

To: Members of the Corporate
Governance Committee

Date: 22 January 2016

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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, 27 JANUARY 2016** in **CONFERENCE ROOM 1A, COUNTY HALL, RUTHIN.**

Yours sincerely

G. Williams
Head of Legal, HR 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 - 12)

To receive the minutes of the Corporate Governance Committee meeting held on the 18th November, 2015.

PART 2 - CONFIDENTIAL ITEM

It is recommended in accordance with Section 100A(4) of the Local Government Act 1972, that the Press and Public be excluded from the meeting during consideration of the following item of business because it is likely that exempt information (as defined in paragraph "12 and 15") of Part 4 of Schedule 12A of the Act would be disclosed.

5 YSGOL MAIR RHYL- FINANCIAL RECOVERY PLAN (Pages 13 - 18)

To consider a confidential report by the Head of Internal Audit (copy enclosed) which provides details of Ysgol Mair's Financial Recovery Plan.

PART I

6 BUDGET PROCESS 2015/16 (Pages 19 - 24)

To consider a report by the Chief Finance Officer, which provides an update on the process to deliver the revenue budget for 2016/17 (copy enclosed).

7 TREASURY MANAGEMENT REPORT (Pages 25 - 54)

To consider a report by the Chief Finance Officer (copy enclosed) on the Councils TM functions and activities, and outlines the likely impact of the Corporate Plan on the strategy and on the Prudential Indicators.

8 CORPORATE GOVERNANCE COMMITTEE SELF EVALUATION REPORT (Pages 55 - 70)

To receive a presentation from the Head of Internal Audit.

9 CORPORATE FLEET MANAGEMENT - INTERNAL AUDIT REPORT

To receive a verbal report by the Head of Internal Audit.

10 CORPORATE GOVERNANCE COMMITTEE WORK PROGRAMME (Pages 71 - 74)

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

MEMBERSHIP

Councillors

Ann Davies
Stuart Davies
Peter Duffy

Alice Jones
Jason McLellan

Lay Member

Paul Whitham

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CORPORATE GOVERNANCE COMMITTEE

Minutes of a meeting of the Corporate Governance Committee held in Conference Room 1a, County Hall, Ruthin on Wednesday, 18 November 2015 at 9.30 am.

PRESENT

Councillors Ann Davies, Stuart Davies, Alice Jones and Jason McLellan (Chair) and Paul Whitham (Lay Member).

Councillors Bobby Feeley, Martyn Holland and Meirick Ll. Davies attended as observers.

ALSO PRESENT

Head of Legal, HR and Democratic Services (GW), Head of Internal Audit (IB), Chief Finance Officer (RW), Deputy Monitoring Officer/ Solicitor (LJ), Strategic Planning Team Manager (LG), Corporate Information Manager (CG), School Effectiveness Performance Officer – Secondary (JM), Wales Audit Office Representative (GB) and Committee Administrator (SLW)

Also in attendance – Head Teacher, Ysgol Mair, Rhyl – Stuart Plunkett and Chair of Governors of Ysgol Mair, Rhyl – Gill Greenland

1 APOLOGIES

Apologies for absence were received from Councillor Peter Duffy

2 DECLARATION OF INTERESTS

No Declarations of Interest.

3 URGENT MATTERS

No urgent matters.

4 MINUTES

The Minutes of a meeting of the Corporate Governance Committee held on 28 September 2015 were submitted.

Page 11 – Item 8 The Chief Finance Officer clarified that the draft accounts had been circulated to committee members for information and had not been as an agenda item.

RESOLVED that subject to the above, the minutes of the Corporate Governance Committee held on 28 September 2015 be received and approved as a correct record.

PART II

Proposed by Councillor Stuart Davies, seconded by Lay-Member Paul Whitham the following items be moved to PART II – Confidential Items

EXCLUSION OF PRESS AND PUBLIC

Resolved that under Section 100A of the Local Government Act 1972, the Press and Public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraphs 14 and 18 of Part 4 of Schedule 12A of the Local Government Act 1972.

5 YSGOL MAIR, RHYL - INTERNAL AUDIT REPORT

The Head of Internal Audit (HIA) introduced a confidential report (previously circulated) on the recent Internal Audit report on Ysgol Mair, Rhyl that received a “Low” assurance rating.

The HIA informed the Committee that the full Internal Audit report had been included as Appendix 1. Appendix 2 indicated the progress made to date in implementing the Action Plan within the Audit report. Not all issues had been followed up during the visit as it had taken place at half-term. Progress had been made on a number of issues and an update had been required on the recovery plan.

Most of the issues raised within the report were not unusual for the audit of a school, and progress was being made to make the necessary improvements, as indicated in Appendix 2. The main concern, however, had been the financial position of the school. Although there was now a draft recovery plan, this had not yet been agreed and there was still a lot of work to take place, together with negotiation and consultation before a plan could be agreed and implemented.

Under the Council’s scheme for financing schools any school in deficit were allowed to apply for a licensed deficit and show they had a plan to be in surplus within three years.

An escalation meeting had been held with the Head Teacher, Chair and Vice-Chair of the School’s Governing Body, Lead Cabinet Member and senior management to discuss the audit report, action plan and progress made in implementing improvements. A further meeting would be held on 7 December 2015.

The Head Teacher was in attendance and explained to the Committee the steps which were being taken in accordance with a recovery plan to improve issues. The welfare of the children were a priority and this would be monitored closely.

At this juncture the Committee extended their thanks to the Head Teacher and the Chair of Governors for attending the meeting.

Following detailed discussion, it was:

RESOLVED that the Corporate Governance Committee:

- (i) Agrees the assurance it needed that the action/recovery plan within the report is being implemented effectively and within the agreed time scales
- (ii) Agree that the item be brought back to the next Corporate Governance Committee meeting to be held in January for an update of the action/recovery plan.

6 PFI UPDATE

The Chief Financial Officer (CFO) introduced a confidential report (previously circulated) on the termination of the Project Agreement for Ruthin County Hall and other buildings.

Members were informed that for both financial and operational reasons, the Council had terminated the County Hall PFI Project Agreement in May 2015.

Full Council had approved budget savings in 2015/2016 on the basis that the PFI contract would be terminated and full control of the assets passed to the Council. The report provided a summary of the history and context which had underlined the original decision to enter into a PFI agreement.

The CFO provided a summary of the report which included details pertaining to:-

- An outline of the PFI financial model
- Total cost of the Agreement
- Termination of the Agreement having triggered a compensation payment which had crucially provided better value for money for the Council
- A termination account having been submitted to the Council on 7 September 2015
- Details of the final compensation paid
- Reference to the external advice and support used in specialist areas during the complex process, and
- the consultation process which had been adopted.

The Committee thanked the Chief Finance Officer and his team for their work on the project.

Following detailed discussion, it was:

RESOLVED that the Corporate Governance Committee:

- (i) receive and note the report
- (ii) agree that the PFI Project Agreement Termination be fed into future Budget Workshops.

At this juncture, the meeting reverted back to **PART I**

7 BUDGET PROCESS 2015/16

The Chief Finance Officer (CFO) introduced a report (previously circulated) to provide an update on the process to deliver the revenue budget for 2016/17.

The latest progress with the budget setting process had been presented to a Member Budget Workshop on 26 October 2015, and details of the presentation had been included within the report. The latest budget planning assumptions had been discussed and had been summarised with the budget gap assuming a settlement being set at -4%. Proposals totalling approximately £2m had been identified for inclusion in Phase 5 which was to be presented to Council for approval in December.

The Draft Settlement for Local Government in Wales was usually published in early October but it would not be issued until 9 December as a consequence of the UK government Spending Review not being published until 25 November. The Spending Review would determine the level of the Block Grant to Wales. The late announcement of the Draft Settlement would mean that the budget timetable may need to be refined, as the Council had to set its budget in time to allow the production and distribution of Council Tax bills in March.

Appendix 2 was a letter from Welsh Government/WLGA, which outlined the timetable and some of the issues. The timetable did present some risks if settlement values changes significantly or if there were problems agreeing the budget at a national level, and this was being kept under review.

RESOLVED that Corporate Governance Committee receives and notes the contents of the report on the latest update.

8 CORPORATE RISK REGISTER

The Strategic Planning Team Manager (SPTM) introduced a report (previously circulated) on the management of Corporate Risk and the October 2015 revision to the Corporate Risk Register.

The SPTM explained that the report summarised how the Corporate Risk Register would be monitored and managed. It represented an annual report for Corporate Governance Committee to consider how Corporate Risk was managed within the Authority.

A formally updated version of the Corporate Risk Register had been agreed by Cabinet Briefing in October, 2015, and would be presented to the Performance Scrutiny Committee on 10 December 2015. The report alerted the Committee to the review of the Corporate Risk management methodology in light of the Well-being of Future Generations Act.

The Register was formally reviewed twice annually by Cabinet and CET. Any significant new or escalating risks would be brought to the attention of CET as and when identified, and CET would take the view as to whether a risk should be included in the Register. Following each formal review, the revised document

would be presented to Performance Scrutiny. Actions identified to address Corporate Risks would be included in Service Plans, where appropriate, which would enable Performance Scrutiny to monitor the progress. Any performance issues relating to the delivery of the activities would be highlighted as part of the Service Performance Challenge process.

The Well-being of Future Generations Act required consideration of the work undertaken utilising the five principles of sustainable development, and the way in which risks were considered and managed would need to be reviewed in line with the new legislation. The review would take place as part of the implementation of the new Act which would come into force in April 2016 and members would be fully involved.

A report was due to be presented to the Scrutiny Chairs and Vice-Chairs meeting in December to introduce how Scrutiny could incorporate the requirements of the Well-being of Future Generations Act into their work.

During discussions, Members raised concerns regarding Betsi Cadwaladr University Health Board (BCUHB) and it was confirmed that there were a number of controls in place containing a number of actions. Interaction between BCUHB and Denbighshire County Council had been ongoing to minimise the impact on Denbighshire.

The Head of Legal, HR and Democratic Services assured Members that the three issues which had been raised from the BCUHB Officer attendance at a recent Council meeting were now all within the Scrutiny Forward Work Programmes. These were as follows:

- (i) Primary Care – 17 December 2015 Communities Scrutiny Committee
- (ii) Future Developments – Royal Alexandra Hospital, Rhyl – 26 November, 2015 Partnerships Scrutiny Committee
- (iii) HASCASS Report – 25 February 2016 Partnerships Scrutiny Committee.

Following further discussion it was:-

RESOLVED that the Corporate Governance Committee noted how Corporate Risk was managed in the Authority

9 NATIONAL CONSULTATION ON FREEDOM OF INFORMATION

The Corporate Information Manager (CIM) introduced a report (previously circulated) which provided details of Denbighshire's proposed response to a consultation on the Freedom of Information Act 2000.

The CIM outlined the Act's intended objectives and provisions. The terms of reference of the Independent Commission on Freedom of Information had been set out by the Cabinet Office. Details of the role and remit of the Commission to review the Freedom of Information Act 2000 had been provided.

Details of the response compiled by Denbighshire to Question 6, which had been considered to represent the most pertinent issue for the Council, had been included within the report.

The Council had found that many requests involved several hours of work. Additionally, redaction of documents could take several hours, even days in some cases, but at present, the Act did not allow this work to be included within the timescale threshold.

