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Solicitor/Cyfreithiwr
Head of Legal and Democratic Services
Pennaeth Gwasanaethau Cyfreithiol a
Democrataidd



TO: Councillor: Ian Roberts (Chairman)
Councillors: Haydn Bateman, Quentin Dodd, Alison
Halford, Billy Mullin, Mike Peers, Peter Pemberton

Your Ref /
Eich Cyf

Our Ref / Ein Cyf **ST.**

Date / Dyddiad 24/01/2011

Ask for / Sharon Thomas
Gofynner am

Direct Dial / 01352 702324
Rhif Union

Fax / Ffacs

Dear Sir / Madam,

A meeting of the **AUDIT COMMITTEE** will be held in the **CLWYD COMMITTEE ROOM, COUNTY HALL, MOLD** on **MONDAY, 31 JANUARY 2011** at **14:00** to consider the following items.

Yours faithfully

Democracy and Governance Manager

AGENDA

1. **APOLOGIES**
2. **DECLARATIONS OF INTEREST (INCLUDING WHIPPING DECLARATIONS)**
3. **MINUTES**
To confirm as a correct record the minutes of the meeting held on 21/12/2010 (copy enclosed).
4. **TREASURY MANAGEMENT POLICY & STRATEGY STATEMENT & TREASURY MANAGEMENT PRACTICES 2011/12**
Report of Head of Finance enclosed
5. **RISK MANAGEMENT UPDATE**
Report of Chief Executive enclosed

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The Council welcomes correspondence in Welsh or English
Mae'r Cyngor yn croesawu gohebiaeth yn y Gymraeg neu'r Saesneg

6. **UPDATE FROM WALES AUDIT OFFICE (VERBAL)**
 - a) Financial statements 2009/10
 - b) Audit Manager Arrangements

7. **WALES AUDIT OFFICE REPORT ON INTERNAL AUDIT**
Report of Head of Finance enclosed

AUDIT COMMITTEE
21 DECEMBER 2010

Minutes of the meeting of the Audit Committee of Flintshire County Council held in County Hall, Mold on Tuesday, 21 December 2010.

PRESENT: Councillor I.B. Roberts (Chairman)

Councillors: G.H. Bateman, Q.R.H. Dodd, W. Mullin, M.J. Peers and P.R. Pemberton.

ALSO PRESENT: Councillors Eng. K. Armstrong-Braun, M. Bateman and P.G. Heesom.

APOLOGIES:

Councillor A.M. Halford, Chief Executive and John Herniman (Wales Audit Office)
Councillor R. Davies and Mr. C. Cohen.

IN ATTENDANCE:

Head of Finance, Head of Legal & Democratic Services, Head of Internal Audit, Principal Auditor, Mr Patrick Green of RSM Tenon Plc and Committee Officer.

For agenda item 4

Executive Member for Waste Management, Director of Environment, Project Manager Streetscene and Mr. K. Gardiner.

38. DECLARATIONS OF INTEREST

No declarations of interest were made.

39. MINUTES

The minutes of the meeting of the committee held on 3 November 2010 were submitted.

Matters Arising

The Head of Finance referred to resolution (b) on page 8 and said that the tender documents had been released with a return date of 1st February 2011; the interviews were to be held week commencing 14th February 2011 with the contract commencing on 1st April 2011.

RESOLVED:

That the minutes be approved as a correct record and signed by the Chairman.

40. LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985 – TO CONSIDER THE EXCLUSION OF THE PRESS AND PUBLIC

The Chairman proposed that the Press and Public not be excluded during the consideration of agenda item 4 on AD Waste. The Head of Legal and Democratic Services reminded Members that if the press and public were not

excluded at the start of the debate, it may be necessary to exclude them if confidential matters were raised. The Head of Legal and Democratic Services advised that he would indicate if there was a need to exclude the press and public.

Following a comment from Councillor P.R. Pemberton, on being put to the vote, the proposal to not exclude the press and public was carried.

