He referred to the Service Challenge meetings, three scheduled all Member sessions, to be held in the autumn and winter period commencing in October, 2012, which would lead up to the formal budget process to be considered by Cabinet in January and February, 2013.

The Head of Legal and Democratic Services agreed to examine the reason for the 'Your Voice' Annual Report being scheduled for both the September and November, 2012 meetings. He confirmed that the Committee's Terms of Reference had been up dated at the time of review of the Council's Constitution in March, 2012. It was agreed that a copy of the Terms of Reference of the Corporate Governance Committee be provided for Mr G. Bury, Wales Audit Office.

It was agreed that the changes to the Members Training Programme would be circulated to Members. The Head of Legal and Democratic Services suggested that the refresher training session in respect of the code of Conduct should not be cancelled and could be made available to a wider audience.

Following further discussion, it was:-

RESOLVED – that, subject to the above amendments, the Corporate Governance Committee's Forward Work Programme be approved.

The meeting concluded at 12.05 p.m.

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Report To: Corporate Governance Committee

Date of Meeting: 5 September 2012

Report Author: Head of Internal Audit Services

Title: Internal Audit Progress Report

1. What is the report about?

This report updates the Committee on the latest progress of the Internal Audit service in terms of its service delivery, assurance provision, reviews completed, performance and effectiveness in driving improvement.

2. What is the reason for making this report?

To bring Members up to date regarding:

- delivery of our Operational Plan for 2012/13
- recent Internal Audit reports issued
- management's response to issues we have raised
- Internal Audit's performance

3. What are the Recommendations?

- Committee considers and comments on Internal Audit's progress and performance to date in 2012/13
- Committee considers and comments on recent Internal Audit reports issued
- Committee considers the responses to our follow up work





4. Internal Audit Progress

Delivery of the Internal Audit Strategy 2012/13

- 4.1. Appendix 1 provides a breakdown of our work during 2012/13, compared to the agreed Internal Audit Strategy. It includes assurance scores and number of issues raised for the completed reviews, definitions used to form our audit assurance and the ratings used to assess the risk-levels for issues raised.

Summary of Recent Internal Audit Reports

- 4.2. Our reports use colours for assurance ratings as follows:

	High Assurance	Risks and controls well managed
	Medium Assurance	Risks identified but are containable at service level
	Low Assurance	Risks identified that require meeting with Director/Lead Member
	No Assurance	Significant risks identified that require member / officer case conference

4.3. Since my report in July 2012, we have issued the following reports.

Audit Report	Audit Opinion	Issues Raised			Comments
		Critical Risk (Red)	Major Risk (Amber)	Moderate Risk (Yellow)	
Ysgol Dinas Bran, Llangollen	Green	0	0	2	
Welsh Government – Adult Community Learning Provision 2011-12	Green	0	0	0	No formal report - Email confirmation to Welsh Government only

Management’s response to issues raised by Internal Audit

4.4. Most of our Internal Audit reports identify risks and control weaknesses. We rate these as either critical, major or moderate risk. Management agrees actions to address the risks, including responsibilities and timescales.

4.5. We report all instances where management fails to respond to our follow up work or where, where they exceed the agreed implementation date by more than three months. This Committee decides whether it needs to take further action, for example, by calling the relevant people to its next meeting to explain lack of progress.

4.6. There are currently no actions outstanding or exceeding the three-month deadline.

Internal Audit Performance – Key Measures

Measure - Review 100% of agreed S151 Assurance areas in Operational Audit Plan by 31 March 2013

4.7. So far, we have completed 40% of the planned projects, with a further 20% in progress.

Measure - Review 100% of agreed Corporate Governance Assurance areas in Operational Audit Plan by 31 March 2013

4.8. Work is ongoing on the Corporate Governance Framework throughout the year. We have commenced a project on Performance Management and will review risk management in the second half of the year.

Measure - Review 100% of agreed High Corporate Risk Assurance areas in Operational Audit Plan by 31 March 2013

4.9. There are currently six high risks in the Corporate Risk Register. We have completed work in one area and work is nearly complete in a second.

Appendix 1

Internal Audit Work 2012/13 – progress as at 12 August 2012

Internal Audit Operational Plan	Original Planned Days	Actual Days	Current Status	Audit Assurance	No. of Critical Issues	No. of Major Issues	No. of Moderate Issues	Comments
Financial Assurance								
Financial Systems – Rhyl based	60	30	In progress					
Financial Systems – Ruthin based	40	0	Not started					Planned for Jan 13
Financial Systems Assurance Testing (IDEA) 2011-12		20	Complete	Green	0	0	0	
Programme & Project Management	15	2	In progress					
Procurement	15	0	Not started					Planned for Mar 13
Grant & Other Certification Assurance								
Sustainability/Climate Change	12	3	In progress					
Welsh Government (WG) Education Grant Certification	25							
- Breakfast initiative Grant		4	Complete	Green	0	0	0	
- Thinking & Assessment for Learning Grant		2	In progress					
WG 6 th Form Funding – Ysgol Dinas Bran, Llangollen	10	12	Complete	Green	0	0	2	
WG Student Finance Certification	15	4	Draft report					
WG Adult Education Certification	8	9	Complete	Green	0	0	0	
Corporate Governance Assurance								
Risk Management	20	0	Not started					
Corporate Governance Framework	30	4	In progress					
Performance Management	10	5	In progress					

Internal Audit Operational Plan	Original Planned Days	Actual Days	Current Status	Audit Assurance	No. of Critical Issues	No. of Major Issues	No. of Moderate Issues	Comments
High Corporate Risk Assurance								
The risk of a serious safeguarding error where the Council has responsibility	10	12	In progress					
The risk that we are unable to develop the staff and management capability to deliver the change agenda	5	0	Complete		0	0	0	
The risk that the time and effort invested in collaboration is disproportionate to the benefits realised	15	0	Not started					
The risk that the economic environment worsens beyond current expectations, leading to additional demand on services and reduced income	5	0	Not started					Planned for Oct 12
The risk that strategic ICT infrastructure does not enable improvement and support change	10	0	Not started					Planned for Dec 12
The risk that our asset portfolio becomes an unmanageable liability and an obstacle to strategic planning	5	4	Complete	Green	0	0	0	
Risk-based Assurance in Services								
Adult Services								
Intake & Reablement	10	0	Not started					
Learning Disabilities & POVA	15	0	Not started					
Direct Care Costs & Placements	15	0	Not started					Planned for Oct 12