It was explained that Denbighshire would encourage amending the Freedom of Information Act to include provision for Public Authorities to charge a nominal fee of possibly £20 for each request. It also recommended that the appropriate limit, (Section 12), be reduced from 18 to 10 hours, and include the time spent on redaction. It was considered that introducing the proposed changes would reduce the burden for Public Authorities to a more manageable and proportionate level whilst maintaining the public's statutory rights of information access.

Following the indepth discussion it was:

RESOLVED that subject to the above, the Corporate Governance Committee note the Council's proposed consultation response.

At this juncture (11.55 a.m.) there was a 10 minute break.

Meeting reconvened at 12.05 p.m.

10 COUNCIL CONSTITUTION

The Head of Legal, HR and Democratic Services, introduced a report (previously circulated) which provided an update on the future adoption of a new model constitution for Wales.

The Corporate Governance Committee terms of reference required any intended changes to the Council Constitution to be considered first before formal adoption by the Full Council.

The Head of Legal, HR and Democratic Services, referred to a previous report in July, 2015 which considered proposed amendments to the Articles of the Constitution, proposals regarding the delegation of decision making to Cabinet Members and amendments to the Officer Employment Rules. This report sought Members' views on proposed amendments to the Officer Scheme of Delegation. The proposed Scheme, Appendix 1, reflected changes in the senior management structure of the Council and the transfer of responsibilities which had taken place. Cabinet's approval of the Scheme would be sought in December to ensure that the executive function delegations had been appropriately authorised.

The Constitution Working Group had, in October, considered the codes and protocols contained in Part 5 of the Constitution. The Group had considered in

detail the Protocol on Member/Officer relations, and an amended version of the protocol had been included as Appendix 2 to the report.

The Committee previously considered potential amendments to its own terms of reference, such as the potential areas of work that could be transferred to the Standards Committee. Ultimately, the Committee's view had been not to transfer areas of work to that Committee. However, there had been matters discussed such as risk management and complaints where there had been some concern that there was potential duplication in the role of this Committee and that of Scrutiny. A proposed amended terms of reference for the Committee had been included as Appendix 3, which provided an updated version and reflected those discussions.

A Member Workshop would brief the wider membership on the changes considered by the Committee and obtain their views, prior to reporting to Council in February, 2016 to seek approval of the amended Constitution.

Following further discussion, it was:-

RESOLVED that Corporate Governance Committee notes the contents of the report prior to wider consultation with Members.

11 CORPORATE FLEET MANAGEMENT - INTERNAL AUDIT REPORT

The Head of Internal Audit introduced a report (previously circulated) which informed the Committee of a recent Internal Audit report on Corporate Fleet management that received a "Low" assurance rating.

The Head of Internal Audit introduced the report which sought the Committee's views on the Internal Audit report, and agreement of the assurance that the Action Plan within the report was being implemented effectively within the agreed timescales.

The full Internal Audit report had been included as Appendix 1, and the key issues arising from the report included:-

- An out of date Transport Policy
- The need to improve communication with service users
- Improvements needed to some processes, procedures and policies within the service
- The need to seriously consider investment in a new fleet management system
- Improvements required when employees are appointed, to ensure that their eligibility to drive is checked during the recruitment process
- Ensuring that lessons learned are always considered in the event of incidents and near misses, and
- Improvements needed to fuel management.

It had been confirmed that prior to the issue of the final audit report, an "escalation meeting" had been held with the Head of Highways and Environmental Services,

Corporate Director: Economic and Community Ambition, Lead Cabinet Member and senior managers to discuss the Audit Report and to agree an Action Plan.

RESOLVED that:-

- *the Corporate Governance Committee receives and notes the contents of the report on the latest update*
- *a verbal update be presented at the next Corporate Governance Committee meeting in January 2016 and a written report to be presented at the March meeting.*

12 CORPORATE GOVERNANCE COMMITTEE - SELF ASSESSMENT

This item was deferred until the meeting taking place on 27 January 2016.

13 CORPORATE GOVERNANCE COMMITTEE WORK PROGRAMME

The Corporate Governance Committee Forward Work Programme (previously circulated) was presented for consideration.

27 January 2016:-

- (i) Corporate Governance Committee – Self Assessment Report
- (ii) CSSIW Annual Report (TBC)
- (iii) Part II – Internal Audit Report – Ysgol Mair
- (iv) Internal Audit Report - Corporate Fleet Management (verbal report)

23 March 2016:-

- (i) Internal Audit Report – Corporate Fleet Management (written report)

RESOLVED that *subject to the above, the Committee approves the Forward Work Programme.*

The meeting concluded at 1.15 p.m.

By virtue of paragraph(s) 12, 15 of Part 4 of Schedule 12A of the Local Government Act 1972.

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By virtue of paragraph(s) 12, 15 of Part 4 of Schedule 12A
of the Local Government Act 1972.

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Report To: Corporate Governance Committee

Date of Meeting: 27th January 2016

Lead Member / Officer: Councillor Julian Thompson-Hill

Report Author: Richard Weigh, Chief Finance Officer

Title: Budget Process 2016/17

1. What is the report about?

The report gives an update on the process to deliver the revenue budget for 2016/17.

2. What is the reason for making this report?

To provide an update of the latest position.

3. What are the Recommendations?

To consider the latest update and comment as appropriate.

4. Report details

The latest progress with the budget setting process was presented to a member budget workshop on 14th December – the third in a series of autumn budget workshops and the sixteenth as part of Freedoms & Flexibilities.

The workshops considered a range of savings proposals and at each one, an assessment of the latest financial planning assumptions and wider context was presented. As has been highlighted throughout the budget process, the level of financial settlement the council receives from Welsh Government is the most significant element of the council's net funding and therefore small percentage changes to the level of settlement have a significant financial impact.

The draft Welsh Government budget and therefore the Provisional Settlement to local government were both announced later than usual this year as a consequence of the timing of the UK Government's Autumn Spending Review. This was factored into the budget planning process and resulted in the package of proposals being taken for approval in December (ahead of the Provisional Settlement announcement). Importantly, the package (totalling £1.2m) contained efficiency savings and technical adjustments but did not include any proposals to cut services or increase charges.

The Local Government Settlement for 2015/16 provided a cash reduction to the council's budget of 3.6% which equated to £5.3m. Indications were that the Settlement for 2016/17 would be worse and accordingly, the council planned

for a reduction of -4% (equating to a reduction of £5.6m approximately). With inflationary cost pressures the council has to fund and allowing for an estimate of budget protection for schools, the budget gap for 2016/17 was calculated as £8.0m.

Since 2011 there has been a ministerial pledge to ‘protect’ school budgets. The mechanism for this has been to suggest that local authorities uplift school budgets by 1% more than the revenue ‘block grant’ to Wales. The revenue funding to Wales has increased by 0.85% and so to comply with the required protection policy, the council would need to increase school budgets by 1.85% in total. This level of protection is double what had been assumed (which was based on last year’s figure) and results in a cash increase to schools, before adjusting for pupil numbers, of £1.173m.

The Settlement announced on 9th December was much better than expected with an overall cash reduction to local government of -1.4% and a reduction to Denbighshire of -1.2%. The range of reductions across Welsh councils varied from -0.1% (Cardiff) to -4.1% (Powys) with the impact generally worse for rural counties. Previous funding floor mechanisms have been removed from the Settlement which is why the range is relatively wide.

Approximately three-quarters of the council’s net funding comes via the Settlement so the impact of small percentage changes to it is always significant. The council’s funding settlement of -1.2% means the resulting headline funding reduction is £3.9m less than had been anticipated with a -4% reduction.

In December, a report to full council set out the latest budget position and assumptions, which indicated a remaining budget gap of £2m. This gap was calculated with a number of assumptions which have changed as a consequence of the Provisional Settlement. These were explained in detail at the budget workshop with members on 14th December and summarised below:

	Pre Settlement	Post Settlement	Impact ‘000
Funding			
Settlement	-4%	-1.20%	£3,884
Council Tax	2.75%	1.50%	-£551
Total			£3,333
Existing Budget Gap	£2,000k	0	£2,000
Additional School Protection	0	£1,173k	£1,173
Pupil Demography Reduction	-£320k	0	-£320
Total			£2,853
Funding Position			£480

The changes to the Settlement value allow for a proposal to lower the level of proposed Council Tax rise from 2.75% to an average of 1.5%. This will reduce council funding by £551k but will mean that some of the benefits of the Settlement are passed directly onto Council Tax payers. Despite several years of low increases, Denbighshire's Council Tax is relatively high compared to others in Wales and the proposed lower level increase will help to redress this position. At the budget workshop in December, there was a consensus among members that the level of Council Tax rise should be no lower than 1.5%.

The proposals set out above require no further savings from services in 2016/17. Savings of £5.2m have already been identified in previous phases of the two-year process.

Applying the assumptions above results in a positive funding position of £480k. However, this must be considered in the context of the likelihood of further reductions in future years. The Settlement for 2016/17 is better than expected but it is a one-year settlement with no indications about future years. It is hoped that post the Welsh Government elections in May, reliable multi-year settlements will be provided but until then, there are no firm planning guidelines. The table below summarises the budget planning position for future years which assume a 3% settlement reduction and a Council Tax increase of 2.75%. This scenario results in a budget gap of almost £6m each year. Even if the budget was 'cash flat' in 17/18, pressures of over £3m would need to be funded. Therefore, the council should not commit the funding available in 2016/17 to any long-term proposals that would have to be cut in 2017/18. The table below summarises the position:

	2016/17 £'000	2017/18 £'000	2018/19 £'000
FUNDING			
Total Funding	185,056	182,104	179,312
EXPENDITURE			
Base Budget carried forward	184,756	184,576	187,939
PRESSURES:			
Inflation (excluding Schools)	2,899	1,969	1,969
Schools Protection	1,173	1,194	1,217
Investment in Priorities	250	200	
Transfers into/out of Settlement	1,036		
SAVINGS / ADJUSTMENTS:			
Phases 1-5	(5,218)		
Net Schools Demography Adjustment	(320)		
Total Expenditure	184,576	187,939	191,125
Funding Shortfall / (Available)	(480)	5,835	11,813

There are also a number of risks remaining within the current Settlement. These include a number of revenue grants that have not yet been confirmed and that there may be further direction to financially 'protect' social care but this is not yet defined. Most importantly however, all councils are having to set budgets and Council Tax based on a provisional settlement. Whilst there is a legal provision to allow this, there is a risk that if, for example, revenue grant streams are transferred into the Revenue Support Grant between the provisional and final settlements, there could be a financial adjustment to the final settlement and it is therefore prudent to have a buffer to be able to absorb this without affecting the tax base.

The Final Local Government Settlement will not be published until 2nd March 2015. Assurances have been provided that there should be no negative movement between the Provisional Draft and Final Settlement values. The final Welsh Government budget will be put before the Senedd on 8th March.

The Freedoms & Flexibilities process ends with the setting of the 2016/17 budget and will have delivered what it set out to do – deliver two years' budgets. Monitoring of budget performance will continue to be reported monthly to cabinet as usual and the Cutting Our Cloth Task & Finish Group is in place to monitor the impact of budget decisions taken as part of the process.

A new budget process will be developed for 2017/18.

5. How does the decision contribute to the Corporate Priorities?

Effective management of the council's budgets and delivery of the agreed budget strategy underpins activity in all areas, including corporate priorities.