The Chairman advised that during a discussion with the Vice-Chairman, the Head of Legal and Democratic Services and Head of Finance, it had been proposed that the documents on Brock Quarry would be released to the Audit Committee Members who required them, if they signed a confidentiality agreement and kept the information for themselves. The Head of Legal and Democratic Services reminded Members that they had been able to view an electronic copy but advised Members that copies would be available for them the following morning if they signed a confidentiality agreement. The Chairman, Vice-Chairman and Councillor Q.R.H. Dodd said that they did not wish to receive a copy of the documents. Councillor Dodd suggested that the proposal be agreed and this was duly seconded by Councillor W. Mullin. In response to a question from Councillor Pemberton about the time limit on the confidentiality, the Head of Legal and Democratic Services advised that he felt that in the region of three years was reasonable.

On being put to the vote, the proposal that Members of the Audit Committee could receive a copy of the Brock Quarry documents if they required them, with a caveat that they signed a confidentiality agreement and kept the information for themselves was carried.

RESOLVED:

- (a) That the press and public not be excluded from the meeting; and
- (b) That those Members of the Audit Committee who wish to receive a copy of the Brock Quarry documents be provided with a copy if they sign a confidentiality agreement and keep the information for themselves.

41. A D WASTE LIMITED

Following on from the discussions about the exclusion of the press and public, the Head of Legal and Democratic Services explained that other information which Members had requested on the detailed cost of sales analysis was not confidential and copies could be circulated to Members. The Chairman and the Vice-Chairman indicated that they did not need a copy.

Informal Audit Meeting 23 November 2010 notes

The Head of Legal and Democratic Services advised that the notes of the informal meeting held on 23 November 2010 had been circulated with the agenda but referred Members to two corrections. The first was in the second sentence in the third paragraph on page 19; the 2005 date should read December 2006 and the second correction was on the first paragraph on page 22; the year 2005 should read 2006. The notes set out the information provided at the informal meeting and

the documents created on the hive up of AD Waste. At the meeting Members had had the opportunity to ask questions of AD Waste and he hoped that the questions had been answered to Members' satisfaction. He asked that if Members had any follow up questions, they put them in writing and a response would be provided.

Councillor M.J. Peers referred to the first paragraph on page 24 on the deficit at year end of £121k and queried whether the figure had been revisited as had been agreed at the informal meeting. On the issue of AD Waste and West Pennine Recycling, he said that he would like more detailed information on the lease value. Councillor Peers referred to the fourth paragraph on page 24 where it was reported that the Head of Legal and Democratic Services had said that he did not believe that a valid signed lease existed between AD Waste and West Pennine Recycling; Councillor Peers asked what were the implications of no valid lease being in place and also the cost implications of this. On the leasing arrangements for West Penning Recycling, he said that it was more appropriate to discuss the issue in private at a later date.

On the issue of the pension situation, the Head of Finance said that it was important to note that the TUPE transfer had taken place and the pension fund deficit had transferred in. She added that a more specific figure could be provided for Members.

In response to a question from the Chairman about whether Members had any other queries, they all responded that they did not. Councillor Peers moved that the Informal Audit meeting notes be approved and this was duly seconded.

RESOLVED:

- (a) That the notes be approved as a correct record of the meeting; and
- (b) That a more specific figure on the pension deficit be provided for Members.

Councillor P.R. Pemberton referred to appendix A to the report on the summary of costs incurred to affect the transfer and queried the amount of the valuation costs as they were not reported. The Waste Strategy Project Manager responded that he would find out the details and would let Councillor Pemberton know. The Executive Member for Waste Management said that the merging of two companies meant that a process had to be followed and they were both required to have a valuation. The Head of Legal and Democratic Services said that legal advice given had indicated that each of the directors would have to sign a certificate of solvency and independent valuations were required for this.

The Director of Environment said that there was a process which needed to be followed and the company was brought in house for the right reasons. In response to a comment from Councillor Pemberton, the Head of Finance said that the position taken was what had been needed to be adopted to manage the risks to the Council. She said that there were some particular circumstances to deal with and in her view the payment of the valuations was an expense which needed to be incurred to move from an external to an internal management operation.

RESOLVED:

That the report be received.

42. AUDIT REPORTS REQUESTED BY COMMITTEE

The Head of Internal Audit introduced a report to present to Members the findings of the Internal Audit work that they had requested in previous meetings; the three areas were the use (utilisation) of vans; Payroll Overpayments and Housing Maintenance and Repairs Stores Follow Up.