Internal Audit Operational Plan	Original Planned Days	Actual Days	Current Status	Audit Assurance	No. of Critical Issues	No. of Major Issues	No. of Moderate Issues	Comments
Business Planning & Performance								
Equalities	15	0	Not started					
Information Governance	10	0	Not started					
Children's Services								
Children's Services general	35	0	Not started					
Lone Working Practices	0	5	Complete					2011/12 employee survey
Customer & Education Support								
Cashiers Services	5	0	Not started					
Modernising Education	10	0	Not started					
ICT								
IT Service Desk, Incident & Problem Management	20	0	Not started					Planned for Feb 13
IT Service Continuity Management	2	0	Complete					Included in Corporate Business Continuity work
IT Operations Management	20	11	In progress					
IT Configuration	15	0	Not started					
IT Project Management	15	0	Not started					Planned for Sep 12
Education								
School Improvement	60							
- School Balances		1	In progress					
Rhyl High School	15	0	Not started					Planned for Dec 12
Environment								
Trade Refuse	25	19	In progress					
Sign Shop	20	0	Not started					
Countryside Services	25	0	Not started					

Internal Audit Operational Plan	Original Planned Days	Actual Days	Current Status	Audit Assurance	No. of Critical Issues	No. of Major Issues	No. of Moderate Issues	Comments
Public Realm	40	36	In progress					
Finance & Assets								
Travel & Subsistence	20	25	In progress					
Property Management	20	0	Not started					Planned for Mar 13
Revenues Customer Service	10	0	Not started					
Highways & Infrastructure								
Passenger Transport	15	0	Not started					
Business Continuity Planning	2	2	Draft report					
Traffic & Transportation	20	0	Not started					
Street Lighting	15	0	Not started					
Major Projects (2011/12 project)	0	2	Complete	Yellow	0	2	7	2011/12 Project
Home to School Transport	0	18	Draft report					Collaboration project with CCBC Internal Audit
Housing & Community Development								
Housing Services	20	0	Not started					
Strategic Regeneration	25	1	Preparation					Planned for Sep 12
Housing Maintenance	0	20	Draft report					2011/12 project
Legal & Democratic Services								
Democratic Services	5	0	Not started					
Translation Service	0	1	Preparation					Project arising from Service Challenge
Communication, Marketing & Leisure								
Data Protection & FOI	20	27	Draft report					
Archives Service	20	0	Not started					
Leisure Services	1	0	Not started					

Internal Audit Operational Plan	Original Planned Days	Actual Days	Current Status	Audit Assurance	No. of Critical Issues	No. of Major Issues	No. of Moderate Issues	Comments
Community Buildings - Rhyl Town Hall	0	6	Complete	Yellow	0	0	10	2011/12 project
Pavilion Theatre, Rhyl	0	34	Draft report					2011/12 project
Planning & Public Protection								
Community Enforcement	30	0	Prepared					
Food & Health & Safety Enforcement	10	0	Not started					
Trading Standards	10	0	Not started					
Strategic Human Resources								
Corporate Health & Safety 12/13	15	0	Not started					
Strategic HR	0	16	Draft report					2011/12 project
Corporate Health & Safety 11/12	0	5	In progress					2011/12 project
External Work								
Countryside Council for Wales	165	68	In progress					Contract work
North Wales Police Authority	200	54	In progress					Contract work
School Fund Audits	30	22	In progress					On request
Contingencies								
Consultancy & Corporate Work	185	47	In progress					
Follow up reviews	50	17	In progress					
IA collaboration	50	2	In progress					
Frauds & Investigations	80							
-National Fraud Initiative 10/11		3	Complete					
-Purchasing Cards		2	Complete					
-Ysgol Clawdd Offa		8	Complete					

Internal Audit Operational Plan	Original Planned Days	Actual Days	Current Status	Audit Assurance	No. of Critical Issues	No. of Major Issues	No. of Moderate Issues	Comments
Internal Audit Management & Support								
Management & Admin	350	141						
Training	70	23						
Totals	2120	727						

CORPORATE GOVERNANCE COMMITTEE: FORWARD WORK PROGRAMME

DATE OF MEETING	REPORT	AUTHOR
26 September 2012	Approval of Statement of Accounts 'Your Voice' Feedback – Annual Report (Steve Goodrum – deferred from September 5 th meeting)	Corporate Complaints Officer
14 November 2012	<p>Standing Items</p> <p>Issues Referred by Scrutiny Committees Recent External Regulatory Reports Received Internal Audit Progress Report</p> <p>Reports</p> <p>Constitutional Issues Annual 'Your Voice' Report Treasury Management Update Homelessness Report Governance Action Plan</p>	<p>Scrutiny Coordinator Corporate Improvement Manager Head of Internal Audit</p> <p>Head of Legal & Democratic Services Corporate Complaints Officer Head of Finance and Assets</p>
27 February 2013	<p>Standing Items</p> <p>Issues Referred by Scrutiny Committees Recent External Regulatory Reports Received Internal Audit Progress Report</p>	<p>Scrutiny Coordinator Corporate Improvement Manager Head of Internal Audit</p>

	Reports Internal Audit Strategy 2013/14 Treasury Management Strategy	Head of Internal Audit Head of Finance and Assets
10 April 2013	Standing Items Issues Referred by Scrutiny Committees Recent External Regulatory Reports Received Internal Audit Progress Report Reports Internal Audit Annual Report 2012/13 Review of the Constitution	Scrutiny Coordinator Corporate Improvement Manager Head of Internal Audit Head of Internal Audit Head of Legal & Democratic Services
22 May 2013	Standing Items Issues Referred by Scrutiny Committees Recent External Regulatory Reports Received Internal Audit Progress Report Reports Draft Annual Governance Statement 2012/13	Scrutiny Coordinator Corporate Improvement Manager Head of Internal Audit Services Head of Internal Audit

NB The exact date of publication of occasional reports by for example Wales Audit Office or Annual Reports by the Ombudsman are not presently known. They will be assigned a meeting date as soon as practicable.