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

No further savings are required from services as a consequence of these proposals. The proposals include additional net funding for schools of £853k.

7. What are the main conclusions of the Equality Impact Assessment (EqIA) undertaken on the decision?

An EqIA has been completed for all relevant proposals.

8. What consultations have been carried out with Scrutiny and others?

Previous reports have highlighted in detail the significant consultation process undertaken to deliver the 2015/16 and 2016/17 budgets.

9. Chief Finance Officer Statement

This report presents the final phase of the two-year Freedoms & Flexibilities budget process. It has been a difficult process at times and some tough

decisions have had to be made. However, the vast majority of savings – over 80% - been efficiency or modernisation savings and the impact on services to the public has therefore not been significant.

The aim of the budget process is to ensure that the council delivers a balanced budget. The uncertainty over the level of financial settlements in recent years has made financial planning in already difficult circumstances even more challenging. Whilst the revenue settlement for 2016/17 is better than the council had been led to believe and this is clearly welcomed, there is still a lack of any meaningful financial planning indications for the future. It is hoped that this will be addressed following the elections in May 2016 because the uncertainty and variations from year to year that have been the norm since 2013 pose a significant risk to the delivery of future budgets.

Although the precise levels are not known it is likely that funding reductions to local authorities in Wales will continue in the medium term and while the council will always endeavour to be more efficient to save money, this in itself may not be sufficient in future years. Budget decisions will get harder and will probably require a longer lead-in time to deliver.

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

The budget process itself is a risk management measure with the aim of identifying, assessing and agreeing budget proposals in a planned and timely way.

11. Power to make the Decision

Local authorities are required under Section 151 of the Local Government Act 1972 to make arrangements for the proper administration of their financial affairs.

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Agenda Item 7

Report To: Corporate Governance Committee

Date of Meeting: 27 January 2016

Lead Member / Officer: Cllr Julian Thompson-Hill

Report Author: Chief Finance Officer

Title:

1. Treasury Management Strategy Statement (TMSS) 2016/17 and Prudential Indicators 2016/17 to 2018/19 (Appendix 1)
2. Treasury Management (TM) Update Report 2015/16 (Appendix 2)

1 What is the report about?

- 1.1 The TMSS (Appendix 1) shows how the Council will manage its investments and its borrowing for the coming year and sets the policies within which the TM function operates. The report also outlines the likely impact of the Corporate Plan on this strategy and on the Prudential Indicators. The TM Update Report (Appendix 2) provides details of the Council's TM activities during 2015/16.
- 1.2 It should be noted that the figures contained in the TMSS are draft and will be updated prior to approval by Council based on the latest Capital Plan and Housing Stock Business Plan in February 2016.

2 What is the reason for making this report?

- 2.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management (the "CIPFA TM Code") requires the Council to approve the TMSS and Prudential Indicators annually. The Corporate Governance Committee is required to review this report before it is approved by Council on 23 February 2016. Furthermore, part of the Committee's role is to receive an update on the TM activities twice a year.

3 What are the Recommendations?

- 3.1 That the Committee reviews the TMSS for 2016/17 and the Prudential Indicators for 2016/17, 2017/18 and 2018/19 (Appendix 1).
- 3.2 That members note the TM update report (Appendix 2).

4 Report details

Background

- 4.1 TM involves looking after the Council's cash which is a vital part of the Council's work because approximately £0.5bn passes through the Council's bank account every year.
- 4.2 At any one time, the Council has at least £10m in cash so we need to make sure that we achieve the best rate of return possible without putting the cash

at risk which is why we invest money with a number of financial institutions.

When investing, the Council's priorities are to:

- keep money safe (security);
- make sure that we get the money back when we need it (liquidity);
- make sure we get a decent rate of return (yield).

TMSS 2016/17

- 4.3 The TMSS for 2016/17 is set out in Appendix 1. This report includes Prudential Indicators which set limits on the Council's TM activity and demonstrate that the Council's borrowing is affordable.

Prudential Indicators

- 4.4 The Council Fund indicators are based on the latest proposed capital bids and block allocations and these will be updated before the report is submitted to Council for approval on 23 February 2016.
- 4.5 The Housing Revenue Account indicators have been calculated based on the latest estimates from the Housing Stock Business Plan but will be revised before the report is submitted to Council once the final Housing Stock Business Plan has been agreed.
- 4.6 The individual Prudential Indicators recommended for approval are set out in Appendix 1 Annex A.

5 How does the decision contribute to the Corporate Priorities?

- 5.1 An efficient TM strategy allows the Council to minimise its borrowing costs and release funding for its investment priorities.

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

- 6.1 There are no cost implications arising as a result of the setting of Prudential Indicators. The point of the TM Strategy is to obtain the best return within a properly managed risk framework.

7 What are the main conclusions of the Equality Impact Assessment (EqIA) undertaken on the decision?

- 7.1 This is not required as a part of this report.

8 What consultations have been carried out?

- 8.1 The Council's Capital Plan and Revenue Budget have been prepared in consultation with Heads of Service, Corporate Directors, Scrutiny Committees, Cabinet and Council.

8.2 The Housing Stock Business Plan, revenue and capital budgets will be presented to members. Denbighshire Tenants and Residents Federation will also be consulted on the proposals.

8.3 The Council has consulted with its TM consultants, Arlingclose Ltd.

9 Chief Finance Officer Statement

9.1 TM involves looking after significant sums of cash so it is a vital part of the Council's work. It requires a sound strategy and appropriate controls to safeguard the Council's money, to ensure that reasonable returns on investments are achieved and that debt is effectively and prudently managed.

9.2 Council adopted the revised CIPFA Code of Practice on TM (Nov 11) at its meeting on 28 February 2012. It is a requirement of that Code for Council to approve a TMSS each financial year.

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

10.1 TM is inherently risky as outlined in the Strategy Statement. The Council has a risk management policy but it is impossible to eliminate these risks completely.

11 Power to make the Decision

11.1 The Local Government Act 2003 determines the requirement for local authorities to set Prudential Indicators and requires the Council to comply with the Prudential Code of Capital Finance for Local Authorities that has been produced by the Chartered Institute of Public Finance and Accountancy (CIPFA).

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Denbighshire County Council

**Treasury Management Strategy Statement
and Investment Strategy 2016/17 to 2018/19**

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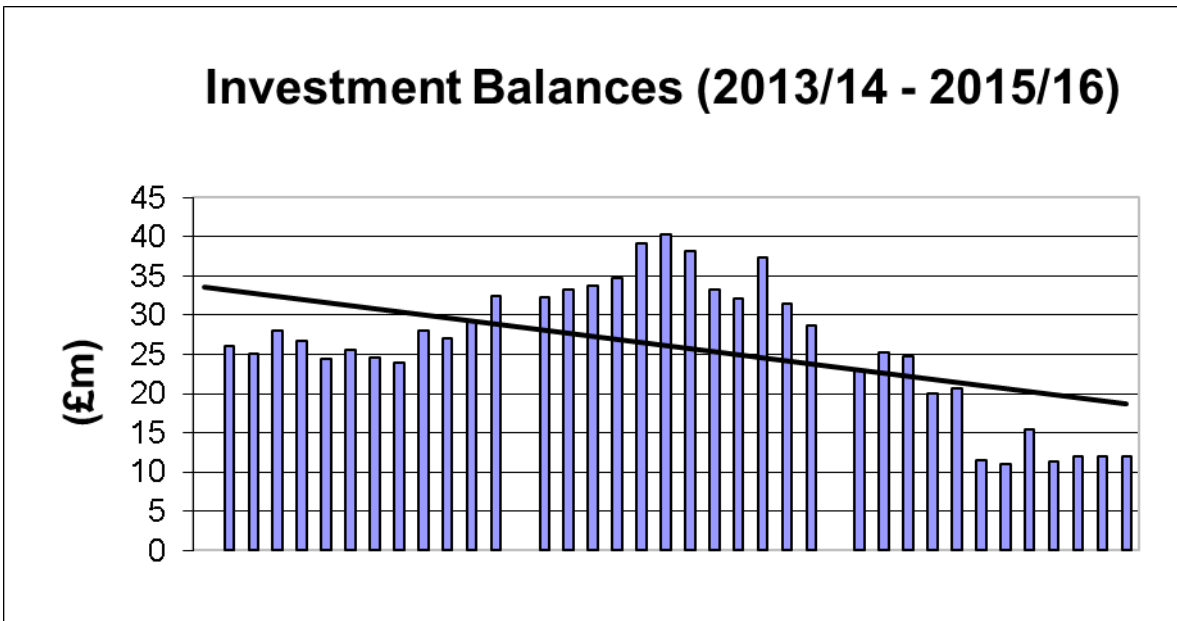
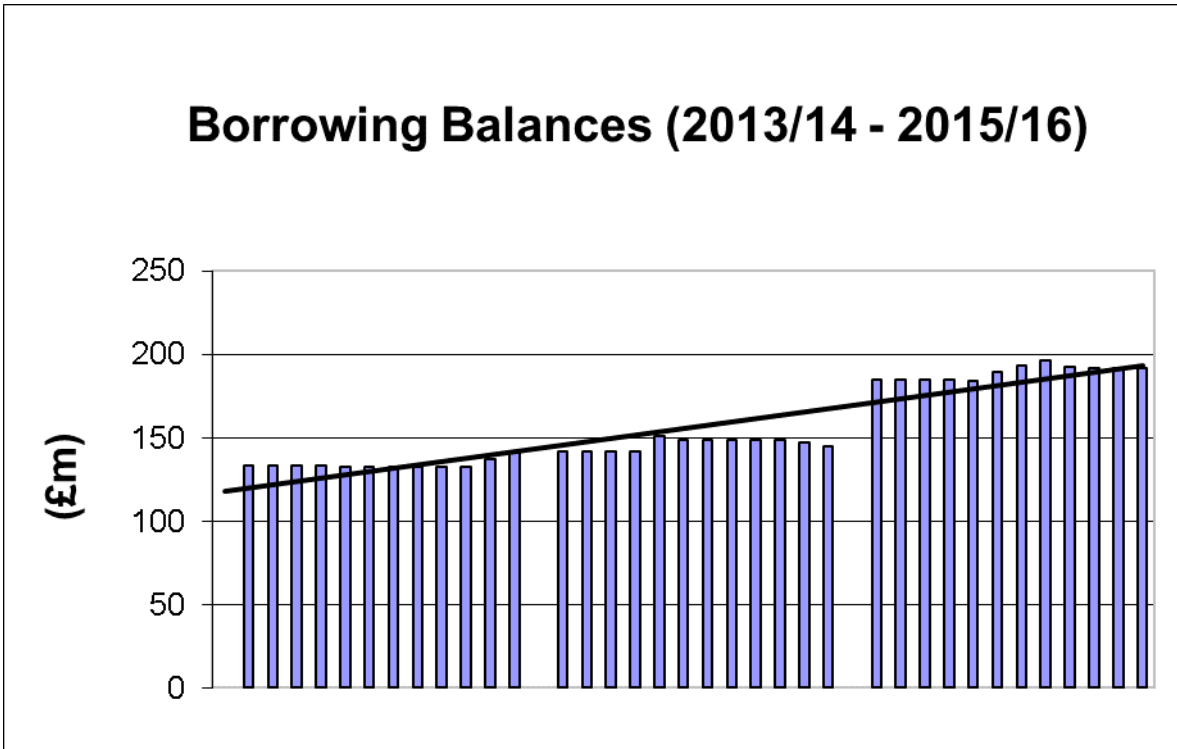
1 Background

- 1.1 The Council is responsible for its Treasury Management decisions and activity which involves looking after the Council's cash. This is a vital part of the Council's work because approximately £0.5bn passes through the Council's bank account every year.
- 1.2 On 28 February 2012 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 statement (TMSS) before the start of each financial year.
- 1.3 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.
- 1.4 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.
- 1.5 The purpose of the TMSS is to set the:
 - Treasury Management Strategy for 2016/17
 - Annual Investment Strategy for 2016/17
 - Prudential Indicators for 2016/17, 2017/18 and 2018/19 (**Annex A**)
 - Minimum Revenue Provision (MRP) Statement

2 Treasury Position

- 2.1 The levels of the Council's borrowing and investment balances over the last three years are shown in the graphs below. The first chart shows the Council's borrowing has increased over the course of the last twelve months because we borrowed £40m from the Public Works Loan Board (PWLB) on 02/04/15 to buy ourselves out of the subsidy scheme to become self-financing. The second chart shows a decrease in the amount of money we have to invest because we terminated the PFI contract on the Council offices in Ruthin on 04/09/15 and as planned, we used a significant proportion of our investment balances to achieve this.