The use (utilisation) of vans

Councillor M.J. Peers highlighted page 35 of the report and queried the second paragraph where it was reported that draft documents had been created relating to the implementation and monitoring of the system and work instructions for staff, but that this documentation had not been issued. The Head of Internal Audit responded that page 35 listed the results of the testing but that page 32 detailed the work which had since been undertaken; it was reported that the documents had been issued.

Following a comment from Councillor G.H. Bateman about whether the tracking system was put into rented vehicles and a question about whether the tracking systems were tamper proof, the Head of Finance said that she would make enquiries and would report back to Members at a future meeting.

Councillor Q.R.H. Dodd queried how the tracking system worked, what information was recorded by the system and how thorough the monitoring was. The Head of Internal Audit responded that the monitoring was to ensure efficient use of the vehicles. He added that he was satisfied that Management had said that the vehicles was going to be monitored but a follow up had not been undertaken to check if this had been completed. Councillor Dodd felt that a report should be submitted to the appropriate Overview & Scrutiny Committee on records produced by the tracking system for vans, trucks and lorries. Councillor G.H. Bateman concurred and added that the concerns about who was checking the system should be forwarded to the Overview and Scrutiny Co-ordinating Committee.

Resolved:

- (a) That the work undertaken on the use (utilisation) of vans be noted; and
- (b) That a report on the records produced by the tracking system (for vans, trucks and lorries) and the concerns raised about the checking of the system should be referred to the Overview & Scrutiny Co-ordinating Committee.

Payroll Overpayments

The Head of Internal Audit explained that the report had been finalised in October 2010 and the Head of Human Resources and Organisational

Development had reported what actions had been taken to the Executive and the Corporate Resources Overview & Scrutiny Committee.

The report provided details of overpayments for the years 2007 to 2010 which totalled £330,279.81 but the Head of Internal Audit explained that this did not mean that the authority had lost this amount of money; work to recover the monies was ongoing. He explained that some of the reasons for overpayments were late information being reported to Payroll, input errors and errors on national insurance and pension rates.

Councillor M.J. Peers said that the overall conclusion was that the payroll overpayments had not been sufficiently controlled. He felt that even though the recovery process was operating well, the source of the problem should be looked at to eradicate it. Councillor Peers proposed that a follow up report be submitted to the Committee in three months to check that actions had been implemented by the implementation date and to give assurance to the Committee that sufficient control was in place to prevent further overpayments. The Head of Internal Audit advised that a further report on Payroll was planned.

The Head of Finance advised Members of the work being undertaken on establishment control to ensure clarity in the Human Resource records, so any anomalies would be highlighted during that work; this would be completed by the end of the financial year.

In response to a comment from Councillor P.R. Pemberton on whether reconciliations could only be verified by one officer, the Head of Finance explained that in the past, the work was the responsibility of one person but a Project Team had now been established to allow the current work to be cleared and to take future work forward.

Resolved:

That the work undertaken on Payroll overpayments be noted.

Housing Maintenance and Repairs Stores Follow Up

The Head of Internal Audit explained that the seven recommendations highlighted by the review had been implemented.

Councillor M.J. Peers referred to the backlog of 3,300 tickets awaiting processing referred to on page 67 but commented that it was reported that a target of 1,800 tickets to be processed per week had been set. He highlighted the regular checks which had been conducted on the stocks held on vans but felt that it would be better to carry out spot checks rather than allocate set appointment times to check the stock; the Head of Internal Audit agreed and said that it could be a combination of regular checks and spot checks. On the issue of the backlog, he said that he did not have information on what was currently outstanding.

Councillor W. Mullin queried whether the number of repairs required due to the severe weather conditions had been taken into account; the Head of Internal

Accounting said that that was a matter for the management of the service. The Head of Finance said that the Housing Revenue Account was in a significantly better position than it had been in the past but added that it was important that the department controlled the spend and the DLO trading position.

Councillor M.J. Peers referred to the deficit of £1,372.23 when the stores account was closed which represented 0.9% of stock value and 0.1% of the account value. The Head of Internal Audit said that when the stock take was undertaken, initial results and discrepancies were investigated to ensure the result was correct. Councillor Peers queried whether the deficit would be written off and in response the Head of Finance said that the figure would have been included in the 2009/10 accounts which had been considered by Members.