Updated 21/08/2012 SLW

Agenda Item 8

Report To: Corporate Governance Committee

Date of Meeting: 5 September 2012

Lead Member / Officer: Cllr Julian Thompson-Hill

Report Author: Head of Finance and Assets

Title:

1. Paper on Borrowing (Appendix 1)
2. Annual Treasury Management (TM) Report 2011/12 (Appendix 2)
3. TM Update Report 2012/13 (Appendix 3)

1 What is the report about?

1.1 The paper on borrowing (Appendix 1) discusses various aspects of the Council's borrowing and further training will be provided to expand on these issues at the meeting. The Annual TM Report 2011/12 (Appendix 2) is about the Council's investment and borrowing activity during 2011/12. It also provides details of the economic climate at that time and shows how the Council complied with its Prudential Indicators. The TM Update Report (Appendix 3) provides details of the Council's TM activities during 2012/13.

1.2 The term 'treasury management' includes the management of the council's borrowing, investments and cash flow. Approximately £0.5bn passes through the council's bank accounts every year. The council's outstanding borrowing is £134.39m with an average annual interest rate charge of 5.75% and at any point during the year, the council will have between £20-£35m to invest which on average earns 0.70% currently.

2 What is the reason for making this report?

2.1 It was agreed by Council on 27 October 2009 that the governance of TM be subjected to scrutiny by the Corporate Governance Committee. Part of this role is to receive an update on the TM activities twice a year and to review the enclosed Annual TM Report for 2011/12.

2.2 Role of Corporate Governance Committee

2.2.1 The TM team will provide reports and training to the Corporate Governance Committee in accordance with the timetable below:

Committee	Date	Report Title	Report Content
Corporate Governance	January	TM Strategy	- Policy - Strategy - Prudential Indicators
Council	February	TM Strategy	As above
Corporate Governance	July	TM Update	- External environment - Risks - Activity

			- Controls - Future Activity
Corporate Governance	Early/mid September	TM Review	- Review of TM activities during the preceding year - Performance of TM function
Cabinet	End September	TM Review	As above
Corporate Governance	December	TM Update/Training Session	- As TM Update above - Training on the basics of TM - Refresher sessions on TM developments

2.2.2 TM is a complex area which takes time to understand fully and regular updates are provided. It was deemed therefore that the Corporate Governance Committee was more appropriate than Council to receive these updates so that the required amount of time and commitment could be devoted to this area.

2.2.3 The Committee is required to have a certain level of understanding in this area and this is achieved through regular updates and training sessions.

2.2.4 The role of the Committee includes the following:

- To understand the Prudential Indicators
- To understand the impact of borrowing on the revenue position
- To understand the wider drivers impacting on the Council's TM activities
- To ensure that the Council always acts in a prudent manner in relation to its TM activities

3 What are the Recommendations?

3.1 That members note the paper on borrowing (Appendix 1).

3.2 That members note the performance of the Council's Treasury Management function during 2011/12 and its compliance with the required Prudential Indicators as reported in the Annual TM Report 2011/12 (Appendix 2).

3.1 That members note the TM update report (Appendix 3).

4 Report details

4.1 The paper on borrowing (Appendix 1) explains why and how the Council borrows and provides details of the strategy which it adopts.

4.2 The purpose of the Annual Treasury Management Report (Appendix 2) is to:

- present details of capital financing, borrowing, debt rescheduling and investment transactions in 2011/12;
- report on the risk implications of treasury decisions and transactions;
- confirm compliance with treasury limits and Prudential Indicators.

4.3 The TM update report (Appendix 3) provides details of the following:

- External economic environment
- Risks
- Activity
- Controls
- Future Activity

5 How does the decision contribute to the Corporate Priorities?

5.1 Good investment and borrowing decisions allow additional resources to be directed to other Council services.

6 What will it cost and how will it affect other services?

6.1 Not applicable.

7 What consultations have been carried out?

7.1 The Council has consulted with its treasury advisers, Arlingclose Ltd.

8 What risks are there and is there anything we can do to reduce them?

8.1 Treasury Management is inherently risky but the Council is monitoring and controlling these risks as outlined in the main report. However, it is impossible to eliminate these risks completely. The council's treasury management strategy and procedures are audited annually and the latest internal audit review was positive with no significant issues raised.

9 Power to make the Decision

9.1 The Local Authorities (Capital Finance and Accounting) (Wales) Regulations require local authorities to have regard to the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management which determines the requirement for the Council to prepare regular TM updates and an annual report on treasury activities for the previous financial year.

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BORROWING

1 Introduction

1.1 The purpose of this paper is to discuss Denbighshire County Council's borrowing. It will cover the following areas:

- How do we borrow?
- Why do we borrow?
- How much do we owe?
- How much does it cost?
- What is our strategy?
- How do we go about it?

2 How do we borrow?

2.1 The legislation which determines how we borrow is included within the Local Government Act 2003. This act introduced the Prudential Code of Borrowing which came into effect on 1 April 2004. The Code stated that local authorities can borrow provided they can demonstrate it is affordable, prudent and sustainable.

3 Why do we borrow?

3.1 We borrow to finance the Capital Plan which includes all the capital projects which have been approved for the next three years. We receive grants and contributions to finance part of the capital expenditure and we can also use capital receipts following the disposal of assets. The shortfall has to be met by borrowing but we don't always use external borrowing as the only means. We are also able to use our own reserves and balances to fund capital expenditure and this is known as internal borrowing. Our external borrowing is broken down into two types as shown below and the proportions of each type which are financed by Revenue Support Grant (RSG) and council tax are also included:

- Unhypothecated Supported Borrowing (USB)
(80% RSG / 20% Council Tax)
- Prudential Borrowing (PB)
(100% Council Tax)

The level of USB has reduced in recent years which is why PB has increased to bridge the gap. Graph 1 enclosed overleaf shows the levels of USB and PB over the last 5 years.