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3 Investment Strategy

3.1 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 of receiving unsuitably low investment income.

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- 3.2 Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority will consider more secure investments such as reverse repurchase agreements (REPOs) and covered bonds as detailed in paragraph 3.3 below.
- 3.3 The Authority may invest its surplus funds with any of the counterparty types in table 1 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 1: Approved Investment Counterparties and Limits

Credit Rating	Banks / Building Societies Unsecured	Banks / Building Societies Secured	Government / Local Authorities	Corporates	Registered Providers
UK Govt	n/a	n/a	£Unlimited 50 years	n/a	n/a
AAA	£5m 5 years	£10m 20 years	£8m 50 years	£5m 20 years	£5m 20 years
AA+	£5m 5 years	£10m 10 years	£8m 25 years	£5m 10 years	£5m 10 years
AA	£5m 4 years	£10m 5 years	£8m 15 years	£5m 5 years	£5m 10 years
AA-	£5m 3 years	£10m 4 years	£8m 10 years	£5m 4 years	£5m 10 years
A+	£5m 2 years	£10m 3 years	£8m 5 years	£5m 3 years	£5m 5 years
A	£5m 13 months	£10m 2 years	£8m 5 years	£5m 2 years	£5m 5 years
A-	£5m 6 months	£10m 13 months	£8m 5 years	£5m 13 months	£5m 5 years
BBB+	£5m 100 days	£10m 6 months	£8m 2 years	£5m 6 months	£5m 2 years
BBB or BBB-	£5m next day only	£10m 100 days	n/a	n/a	n/a
None	£1m 6 months	n/a	£8m 25 years	£5m 5 years	£5m 5 years
Pooled funds	£8m per fund				

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

Banks Unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss

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via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB or BBB- are restricted to overnight deposits at the Authority's current account bank [Natwest Bank Plc].

Banks Secured: Covered bonds, reverse repurchase agreements (REPOs) and other collateralised arrangements with banks and 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.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central 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 Welsh Government and, as providers of public services, they retain a high likelihood of receiving government support if needed.

Pooled Funds: Shares in diversified investment vehicles consisting of 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.

- 3.4 Natwest is the Council's banker and will continue to be used for operational and liquidity purposes by transferring cash in and out of the instant access account as required even if its credit rating falls below those shown in the table above.
- 3.5 For a group of banks under the same ownership, the banking group limit is equal to the individual bank limit.
- 3.6 Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

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- 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.

3.7 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 (the cost of banks insuring themselves against default), 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.

3.8 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. 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.

The reduction in investment income which the Council has suffered over the last seven years due to the historically low level of the official bank rate at 0.5% is illustrated in Table 2 below:

Table 2: Investment Income

2008/09 Interest £000	2009/10 Interest £000	2010/11 Interest £000	2011/12 Interest £000	2012/13 Interest £000	2013/14 Interest £000	2014/15 Interest £000
2,219	635	398	408	239	265	230

3.9 **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,

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- 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 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.

- 3.10 **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 funds; and investments with bodies and schemes not meeting the definition of high credit quality. Limits on non-specified investments are shown in table 3 below.

Table 3: Non-Specified Investment Limits

	Cash limit
Total long-term investments	£10m
Total shares in money market funds	£10m
Total shares in other pooled funds	£10m
Total investments without credit ratings or rated below A-	£60m
Total investments in foreign countries rated below AA+	£10m
Total non-specified investments	£100m

4 **Borrowing Strategy**

- 4.1 Borrowing strategies continue to be influenced by the relationship between investment and borrowing rates. The interest rate forecast provided in **Annex B** indicates that an acute difference between investment and borrowing rates is expected to continue. This difference creates a “cost of carry” for any new longer term borrowing where the proceeds are temporarily held as investments because of the difference between what is paid on the borrowing and what is earned on the investment.
- 4.2 In view of this, the strategy which has been in place for some time now has been to reduce our investment balances and rely on internal borrowing as much as possible instead of external borrowing from the Public Works Loan Board (PWLB).
- 4.3 However, the Welsh Government concluded negotiations last year with HM Treasury regarding the reform of the HRA subsidy system in Wales so we

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borrowed £40m from the Public Works Loan Board (PWLB) on 02/04/15 to buy ourselves out of the subsidy scheme to become self-financing.

- 4.4 We also terminated the PFI contract on the Council offices in Ruthin on 04/09/15 and as planned, we used a significant proportion of our investment balances to achieve this by buying ourselves out of the PFI agreement. We have been accessing temporary borrowing from other local authorities at very low rates to cover short-term cash flow requirements. We will also be borrowing at discounted rates from the PWLB to fund our 21st century schools capital programme.
- 4.5 We will continue to undertake temporary borrowing from other local authorities as this is a good source of readily available cash at historically low rates varying between 0.3% and 0.5%. At the same time, we will also continue to monitor our cash position and interest rate levels to ensure that we undertake long term borrowing from the PWLB at the optimal time to fund our on-going Capital commitments.
- 4.6 While the Council can borrow from a number of banks, it normally only borrows from the Public Works Loan Board (PWLB) which is a Government body that lends to public sector organisations.

The approved sources of borrowing are listed below:

- PWLB and any successor body
- any institution approved for investments
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Clwyd Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

5 Debt Rescheduling

- 5.1 The Council is able to pay off loans earlier than we have to and to replace them with cheaper loans in order to save money or to reduce the risk to the Council. Sometimes, we will replace these loans and sometimes not, depending on market conditions and interest rates.
- 5.2 The lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans has adversely affected the scope to undertake meaningful debt rescheduling although occasional opportunities arise.

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6 Minimum Revenue Provision (MRP) Statement

- 6.1 The Council sets aside money each year to repay debt and this is known as the Minimum Revenue Provision (MRP).
- 6.2 There are four different methods of calculating MRP and the Council needs to say each year which methods it will use. This is known as the MRP Statement.
- 6.3 The MRP Statement will be submitted to Council before the start of the 2015/16 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement will be put to Council at that time.

6.4 MRP Statement

The Council will apply the Regulatory Method for supported capital expenditure which means that MRP is charged at 4% of the Council's Capital Financing Requirement (CFR).

The Council will apply the Asset Life Method for unsupported capital expenditure which means that MRP is determined by the life of the asset for which the borrowing is undertaken.

The different methods of calculation will affect how much money the Council sets aside for debt repayment. The above statement means that where the Welsh Government gives us the money to repay debt we will repay it at 4% of whatever is outstanding. Where we borrow through Prudential Borrowing we will charge an amount that lets us repay the debt over the expected life of the asset.

- 6.5 Adopting International Financial Reporting Standards (IFRS) has resulted in leases and Private Finance Initiative (PFI) schemes coming on the balance sheet. This affects how much it appears the Council has borrowed but this is effectively covered by grant payments. MRP in respect of leases and PFI schemes brought on the balance sheet under IFRS will match the annual principal repayment for the associated deferred liability. This is a technical accounting adjustment which is cost neutral for the Council.
- 6.6 MRP on housing assets funded through Prudential Borrowing is charged at 5% of the HRA's CFR. MRP on all other items such as the buy-out (see Section 8) and new builds is charged at 2% of the HRA's CFR.

7 Reporting Treasury Management Activity

- 7.1 The Section 151 Officer (Chief Finance Officer) will report to the Corporate Governance Committee on treasury management activity / performance as follows:

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(a) The Treasury Management Strategy Statement and Prudential Indicators will be submitted to the committee in January each year prior to approval by Council.

(b) Two treasury management updates will be submitted to the committee in January and September each year.

(c) An annual report on treasury activity will be submitted to the committee in September each year for the preceding year prior to approval by Cabinet. A treasury update showing the latest investment and borrowing position will be included in the monthly Revenue Monitoring report and borrowing will also be reported on in the Capital Plan to Council.

8 Other items

8.1 Investment Training

8.1.1 Member Training

The CIPFA Code of Practice on Treasury Management requires the Section 151 Officer to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

The Council has nominated the Corporate Governance Committee as the committee which has responsibility for scrutiny of the treasury management function. Annual training requirements will be agreed with the Corporate Governance Committee.

8.1.2 Staff Training

Staff attend training courses, seminars and conferences provided by Arlingclose and CIPFA. There is a team of three members of staff who cover TM duties on a rota basis to ensure that their knowledge is kept up to date. These members of staff are also members of professional accountancy bodies including the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Association of Accounting Technicians (AAT).

8.2 Treasury Management Advisers

The Council uses Arlingclose Ltd as Treasury Management Advisers and receives the following services:

- Credit advice
- Investment advice
- Borrowing advice
- Technical accounting advice
- Economic & interest rate forecasts
- Workshops and training events

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The Council maintains the quality of the service with its advisers by holding quarterly strategy meetings and tendering every 5 years. Following a tendering exercise, the contract was renewed with Arlingclose from 01 January 2014 for three years with an option to extend for a further two year period.

8.3 Investment of Money Borrowed in Advance of Need

The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £250 million. The maximum period between borrowing and expenditure is expected to be three years, although the Authority is not required to link particular loans with particular items of expenditure.

8.4 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, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

8.5 Abolition of the PWLB

The Department of Communities and Local Government (CLG) has confirmed that HM Treasury (HMT) will be taking the necessary legislative steps to abolish the PWLB. The CLG has stated that it will have no impact on existing loans held by local authorities or the government's policy on local authority borrowing. Despite its abolition, HMT has confirmed that its lending functions will continue unaffected albeit under a different body so that local authorities will continue to access borrowing at rates which offer good value for money. There is a consultation due but HMT hasn't released further details on this matter.

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ANNEX A

PRUDENTIAL INDICATORS 2016/17 TO 2018/19

1 Background

- 1.1 The indicators are calculated to demonstrate that the Council's borrowing is affordable and are underpinned by the following regulations. 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 Debt and the Capital Financing Requirement

- 2.1 This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt 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.
- 2.2 The Section 151 Officer reports that the Council had no difficulty meeting this requirement in 2014/15 to date nor are there any difficulties envisaged in 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 and in the case of the HRA, housing rent levels.

Capital Expenditure	2015/16 Approved £000	2015/16 Revised £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
Council Fund	16,254	23,027	9,860	5,039	5,039
Corporate Plan – Approved	18,656	26,227	11,388	5,008	454
Corporate Plan – Proposed	12,226	210	21,853	28,767	15,772
HRA	47,059	45,472	11,460	9,563	10,431
Total	94,195	94,936	54,561	48,377	31,696

The Corporate Plan has been divided in the table above between those elements which have been approved and those which are proposed at this stage. The indicators below incorporate both elements of the Corporate Plan.

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3.2 Capital expenditure will be financed as follows:

Capital Financing	2015/16 Approved £000	2015/16 Revised £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
Council Fund					
Capital Receipts	296	1,516	888		
Grants & Contributions	3,720	7,793	2,485	1,842	1,842
Revenue Contributions & Reserves	807	1,524	1,595		
Supported Borrowing	4,701	5,379	3,452	3,026	3,026
Prudential Borrowing	6,730	6,815	1,440	171	171
	16,254	23,027	9,860	5,039	5,039
Corporate Plan					
Capital Receipts				250	
Grants & Contributions	10,464	2,998	10,270	19,945	9,586
Revenue Contributions & Reserves	11,740	12,086	7,673	2,440	400
Supported Borrowing		24	0	0	0
Prudential Borrowing	8,678	11,329	15,298	11,140	6,240
	30,882	26,437	33,241	33,775	16,226
Total	47,136	49,464	43,101	38,814	21,265
HRA					
Capital Receipts	22	22	23	24	24
Grants & Contributions	2,400	2,410	2,410	2,410	2,410
Revenue Contributions & Reserves	2,673	1,523	2,140	2,346	2,428
Supported Borrowing	39,176	0	0	0	0
Prudential Borrowing	2,788	41,517	6,887	4,783	5,569
Total	47,059	45,472	11,460	9,563	10,431

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 borrowing costs. It shows how much of its budget the Council uses to repay debt and interest.

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

Ratio of Financing Costs to Net Revenue Stream	2015/16 Approved £000	2015/16 Revised £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
Financing Costs	13,268	12,945	12,445	11,945	11,945
Net Revenue Stream	184,756	180,764	185,056	182,104	179,312
Council Fund Ratio	7.18%	7.16%	6.73%	6.56%	6.66%
Financing Costs	4,916	5,930	6,126	6,536	6,943
Net Revenue Stream	13,609	13,609	14,423	15,082	15,082
HRA Ratio	36.12%	43.57%	42.47%	43.34%	46.04%

Note that the HRA ratio has increased because of the increased borrowing costs which have been incurred to buy ourselves out of the subsidy system but as a result of this buy-out, subsidy payments will no longer be due so the Council will benefit overall. The estimated subsidy payment in 2014/15 was £3.3m so the increase in financing costs should be considered alongside the removal of the requirement to pay the subsidy.

5 Capital Financing Requirement

5.1 The Capital Plan relies on various sources of finance i.e. grants, contributions and capital receipts. Once these are used up, we need to rely on borrowing and the Capital Financing Requirement (CFR) is the amount we need to borrow. Our borrowing shouldn't therefore go above the CFR. The Council's CFR and borrowing levels are compared in the table below for the current and future years.

Capital Financing Requirement	31/03/16 Approved £000	31/03/16 Revised £000	31/03/17 Estimate £000	31/03/18 Estimate £000	31/03/19 Estimate £000
Council Fund	165,601	167,267	181,377	189,680	193,270
HRA	69,054	67,036	71,330	73,236	75,661
PFI	10,058	10,058	10,058	10,058	10,058
Total CFR	244,713	244,361	262,765	272,974	278,989
Total Debt	213,194	191,165	201,725	213,192	219,802

6 Incremental Impact of Capital Investment Decisions

6.1 This indicator shows how much of the Council Tax income is spent on paying debt interest.

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Incremental Impact of Capital Investment Decisions	2015/16 Approved £	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £
Increase in Band D Council Tax due to:				
Prudential Borrowing	5.49	5.89	2.63	2.63
Capital Receipts	0.11	0.00	0.00	0.00
Reserves	3.17	2.37	0.00	0.00
Total	8.77	8.26	2.63	2.63
Average Weekly Housing Rents	0.95	1.00	1.00	1.00

6.2 This indicator shows the equivalent impact on Council Tax of the decision to undertake Prudential Borrowing as well as the investment interest lost by using capital receipts and reserves to part fund the Capital Plan. The impact of supported borrowing has not been included because it is assumed that the Council would always spend its supported borrowing to fund its Capital Plan.

6.3 The increases in council house rents reflect the additional costs of financing the borrowing to be undertaken each year as part of the Housing Stock Business Plan with the aim to maintain the Welsh Housing Quality Standard. The indicator illustrates the impact of each year's capital expenditure and new borrowing on weekly rents.

7 **Authorised Limit & Operational Boundary for External Debt**

7.1 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.

7.2 The **Authorised Limit** sets the maximum level of external borrowing. 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. This is reported as a part of the Capital Monitoring Report.

7.3 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.

7.4 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

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Affordable Limit) and if it is breached, it would be reported to the next Council meeting.

Authorised Limit for External Debt	2015/16 Approved £000	2015/16 Revised £000	2016/17 Proposed £000	2017/18 Proposed £000	2018/19 Proposed £000
Borrowing	260,000	250,000	250,000	260,000	260,000

The Welsh Government concluded negotiations last year with HM Treasury regarding the reform of the HRA subsidy system in Wales. We borrowed £40m on 02/04/15 to buy ourselves out of the subsidy scheme to become self-financing so the borrowing limits shown above include an additional £40m from 2015/16 to cover this borrowing.

- 7.5 The **Operational Boundary** links directly to the Council's estimates of the CFR and estimates of other cash flow 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.

Operational Boundary for External Debt	2015/16 Approved £000	2015/16 Revised £000	2016/17 Proposed £000	2017/18 Proposed £000	2018/19 Proposed £000
Borrowing	255,000	245,000	245,000	255,000	255,000

8 Adoption of the CIPFA Treasury Management Code

- 8.1 This indicator demonstrates that the Council has adopted the principles of best practice. The Council adopted the original Code in March 2002. A revised Code was issued in November 2009 and another in November 2011. One of the recommendations is that the Code is adopted by Council.

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the revised CIPFA Treasury Management Code (Nov 2011) at its meeting on 28 February 2012.

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

- 9.1 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 a net interest paid basis (i.e. interest paid on fixed rate debt net of interest received on fixed rate investments).
- 9.2 The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which 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.

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	2015/16 Approved %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %
Upper Limit for Fixed Interest Rate Exposure	100	100	100	100
Upper Limit for Variable Rate Exposure	40	40	40	40

9.3 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.

10 Maturity Structure of Fixed Rate borrowing

10.1 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.

10.2 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.

Maturity structure of fixed rate borrowing	Actual %	Lower Limit %	Upper Limit %
under 12 months	2.21	0	30
12 months and within 24 months	4.24	0	30
24 months and within 5 years	7.13	0	30
5 years and within 10 years	9.19	0	30
10 years and above	77.23	50	100

11 Credit Risk

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

11.2 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.

11.3 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:

**Treasury Management Strategy Statement
and Investment Strategy 2016/17 to 2018/19**

- 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.

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

12 Upper Limit for total principal sums invested over 364 days

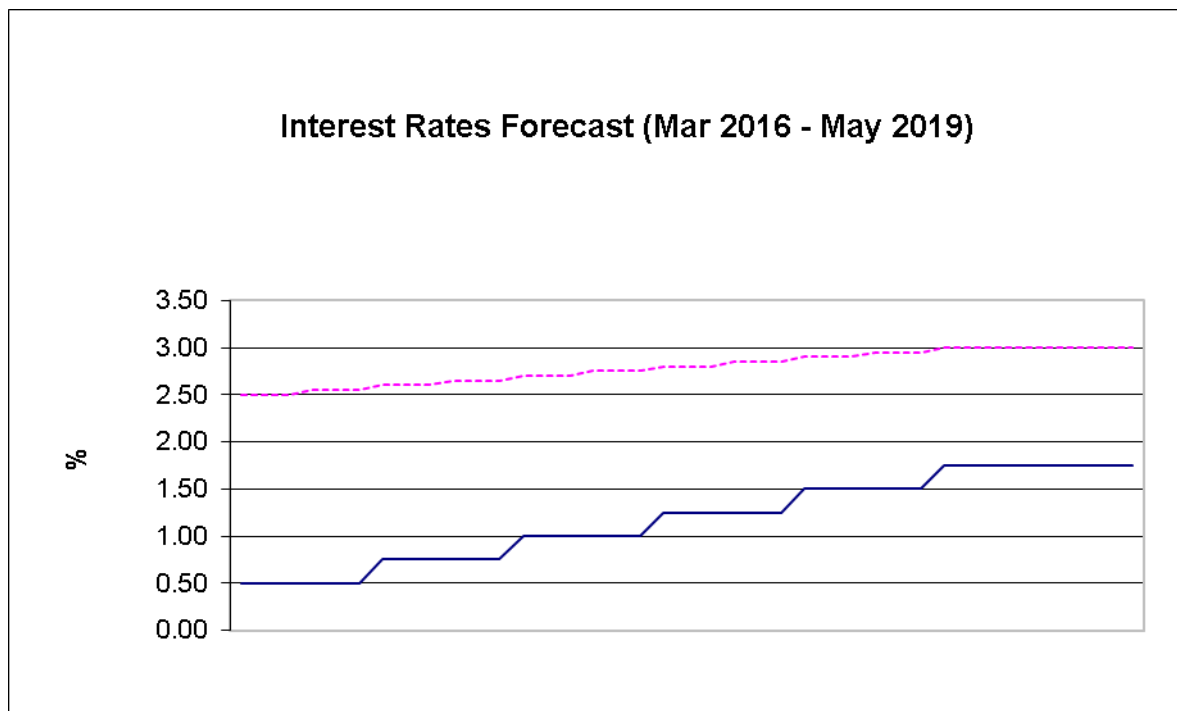
12.1 The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	2015/16 Approved £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
	10.00	10.00	10.00	10.00

INTEREST RATES FORECAST

The graph below shows the interest rate forecast for the Official UK Bank Rate and the 50 year GILT rate from March 2016 to May 2019. The Official Bank Rate influences the rate at which the Council can invest. The GILT rate is the rate at which the Government borrows money and therefore this affects the rate at which we can borrow from the PWLB which is approximately 1% above GILT rates.

As the graph shows, it's much more expensive to borrow than to invest at the moment with the Official UK Bank Rate expected to increase gradually over the period. The graph illustrates that the difference between investment and borrowing rates is approximately 3%. This means that the cost of carry referred to in paragraph 4.1 in **Appendix 1** is approximately £30,000 for every £1m borrowed because the Council could borrow for 50 years at a rate of approximately 3.5% but could only invest at a rate of approximately 0.5%.