4 How much do we owe?

4.1 Our current debt is £134.39m at an average rate of 5.75% and this is made up of individual loans which vary in length from 1 year to 50 years. Some loans are on a Maturity basis and others on an Equal Instalment of Principal (EIP) basis. In the case of Maturity loans, interest is payable annually and the principal is payable at the end of the term. In the case of EIP Loans, an equal instalment of principal is payable annually and interest is also payable annually based on the reduced balance. An annuity loan is similar to an EIP loan but the cost is annualised so the total amount payable is the same each year. The illustration below shows the cost of the various types of loans based on an example of a £10m loan over 10 years:

Year	EIP			Maturity			Annuity		
	Principal £000	Interest 1.81% £000	Total £000	Principal £000	Interest 2.79% £000	Total £000	Principal £000	Interest 1.82% £000	Total £000
1	1,000	176	1,176	0	279	279	920	178	1,098
2	1,000	158	1,158	0	279	279	937	161	1,098
3	1,000	140	1,140	0	279	279	954	144	1,098
4	1,000	122	1,122	0	279	279	972	126	1,098
5	1,000	104	1,104	0	279	279	990	108	1,098
6	1,000	86	1,086	0	279	279	1,008	90	1,098
7	1,000	68	1,068	0	279	279	1,026	72	1,098
8	1,000	50	1,050	0	279	279	1,045	53	1,098
9	1,000	32	1,032	0	279	279	1,064	34	1,098
10	1,000	14	1,014	10,000	279	10,279	1,084	14	1,098
Total	10,000	950	10,950	10,000	2,790	12,790	10,000	980	10,980

Graph 2 illustrates the maturity profile of our debt over 50 years.

5 How much does it cost?

5.1 We have a Capital Financing Budget of approximately £12m to cover the cost of our borrowing. The majority of the budget consists of the following three elements:

- **Minimum Revenue Provision (£6m)**
(amount set aside each year to repay debt)
- **PWLB Interest Payable (£6.4m)**
(interest payable each year on the Council's loans)

- **Less Investment Interest (£0.4m)**

(interest earned each year on the Council's investments)

6 What is our strategy?

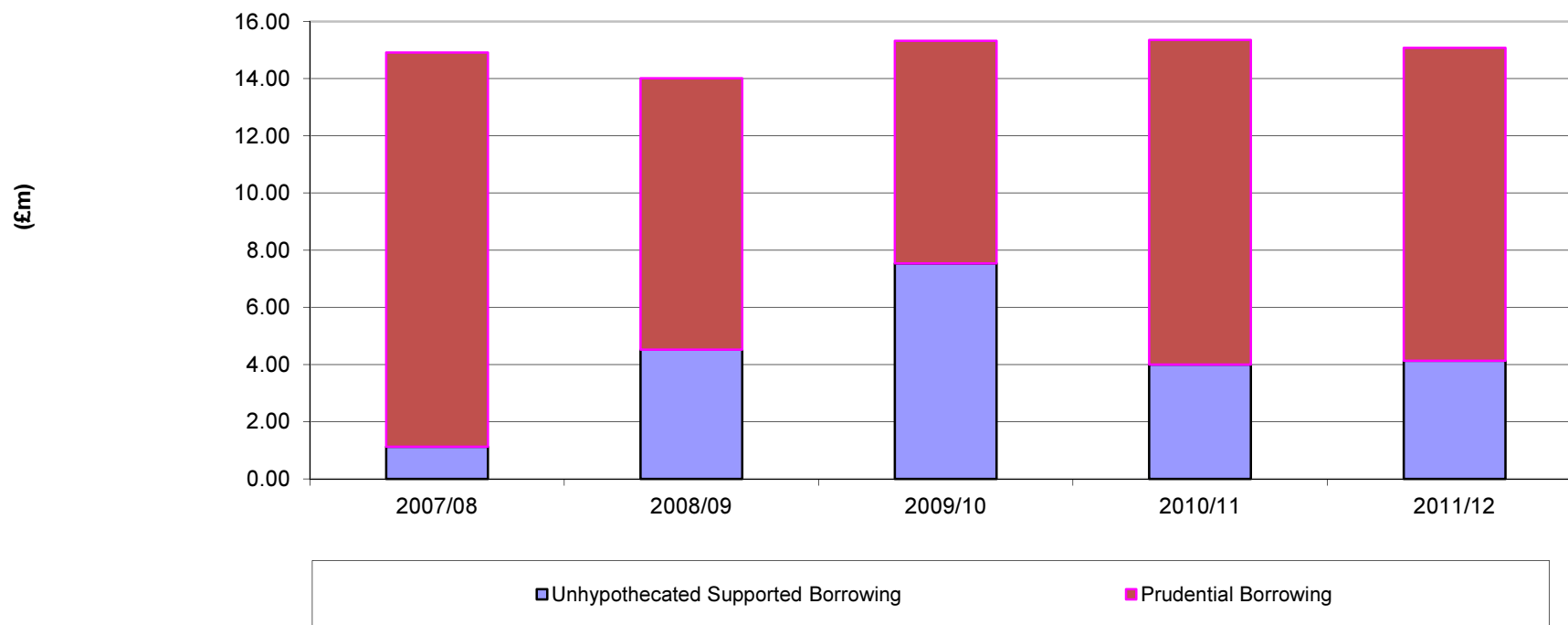
- 6.1 The first principle which we base our strategy on is that we don't borrow more than we need. We do this by ensuring that our borrowing always remains below the Capital Financing Requirement which is a measure of the Council's need to borrow. We also set Prudential Indicators each year which determine our borrowing limits and help us to ensure that capital investment is affordable, prudent and sustainable. These indicators are approved by Council each February. We are not permitted to borrow to invest but we can borrow in advance of need.
- 6.2 The second principle which we base our strategy on is that we can afford to pay it back. As discussed above, we have a Capital Financing Budget which is the budget set aside to cover the cost of our borrowing. One of the Prudential Indicators which measures affordability is the ratio of financing costs to net revenue stream. This calculates what proportion of our revenue stream is spent on financing our debt.

7 How do we go about it?

- 7.1 All of our debt is currently from the Public Works Loan Board (PWLB) but we can also borrow from banks and local authorities for short term cash flow purposes. It should be emphasised that our debt cannot be compared to a mortgage which is secured against the asset. Our loans are not linked to particular assets and are secured on future revenue streams.
- 7.2 We borrow when the time is right by monitoring our cash flow position, the Capital Plan and interest rates. We also consult our treasury management advisers, Arlingclose Ltd, who advise us on the movements in interest rates to ensure that we borrow when rates are at their lowest.
- 7.2 PWLB fixed interest rates are determined by reference to gilt yields, and variable rates are determined by reference to a formula. Rates for fixed rate PWLB loans are calculated by applying a margin to the corresponding gilt yield. The margin over gilts varies very slightly depending on the average life of the loan, but is approximately 100bps (or 1.00%).
- 7.3 Gilts are essentially bonds issued and guaranteed by the UK Government. They can either have fixed rates of interest or are index-linked, and each issue has a distinct maturity date, although some are undated. Gilts are listed on the London Stock Exchange and are extremely liquid instruments.