—— Official Bank Rate
----- 50-yr GILT Rate

**Treasury Management Strategy Statement
and Investment Strategy 2016/17 to 2018/19**

ANNEX C

GLOSSARY - Useful guide to Treasury Management Terms and Acronyms

BANK OF ENGLAND	UK's Central Bank
BANK RATE	Bank of England Interest Rate (also known as Base Rate)
CPI	Consumer Price Index – a measure of the increase in prices
RPI	Retail Price Index – a measure of the increase in prices
DMO	Debt Management Office – issuer of gilts on behalf of HM Treasury
FSA	Financial Services Authority - the UK financial watchdog
GDP	Gross Domestic Product – a measure of financial output of the UK
LIBID	London Interbank Bid Rate - International rate that banks lend to other banks
LIBOR	London Interbank Offer Rate – International rate that banks borrow from other banks (the most widely used benchmark or reference for short term interest rates)
PWLB	Public Works Loan Board – a Government department that lends money to Public Sector Organisations
MPC	Monetary Policy Committee - the committee of the Bank of England that sets the Bank Rate
LONG TERM RATES	More than 12 months duration
SHORT TERM RATES	Less than 12 months duration
BOND (GENERAL)	An investment in which an investor loans money to a public or private company that borrows the funds for a defined period of time at a fixed interest rate
GOVERNMENT BOND	A type of bond issued by a national government generally with a promise to pay periodic interest payments and to repay the face value on the maturity date

Treasury Management Strategy Statement and Investment Strategy 2016/17 to 2018/19

CORPORATE BOND	A type of bond issued by a corporation to raise money in order to expand its business
COVERED BOND	A corporate bond issued by a financial institution but with an extra layer of protection for investors whereby the investor has recourse to a pool of assets that secures or “covers” the bond if the financial institution becomes insolvent
GILT	A bond that is issued by the British government which is classed as a low risk investment as the capital investment is guaranteed by the government
REPO	A repurchase agreement involving the selling of a security (usually bonds or gilts) with the agreement to buy it back at a higher price at a specific future date For the party selling the security (and agreeing to repurchase it in the future) it is a REPO For the party on the other end of the transaction e.g. the local authority (buying the security and agreeing to sell in the future) it is a reverse REPO
FTSE 100	Financial Times Stock Exchange 100 - An index composed of the 100 largest companies listed on the London Stock Exchange which provides a good indication of the performance of major UK companies

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Treasury Management (TM) Update Report

1 Changes in the external environment

Economic Outlook

- 1.1 We are continuing to see volatility in financial markets in response to the turbulence in China's financial markets which is a reminder of the emerging economic consequences of globalisation. Investors fear that the scale of the depreciation of China's currency could mean that the slowdown in China's economic growth is even worse than previously thought.
- 1.2 World growth looks bleaker by the day as the World Bank has downgraded its global forecast for 2016 to 2.9% from 3.3% previously. The Chancellor is warning of a period of global economic uncertainty ahead as a result of a number of factors including a slowdown in China, political instability in the Middle East, concerns over inflationary weakness and the reduction in the price of oil. Indications are that austerity measures will continue to affect Council finances up to 2020.

2 Investment Strategy

- 2.1 Conventional bank deposits have become riskier because of a lower likelihood that the UK and other governments will support failing banks. As the Banking Reform Act 2014 was implemented in the UK from January 2015, banks were no longer able to rely on government bail-outs if they got into difficulty. They would be required instead to bail themselves out by taking a proportion of investors' deposits to build up their capital. This new risk has been termed 'bail-in' risk and is potentially a greater risk to investors than the 'bail-out' risk of the past.
- 2.2 Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority will consider more secure investments such as reverse repurchase agreements (REPOs) and covered bonds as detailed below.
- 2.3 The Council has also been placing a far greater emphasis on investing with the UK Government's Debt Management Office and other local authorities in order to minimise these risks.

Reverse Repurchase Agreements (REPOs)

- 2.4 These involve the purchase of a security (usually bonds, gilts or other government securities) tied to an agreement to sell it back later at a pre-determined date and price. REPOs provide protection through the ownership of collateral in the form of securities which is significantly more secure than investing in unsecured bank deposits. These are

therefore secured investments with banks which are exempt from bail-in risk so they offer a safer alternative at similar rates to unsecured bank deposits.

- 2.5 There have been delays with the implementation of REPOs for local authorities because of legal formalities but these are expected to be resolved soon so they should be available as a safer investment alternative in the near future.

Covered Bonds

- 2.6 These are also secured investments with banks which are exempt from bail-in risk and they offer a secure option for our long term investments.

(The glossary in Appendix 1 Annex C provides definitions of the various treasury terms used)

3 Borrowing Strategy

- 3.1 The Welsh Government concluded negotiations last year with HM Treasury regarding the reform of the HRA subsidy system in Wales. We borrowed £40m from the Public Works Loan Board (PWLB) on 02/04/15 to buy ourselves out of the subsidy scheme to become self-financing.
- 3.2 We also terminated the PFI contract on the Council offices in Ruthin on 04/09/15 and as planned, we used a significant proportion of our investment balances to achieve this by buying ourselves out of the PFI agreement. We have been accessing temporary borrowing from other local authorities at very low rates to cover short-term cash flow requirements. We are also planning to borrow at discounted rates from the PWLB to fund our 21st century schools capital programme.
- 3.3 We will continue to undertake temporary borrowing from other local authorities as this is a good source of readily available cash at historically low rates. At the same time, we will also continue to monitor our cash position and interest rate levels to ensure that we undertake long term borrowing from the PWLB at the optimal time to fund our ongoing Capital commitments.

4 Controls

4.1 Prudential Indicators

The Council sets prudential indicators which set boundaries within which our treasury management activity operates. The indicators are calculated to demonstrate that the Council's borrowing is affordable and include measures that show the impact of capital and borrowing decisions over the medium term. The Council has remained within all

of its borrowing and investment limits for 2015/16 agreed by Council in February 2015. The Council has not deviated from the Capital related indicators either.

4.2 Audit Reviews

Following a positive internal audit review in February 2015, the next audit review will be undertaken in February 2016.

5 Future

5.1 TM Strategy for next six months

As the Corporate Plan is progressing, we will continue to review our cash position to ensure that we undertake borrowing if required. The Council will also monitor market conditions and interest rate levels to ensure that external borrowing is undertaken at the optimal time in line with our TM strategy.

5.2 Reports

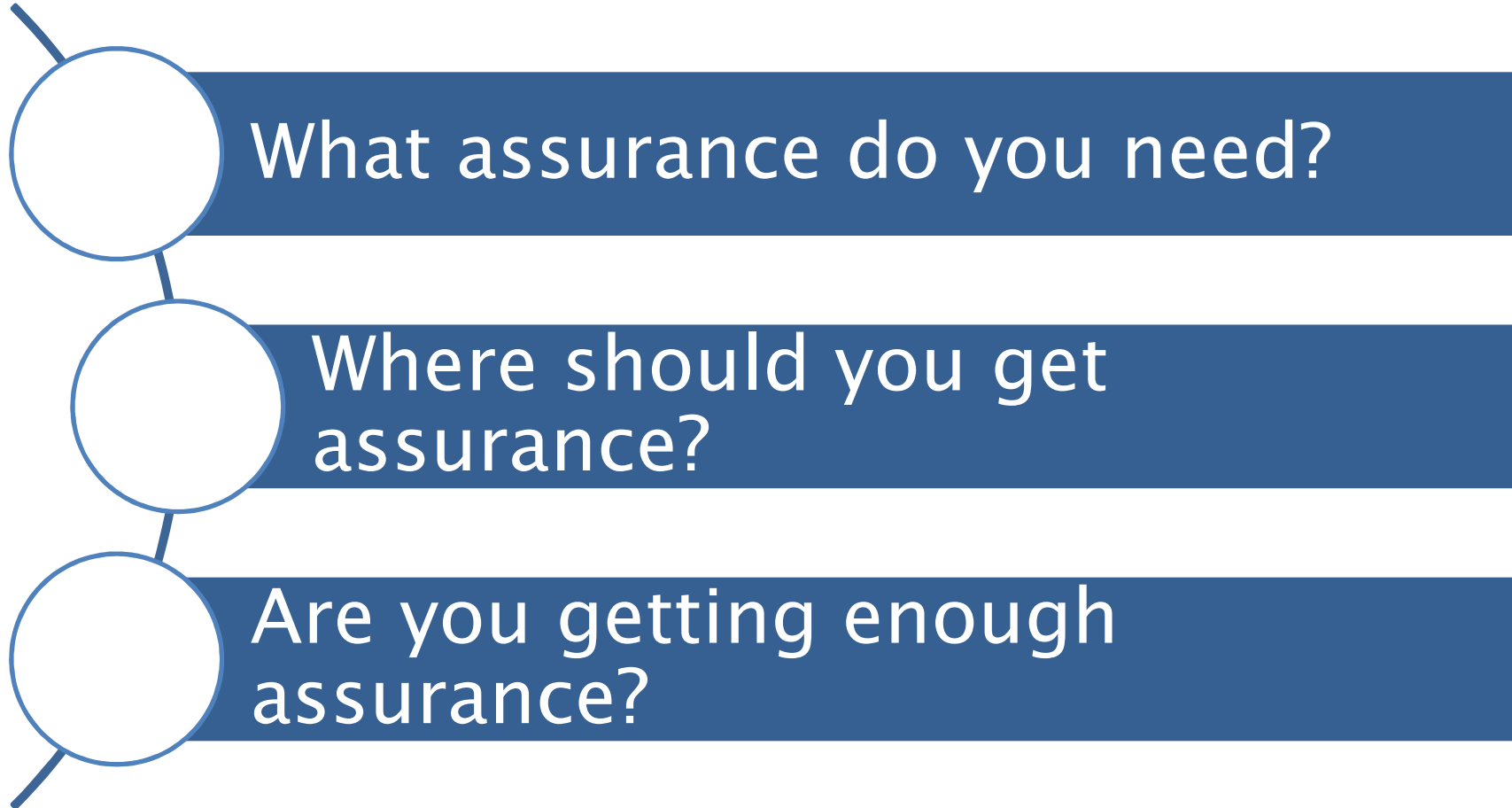
The next reports will be the annual TM Review Report 2015/16 and the TM Update Report 2016/17 which will be reported to the Corporate Governance Committee in September.

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Corporate Governance Committee

Self-assessment January 2016

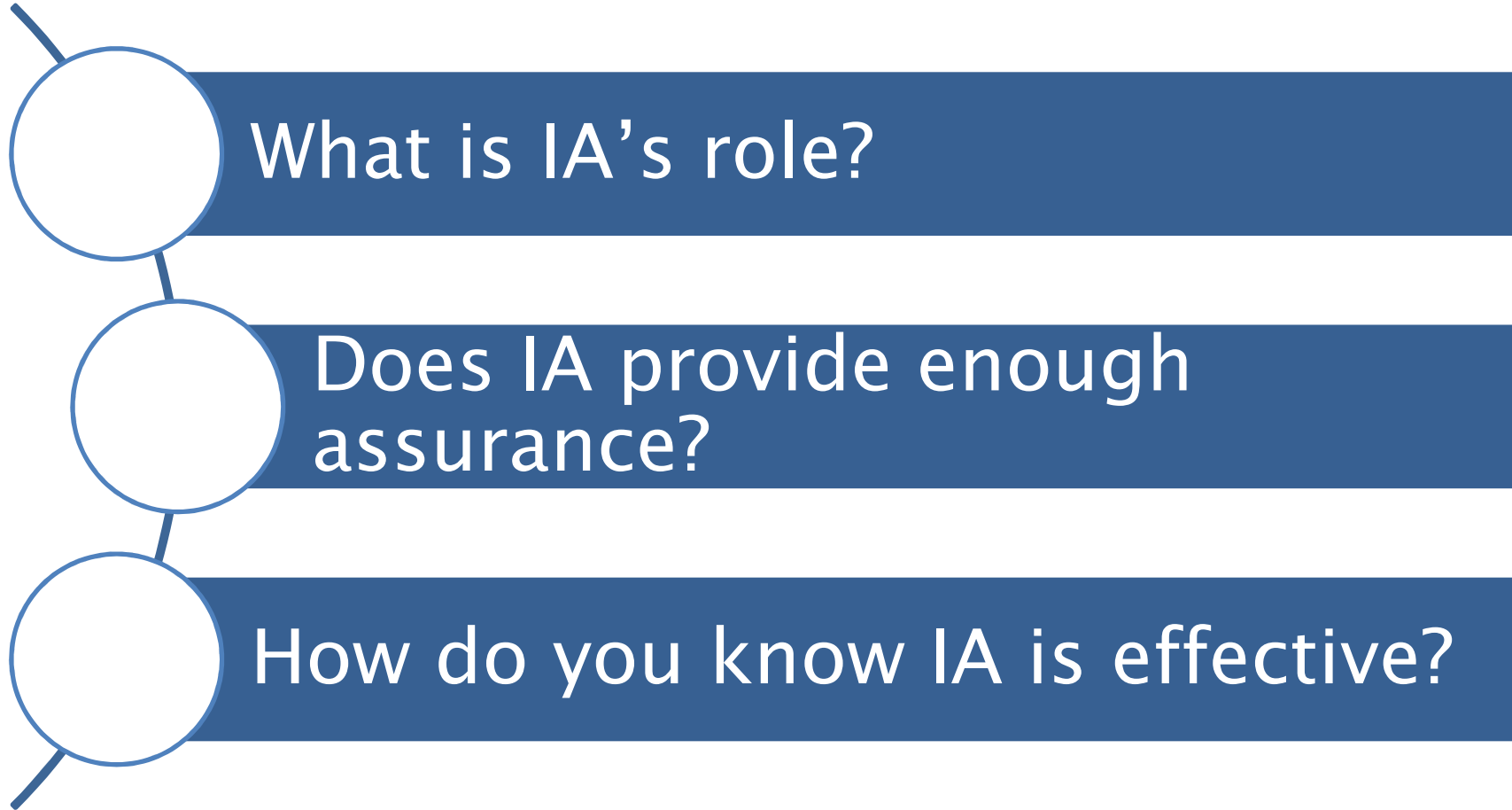
Assurance



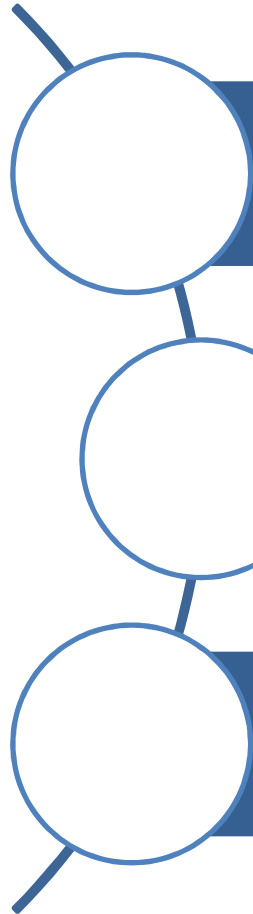
Governance Framework

- What is the governance framework?
- Are you involved enough in its development?
- Can you confidently challenge the content of the Annual Governance Statement?

Internal Audit



Internal Audit

- 
- Does IA provide you with enough information in the right format?
 - Do you need more from IA?
 - Should you meet with the HIAS at least once a year in private?

Challenge

**How well do you
robustly
challenge senior
management
when needed?**

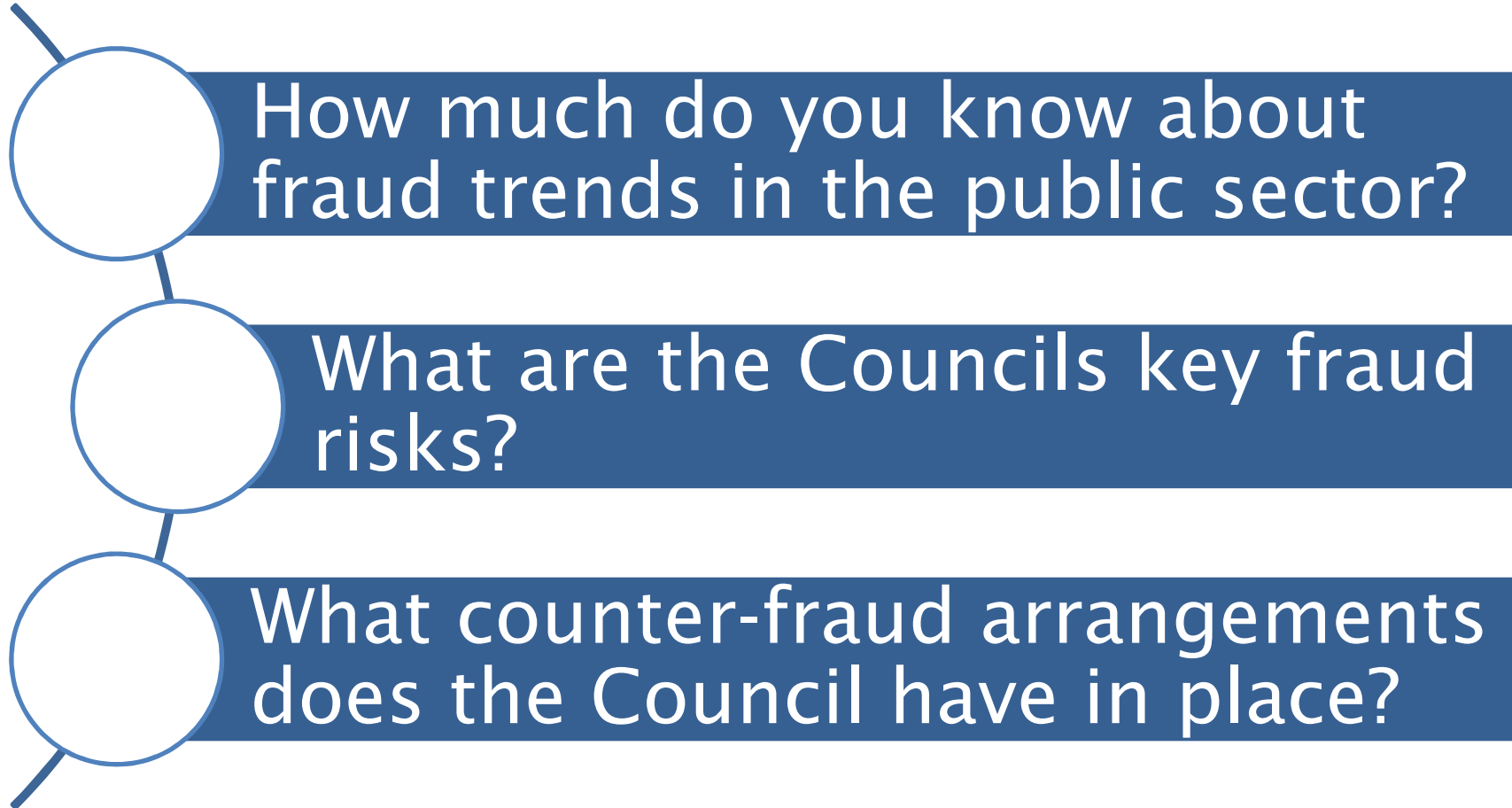
Risk Management

- How well do you understand the risk management framework?
- Do you know what the Council's corporate risks are?
- How confident are you that the Council is managing its corporate risks?

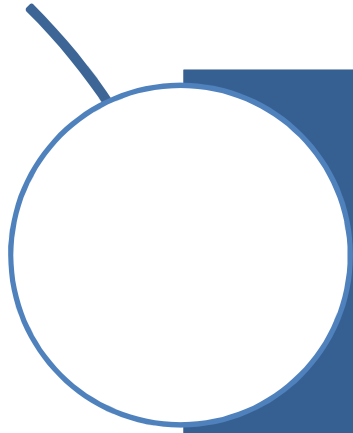
Risk Management

**What are this
Committee's/Perfor
mance Scrutiny's
roles relating to risk
management?**

Fraud

- 
- How much do you know about fraud trends in the public sector?
 - What are the Councils key fraud risks?
 - What counter-fraud arrangements does the Council have in place?

Ethics



What arrangements are in place to ensure good ethical behaviour by officers and members?

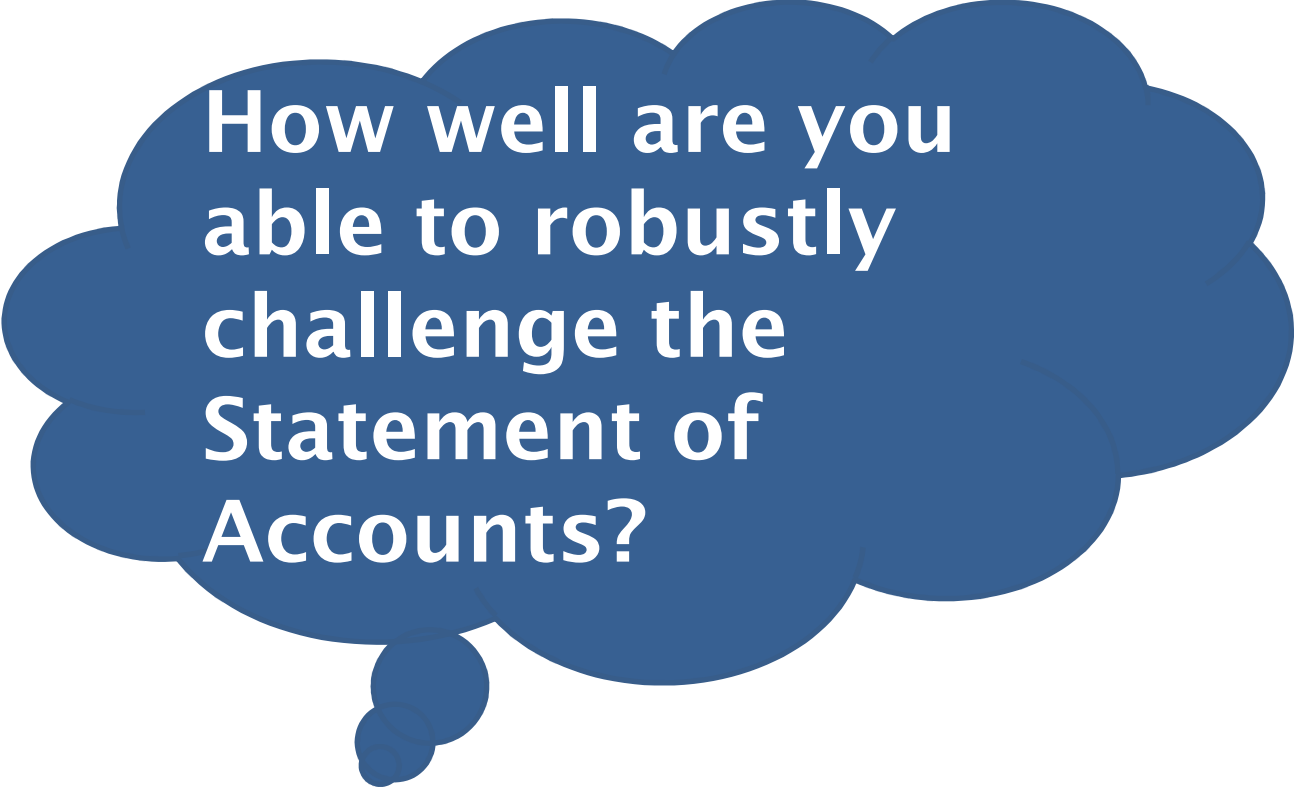


How confident are you that these arrangements work in practice?