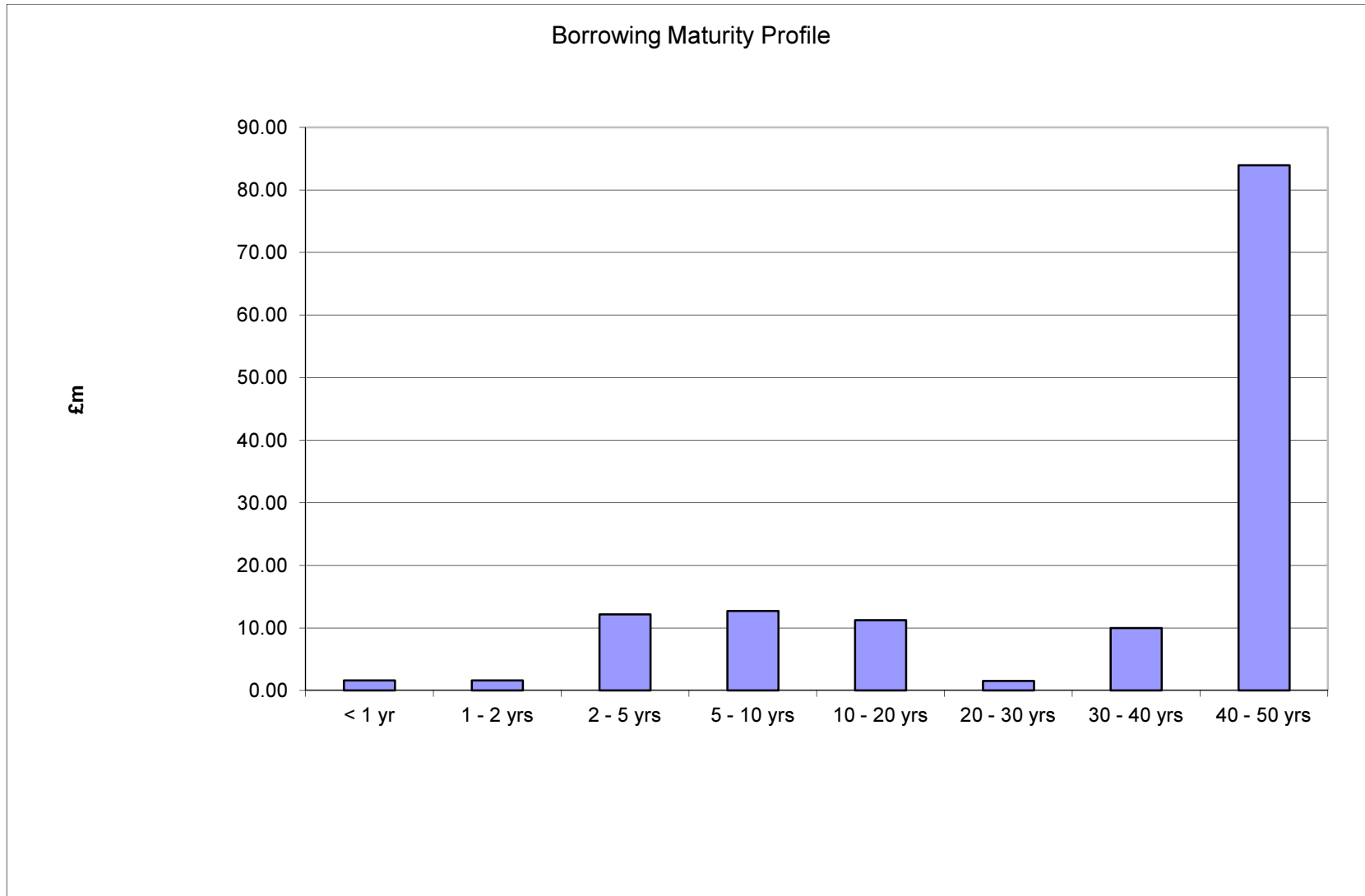
7.4 Graph 3 shows the yield curve for PWLB interest rates from 1 year up to 50 years. It shows that 10 year EIP loans currently offer very good value at levels which are below 2.00%. However, the graph also illustrates that it's much more expensive to borrow than to invest at the moment with the Official UK Bank Rate expected to remain at 0.5% for some time. The graph shows the difference between investment and borrowing rates which is known as the cost of carry. For example, the cost of carry is approximately £12,000 for every £1m borrowed over a 10 year period because the Council could borrow for 10 years at a rate of approximately 2% but could only invest at a rate of approximately 0.8%.

Graph 1 – Levels of Unhypothecated Supported Borrowing / Prudential Borrowing



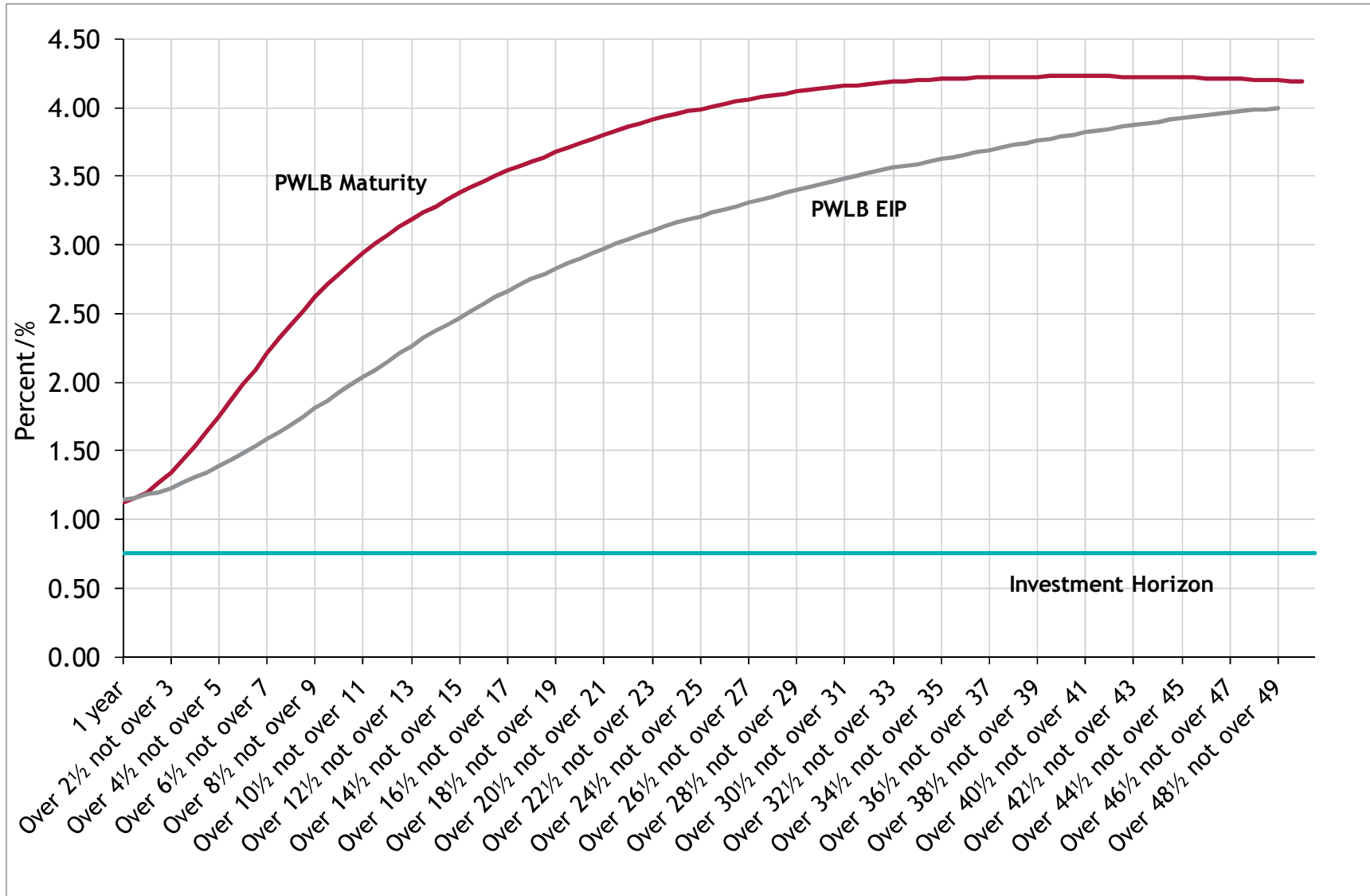
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Graph 2 – PWLB Borrowing Maturity Profile



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Graph 3 – PWLB Interest Rates Yield Curve



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Appendix 2

DENBIGHSHIRE COUNTY COUNCIL

***ANNUAL TREASURY MANAGEMENT
REPORT
2011/12***

**Paul McGrady
Head of Finance & Assets**

CONTENTS

Section	Title
1	Background
2	Economic Background
3	Borrowing Activity
4	Investment Activity
5	Compliance with Prudential Indicators
	Appendix A - PWLB borrowing rates and UK Money Market rates
	Appendix B – Compliance with Prudential Indicators 2011/12

1. Background

The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year. Reports are made twice a year to the Audit Committee which is the committee with responsibility for the scrutiny of the Council's treasury policy, strategy and activity, as well as the annual report made to cabinet and the report to full council for approval of the annual treasury strategy.

Treasury management is 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."

Overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

2. Economic Background

At the time of determining the 2011/12 strategy in Feb 2011, there were tentative signs that the UK was emerging from recession with the worst of the financial crisis behind it. Recovery in growth was expected to be slow and uneven as the austerity measures announced in the 2010 Comprehensive Spending Review were implemented in order to bring down the budget deficit and government borrowing and rebalance the economy and public sector finances. Inflation measured by the Consumer Price Index (CPI) had remained stubbornly above 3%. Unemployment was at a 16-year high at 2.5 million and was expected to rise further as the public and private sector contracted. There was also a high degree of uncertainty surrounding Eurozone sovereign debt sustainability.

It was not surprising that the Bank of England's Monetary Policy Committee maintained the status quo on the Bank Rate which has now been held at 0.5% since March 2009, but increased asset purchases by £75bn in October 2011 and another £50bn in February 2012 taking the Quantitative Easing (QE) total to £325bn.

The policy measures announced in the March 2012 Budget statement were judged to be neutral. The government stuck broadly to its austerity plans as the economy was rebalancing slowly. The opinion of independent Office for Budget Responsibility (OBR) was that the government was on track to meet its fiscal targets; the OBR identified oil price shocks and a further deterioration in Europe as the main risks to the outlook for growth and in meeting the fiscal target.

3. Borrowing Activity

The table below shows the level of the Council's PWLB borrowing at the start and the end of the year.

	Balance at 01/4/2011 £000	Maturing loans £000	Premature repayments £000	New Borrowing £000	Balance at 31/3/2012 £000
Fixed rate loans – Public Works Loan Board (PWLB)	131,280	1,390	0	5,000	134,890
Temporary Borrowing	0	10,500	0	10,500	0
Total borrowing	131,280	11,890	0	15,500	134,890

The strategy in 2011/12 was mainly to use internal resources instead of external borrowing as the most cost effective means of funding capital expenditure. The only exception to this was in August when the Council took advantage of low borrowing rates by taking out a new 10 year loan of £5m at 2.46%.

Whenever cash was required for short term cash flow purposes, the Council also undertook temporary loans through the market which was readily available at very low rates of approximately 0.3%.

As a result of new borrowing and maturities during the year, the average rate on the Council's debt decreased from 5.84% at 1 April 2011 to 5.74% at 31 March 2012 which will result in an annual saving of approximately £135k based on the level of borrowing at the end of 2011/12.

Appendix A shows how interest rates for borrowing have moved over the course of the year.

4. Investment Activity

The Council held average cash balances of £27m during the year. These represent the Council's Balances and Reserves, working cash balances and also where money has been borrowed before capital expenditure is incurred.

The Welsh Government's Investment Guidance requires local authorities to focus on security (keeping the money safe) and liquidity (making sure we never run out of cash) as the primary objectives of a prudent investment policy. The Council's aim was to achieve a return on investments in line with these principles. The return is important but is a secondary consideration and the priority is the security of the sums invested.

The table below shows the level of the Council's investments at the start and the end of the year.

	Balance at 01/4/2011 £000	Investments Raised £000	Investments Repaid £000	Balance at 31/3/2012 £000
Investments	22,000	194,900	195,900	21,000

The Council's investment income for the year was £0.408m compared to £0.398m in 10/11 which meant that the low interest rates available in the market continued to have a significant impact on the investment return earned by the Council.