Financial Management

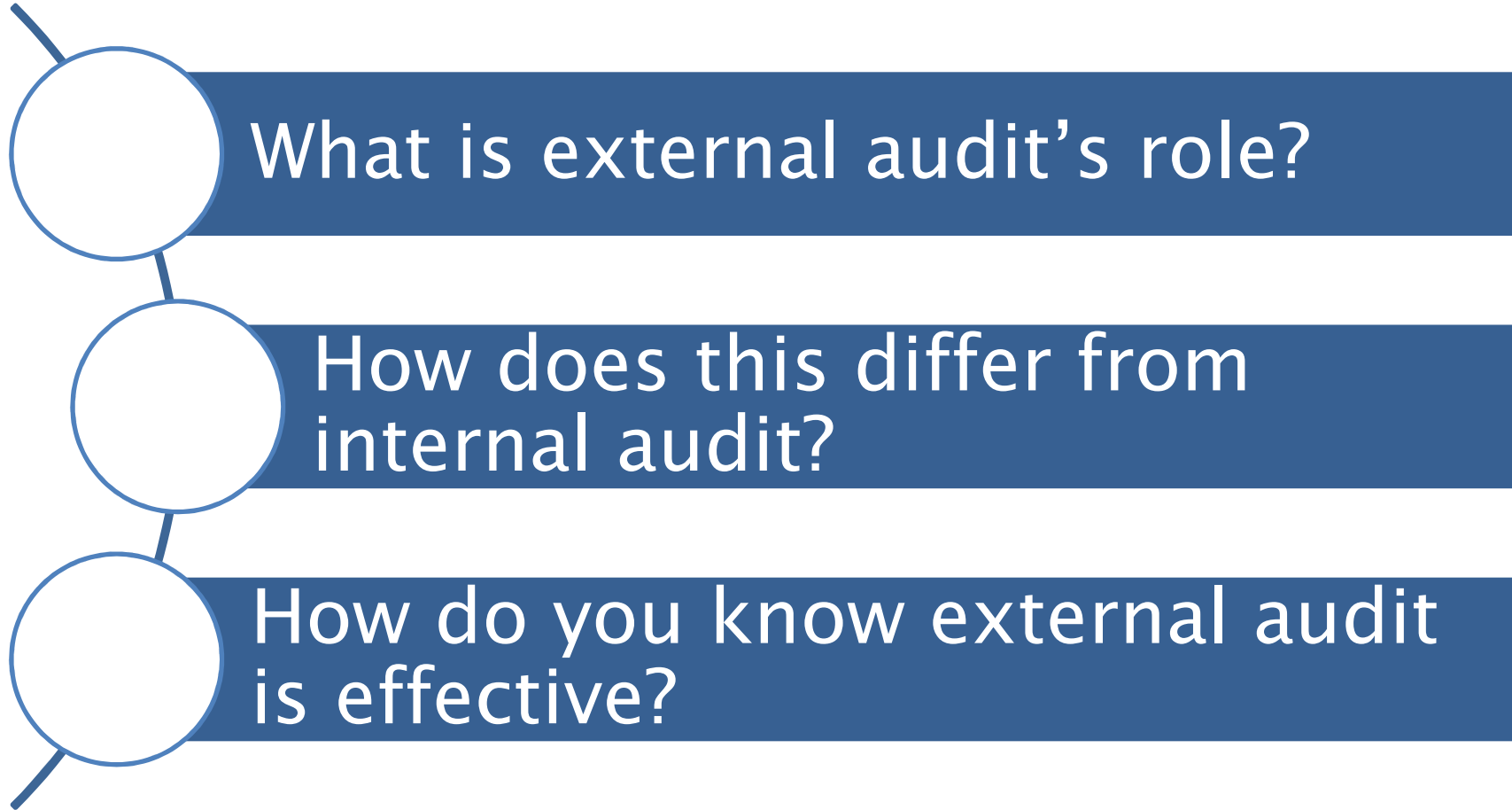
- What financial risks does the Council face?
- What are the specific risks relating to Treasury Management?
- How well do you understand the Statement of Accounts?

Financial Management

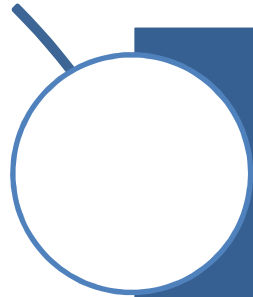


**How well are you
able to robustly
challenge the
Statement of
Accounts?**

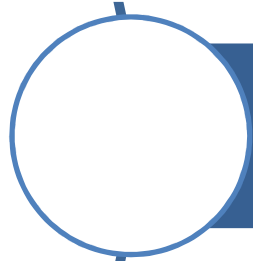
External Audit

- 
- What is external audit's role?
 - How does this differ from internal audit?
 - How do you know external audit is effective?

External Audit



Does external audit provide you with enough information in the right format?

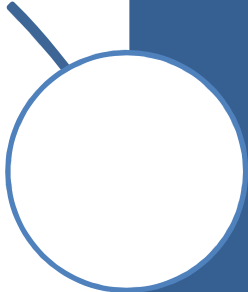
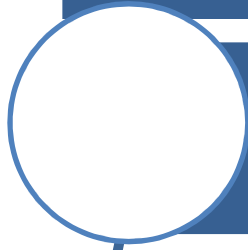



Do you need more from external audit?

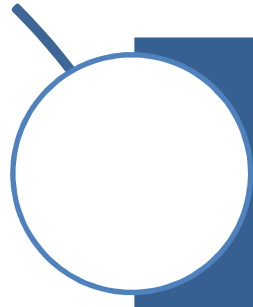


Should you meet with the external auditor at least once a year in private?

Committee Knowledge

-  Is the Chair confident in his knowledge of finance, risk management, audit and the Council's regulatory regime?
-  How well are you trained for your role?
-  Should new committee members have induction training in their new role?

Committee Support



How well do officers support you in meetings and provide advice and guidance?



Are you adequately prepared for the Committee meetings?



Can written/verbal reports to the committee be improved?

Corporate Governance Committee Forward Work Programme

23 Mar 2016		Standing Items	
	1	Issues Referred by Scrutiny Committees	Scrutiny Coordinator / Rhian Evans
	2	Recent External Regulatory Reports Received	Head of Business, Planning and Performance / Alan Smith, Keith Amos
	3	Internal Audit Progress Report	Head of Internal Audit / Ivan Butler, Cllr Julian Thompson-Hill
	4	Feedback on Corporate Equality Meeting – verbal	
	5	Forward Work Programme	
		Reports	
	6	Budget Process 2016/17	Chief Finance Officer / Richard Weigh
Page 71	7	Financial Resilience of Councils in Wales - Update	Head of Business, Planning and Performance / Alan Smith, Chief Finance Officer / Richard Weigh, WAO / G. Berry
	8	Corporate Fleet Management – Internal Audit Report	Head of Internal Audit / Ivan Butler
	9	CSSIW Annual Report	Corporate Director: Communities / Nicola Stubbins
	10	Corporate Safeguarding Update	Corporate Director: Communities / Nicola Stubbins, Head of Internal Audit / Ivan Butler
	11	Corporate Governance Committee Annual Report	Chair / Jason McLellan
27 Apr 2016		Standing Items	
	1	Issues Referred by Scrutiny Committees	Scrutiny Coordinator / Rhian Evans
	2	Recent External Regulatory Reports Received	Head of Business, Planning and Performance / Alan Smith, Keith Amos
	3	Internal Audit Progress Report	Head of Internal Audit / Ivan Butler, Cllr Julian Thompson-Hill
	4	Feedback on Corporate Equality Meeting – verbal	
	5	Forward Work Programme	
		Reports	

Corporate Governance Committee Forward Work Programme

	6	Budget Process 2016/17	Chief Finance Officer / Richard Weigh
	7	Internal Audit Annual Report	Head of Internal Audit / Ivan Butler
	8	Internal Audit Annual Assurance Plan 2015/16	Head of Internal Audit / Ivan Butler
	9	Governance Improvement Plan and Draft Annual Governance Statement 2015/16	Head of Internal Audit / Ivan Butler
	10	Annual Financial Audit Outline of Accounts and Notification of the Certification of Accounts	Chief Finance Officer / Richard Weigh
	11	Annual Improvement Report - Update	Head of Business, Planning and Performance / Alan Smith
15 June 2016		Standing Items	
	1	Issues Referred by Scrutiny Committees	Scrutiny Coordinator / Rhian Evans
Page 72	2	Recent External Regulatory Reports Received	Head of Business, Planning and Performance / Alan Smith, Keith Amos
	3	Internal Audit Progress Report	Head of Internal Audit / Ivan Butler, Cllr Julian Thompson-Hill
	4	Feedback on Corporate Equality Meeting – verbal	
	5	Forward Work Programme	
		Reports	
	6	Budget Process	Chief Finance Officer / Richard Weigh
13 July 2016		Standing Items	
	1	Issues Referred by Scrutiny Committees	Scrutiny Coordinator / Rhian Evans
	2	Recent External Regulatory Reports Received	Head of Business, Planning and Performance / Alan Smith, Keith Amos
	3	Internal Audit Progress Report	Head of Internal Audit / Ivan Butler, Cllr Julian Thompson-Hill
	4	Feedback on Corporate Equality Meeting – verbal	
	5	Forward Work Programme	

Corporate Governance Committee Forward Work Programme

		Reports	
	6	Budget Process 2016/17	Chief Finance Officer / Richard Weigh
	7	Child Practice Review	Head of Children and Family Services / Leighton Rees
	8	Draft Statement of Accounts	Chief Finance Officer / Richard Weigh
	9	WAO Annual Improvement Report 2015/16	Wales Audit Office
21 Sep 2016		Standing Items	
	1	Issues Referred by Scrutiny Committees	Scrutiny Coordinator / Rhian Evans
	2	Recent External Regulatory Reports Received	Head of Business, Planning and Performance / Alan Smith, Keith Amos
	3	Internal Audit Progress Report	Head of Internal Audit / Ivan Butler, Cllr Julian Thompson-Hill
Page 73	4	Feedback on Corporate Equality Meeting – verbal	
	5	Forward Work Programme	
	6	Treasury Management Annual Report	Chief Finance Officer / Richard Weigh
		Reports	
	6	Budget Process 2016/17	Chief Finance Officer / Richard Weigh

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.

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