Security of capital remained the Council's main investment objective. This was maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2011/12. Investments during the year included:

- Deposits with the Debt Management Office
- Deposits with other Local Authorities
- Call accounts and deposits with Banks and Building Societies

Credit risk:

Counterparty credit quality was assessed and monitored with reference to the following:

- credit ratings (Council's minimum long-term counterparty rating of A+ across all three rating agencies, Fitch, S&P and Moody's);
- GDP of the country in which the institution operates;
- the country's net debt as a percentage of GDP;
- any potential support mechanisms;
- share price.

Downgrades in the autumn of 2011 to the long-term ratings of several counterparties resulted in their ratings falling below the Council's minimum threshold of A+. The downgrades were driven principally by the agencies' view of the extent of future government support rather than a deterioration in the institutions' creditworthiness. Further use of these counterparties was suspended until revised criteria were approved for use from 1st April 2012.

One of the banks affected was the Council's own bank, Natwest, so it was recommended in a report to Council that an exception was made in this case for operational purposes to allow the Council to place up to £4m in the Natwest instant access account and this was agreed.

Liquidity:

In keeping with the WG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of overnight deposits and instant access call accounts.

Yield:

The Council sought to achieve the best return balanced against its objectives of security (credit risk management) and liquidity. The UK Bank Rate was maintained at 0.5% through the year. Short term money market rates remained at very low levels which had a significant impact on investment income. The Council also had a level of core cash which was not required in the short-term and this was invested for periods of up to 12 months to achieve a higher rate of return.

All investments made during the year complied with the Council's agreed Treasury Management Strategy, Prudential Indicators, Treasury Management Practices and prescribed limits. Maturing investments were repaid to the Council in full and in a timely manner.

5. Compliance with Prudential Indicators

The Council can confirm that it has complied with its Prudential Indicators for 2011/12, which were set in February 2011 as part of the Council's Treasury Management Strategy Statement. Details can be found in Appendix B.

In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2011/12. None of the Prudential Indicators has been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

Interest Rates 2011/12

Public Works Loan Board (PWLB) borrowing rates and UK Money Market rates during the year were:

Example PWLB Borrowing rates % (The rate at which the Council could borrow money from the Government)

Start Date		Length of Loan	
	1yr	19½-20 yrs	49½-50 yrs
01-Apr-11	1.93	5.33	5.28
30-Sep-11	1.51	4.35	4.69
31-Mar-12	1.28	4.17	4.36

Example Bank Rate, Money Market rates (The rate at which the Council could invest with banks)

Date	Bank Rate %	7-day Investment Rates %	1-month Investment Rates %	6-month Investment Rates %
01-Apr-11	0.50	0.54	0.54	1.12
30-Sep-11	0.50	0.60	0.54	1.21
31-Mar-12	0.50	0.55	0.61	1.33

Compliance with Prudential Indicators 2011/12

1 Estimated and Actual Capital Expenditure

This indicator is set to ensure that the level of proposed investment in capital assets remains within sustainable limits and, in particular, to consider the impact on the Council Tax and in the case of the HRA, housing rent levels.

Capital Expenditure	2011/12 Estimated Feb 11 £000	2011/12 Revised Feb 12 £000	2011/12 Outturn Mar 12 £000
Non-HRA	40,827	30,708	34,047
HRA	5,969	5,413	5,686
Total	46,796	36,121	39,733

2 Estimated and Actual Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and demonstrates the revenue implications of capital investment decisions by highlighting the proportion of the revenue budget required to meet the borrowing costs associated with capital spending. The financing costs include existing and proposed capital commitments.

Ratio of Financing Costs to Net Revenue Stream	2011/12 Estimated Feb 11 £000	2011/12 Revised Feb 12 £000	2011/12 Outturn Mar 12 £000
Financing Costs	11,663	11,585	12,104
Net Revenue Stream	174,985	175,145	175,145
Non-HRA Ratio	6.67%	6.61%	6.91%
Financing Costs	2,859	2,586	2,585
Net Revenue Stream	11,757	11,295	11,295
HRA Ratio	24.32%	22.90%	22.89%

3 Capital Financing Requirement

3.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Council ensures that net external borrowing does not, except in the short term, exceed the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. This is demonstrated in the following table:

Capital Financing Requirement - Non-PFI Basis	31/3/12 Estimated Feb 11 £000	31/3/12 Revised Feb 12 £000	31/3/12 Outturn Mar 12 £000	31/3/13 Estimated Feb 12 £000	31/3/14 Estimated Feb 12 £000
Non-HRA	147,048	137,346	137,577	151,245	147,285
HRA	26,947	25,607	25,852	28,696	28,619
Total	173,995	162,953	163,429	179,941	175,904
Borrowing	151,353	134,890	134,890	158,197	161,258
PFI Liability	11,302	10,993	11,136	10,676	10,564

NB The outturn figures are taken from the pre-audited Statement of Accounts 2011/12 so they may be subject to change.

4 Authorised Limit and Operational Boundary for External Debt

Summary Table:

2011/12	£000
External Borrowing	134,890
Internal Borrowing	29,298
Operational Boundary	170,000
Authorised Limit	175,000

- 4.1 **Operational Boundary:** This limit is set to reflect the Council's best view of the most likely prudent (i.e. not worst case) levels of borrowing activity and was set at £170m for the financial year.
- 4.2 **Authorised Limit:** This is the maximum amount of external debt that can be outstanding at one time during the financial year. The limit, which is expressed gross of investments, is consistent with the Council's existing commitments, proposals for capital expenditure and financing and with its approved treasury policy and strategy and also provides headroom over and above for unusual cash movements. This limit was set at £175m for 2011/12.
- 4.3 The levels of debt are measured on an ongoing basis during the year for compliance with the Authorised Limit and the Operational Boundary. The Council maintained its total external borrowing and other long-term liabilities within both limits; at its peak this figure was £139.7m. In addition to external borrowing, the Council uses its own reserves and balances to fund capital expenditure and this is known as internal borrowing as shown in the table above.

5 Incremental Impact of Capital Investment Decisions

- 5.1 This is an indicator of affordability that shows the impact of approved capital investment decisions on Council Tax and Housing Rent levels when the budget for the year was set.

Incremental Impact of Capital Investment Decisions	2011/12 £
Increase in annual Band D Council tax	22.73
Increase in average weekly housing rents	1.76

There is no variation to council tax once it has been set prior to the commencement of the financial year.

6 Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

- 6.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The exposures are calculated on a net basis i.e. fixed rate debt net of fixed rate investments. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	2011/12 Estimated %	2011/12 Actual Peak Exposure %
Upper Limit for Fixed Rate Exposure	100	100
Upper Limit for Variable Rate Exposure	40	0

7 Maturity Structure of Fixed Rate borrowing

- 7.1 This indicator is to limit 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.
- 7.2 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.

Maturity structure of fixed rate borrowing	Upper limit	Lower limit	Actual Borrowing as at 31/3/2012 £000	Percentage of total as at 31/3/2012 %
	%	%		
under 12 months	5	0	1,621	1.20
12 months and within 24 months	5	0	1,621	1.20
24 months and within 5 years	10	0	12,189	9.04
5 years and within 10 years	25	0	12,702	9.42
10 years and above	100	50	106,757	79.14
Total			134,890	100

8 Total principal sums invested for periods longer than 364 days

This indicator is set in order to allow the Council to manage the risk inherent in investments longer than 364 days. For 2011/12 this limit was set at £6m. The Council did not have any investments which exceeded 364 days during 2011/12 because the policy was to limit investments to a shorter period than 1 year.

9 Adoption of the CIPFA Treasury Management Code

The Council confirms its adoption of the CIPFA Code of Treasury Management at its Council meeting on 26 March 2002.

The Council has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.

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Treasury Management Update Report

1 Changes in the external environment

1.1 Economic Outlook

Financial markets are volatile at the moment. The stresses are most extreme in Europe where the lack of real progress in resolving the sovereign debt problem is affecting even the stronger countries. The debt problems have been well publicised with the situation in Greece being the most difficult but with significant risks also facing the Portuguese, Italian and Spanish economies.

2 Risk

2.1 The greatest risk is that one party to an investment (called a counterparty) will fail to repay an investment, causing a loss to the other party. The Council manages this risk by monitoring the banks it invests with constantly and stops dealing with any bank which is causing credit concerns.

2.2 Following the recent economic turmoil in the Eurozone, the Chief Finance Officer decided to limit its exposure to 7 days for all new investments with the UK banks which it invests with as listed below. The decision was made because of concerns about the exposure of UK banks to European countries.

Barclays Bank
Nationwide BS
Royal Bank of Scotland Plc / NatWest Bank Plc
Lloyds TSB Bank Plc / Bank of Scotland Plc

The Chief Finance Officer also decided to stop using Santander UK Bank because of fears over the stability of its Spanish parent.

2.3 The Council will however use the UK Government's Debt Management Office to invest with where this facility is able to match the money market 7 day returns or as the last resort if safe limits have been reached with financial institutions.

2.4 The Council does not believe that there are any solvency issues with the banks listed above. However, this is a prudent response to safeguard the Council's investments.

2.5 One of the rating agencies, Moody's, has recently downgraded Natwest Bank Plc to the minimum rating which the Council can invest with. The Council banks with Natwest Plc and it was agreed in the Treasury Management Strategy Statement 2012/13 that even if the

credit rating was to fall below the Council's minimum criteria Natwest Plc would continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

- 2.6** In view of the limited number of banks which are available now for new investments, the Council intends to reduce its investment balances and to use temporary borrowing as a means of funding short term cash flow requirements.

3 Activity

3.1 Borrowing

The Council's current total long term borrowing is £134.39m at an average rate of 5.75% which is all in the form of fixed rate loans from the PWLB which vary in length from 1 year up to 50 years.

3.2 Investments

The council's investments outstanding currently stand at £22m at an average rate of 0.76%. The maturity profile of the Council's investments is limited to 7 days at the moment which is why all of the investments shown in the table below are within the 0-1 month band.

Maturity Band	Amount (£m)	% of Portfolio
0-1 Month	22.00	100.00
1-3 Months	0.00	0.00
3-6 Months	0.00	0.00
6-9 Months	0.00	0.00
9-12 Months	0.00	0.00
Total	22.00	100.00

3.3 Investment Returns

The financial markets remain extremely volatile and this continues to limit the number of institutions with which the council can invest and the length of investments the council can make. Both of these issues limit the returns the council can achieve. Since March 2009, the Bank of England base rate has remained at 0.5%. Before March 2009, the Council was able to achieve an average rate in excess of 5%. This has had a significant impact on the investment return the Council has been able to achieve on its investments. To put this into context, in 2008 the council could expect to earn around £2.5m in interest on investments (the council typically has between £20-£30m to invest). This year the yield is likely to be one tenth of what was earned before the banking crisis. The impact on the Capital Financing Budget will be mitigated to

some extent by saving on borrowing costs as a result of the policy not to undertake new borrowing.

The council's treasury strategy puts the safety of investments ahead of yield though prudent options are always considered if appropriate. The action the council has taken over the last year demonstrates this. During the course of the last year, the council limited investments with banks from one year to six months. It was then reduced further to 90 days. More recently this was reduced to 30 days and in the past few weeks the council has opted to limit almost all deposits to one day. With the current instability in the Eurozone and the potential for contagion if a significant bank were to fail or a country were to default, the council's current investment strategy is likely to continue for the medium term

4 Controls

4.1 Prudential Indicators

The TM officers are also required to comply with treasury limits and prudential indicators which are set annually in the TM Policy and Strategy Statement which is approved by full Council each year. The Council has remained within all of its borrowing and investment limits for 2012/13 agreed by Council in February 2012. The Council has not deviated from the Capital related indicators either.

4.2 Audit Reviews

The Internal Audit review undertaken in February 2012 concluded that TM processes and procedures are robust, well established and followed meticulously. The audit report also stated that key risks are effectively managed, with only a few low risk areas for improvement identified. The report listed the following key areas which are managed well:

- Full Council approved the TM strategy and policy. TM activity is closely scrutinised and reported to the Corporate Governance Committee.
- Separation of duties and hierarchy approval procedures exist throughout the process.
- Duty rotas and up to date written procedures strengthen resilience and aid business continuity.
- Checklists maintain quality assurance and ensure strategy compliance.

5 Future

5.1 TM Strategy for next six months

As stated above, the Council intends to reduce its investment balances and to use temporary borrowing as a means of funding short term cash flow requirements.

5.2 Reports

The next reports will be a further update in November and the Treasury Management Strategy Statement and Prudential Indicators 2013/14 which will be reported to the Corporate Governance Committee and Council in February.