Resolved:

That the work undertaken on Housing Maintenance and Repairs Stores Follow Up be noted.

In response to a question from the Chairman about whether Members had any other issues which they felt should be requested by the Committee, Councillor P.R. Pemberton felt that the minutes should be sent out to Members as soon as they were available. Councillor M.J. Peers suggested that the Committee could consider the work undertaken by Lucy Morris, Principal Auditor, on Section 106 Agreements. The Head of Internal Audit advised that the report was still in its draft form but should be finalised by the next meeting of this Committee. Following a comment from Councillor Pemberton, the Head of Internal Audit said that the annual review would be considered at the next meeting and would identify any areas of training which Members felt that they needed.

43. POLICY UPDATE

The Principal Auditor introduced a report to outline to Members the updated Anti-Fraud and Corruption Strategy, Fraud and Irregularity Response Plan and Whistleblowing Policy. He said that there was a need to review the documents which had last been updated and approved by the Audit Committee in 2007.

Anti-Fraud and Corruption Strategy

The Anti-Fraud and Corruption Strategy was attached as appendix A to the report and the Principal Auditor highlighted the changes which had been made to the Strategy. On the detection of fraud, it was reported that it was the diligence of employees and the alertness and good citizenship of the public at large which detected acts of fraud or corruption. The Principal Auditor added that it may also be discovered during routine audits, pro-active fraud or through the use of data matching; he reminded Members of the National Fraud Initiative exercise.

Resolved:

That the updates to the Anti-Fraud and Corruption Strategy be approved.

Fraud & Irregularity Response Plan

The Principal Auditor explained that where fraud was suspected, a meeting used to be held to consider the way forward but now any referrals were made to the Head of Human Resources and Organisational Development and the Monitoring Officer. This had been reviewed in line with the Disciplinary Policy and there was now a greater emphasis on liaison with management, Human Resources and the Monitoring Officer.

Councillor M.J. Peers queried whether any irregularity involving Housing and Council Tax Benefits Fraud by an employee or elected Member was reported to the Unified Benefits and Advisory Services Manager, as it was not clear from the report. The Principal Auditor advised that this type of irregularity would be reported to the Housing Benefit/Council Tax Fraud Team and added that the report could be amended to reflect this.

Resolved:

- (a) That the amendment detailed above be included in the Plan; and
- (b) That the updates on the Fraud & Irregularity Response Plan be approved.

Whistleblowing Policy

The Principal Auditor advised that an appendix had been added to the policy following questions on the protection for employees who had 'blown the whistle' on the authority.

Resolved:

That the updates on the Whistleblowing Policy be approved.

44. OPERATIONAL AUDIT PLAN AND RECOMMENDATION TRACKING

The Head of Internal Audit introduced a report to inform Members of the revised operational plan for the remainder of the financial year. The plan was attached at appendix A and a summary of the changes from the original plan and the amendments reported to previous Audit Committee meetings were attached at appendix B. The results of the current recommendation tracking since the previous Audit Committee were attached as appendices C and D.

It was reported that the plan was attached at appendix A to the report and where an audit had already started, the number of days given was the days planned to complete the audit. The plan was designed to fulfil regulatory requirements whilst still providing a range of risk based and advisory work. A summary of the changes from the original plan and the amendments reported to previous Audit Committee meetings were attached at appendix B. The results of the current recommendation tracking since the previous Audit Committee were attached as appendices C and D. The Head of Internal Audit explained that the work was due to commence on the plan for 2011/12 and the amendments shown in appendix B would automatically go forward into the next plan.

On the issue of the Procurement Board, the Head of Internal Audit advised that one of the recommendations was that the role of the board should be reviewed and a decision taken on whether there was a requirement for a Procurement Board.

Following comments from Councillor Q.R.H. Dodd, the Head of Internal Audit said that even though Employment Practice Codes was shown under Legal and Democratic Services on page 104, this was an area covered by Human Resources. The Head of Finance went on to explain that Enforcement was an area which had not been reviewed for a considerable amount of time. There had been a need to undertake a review through to court proceedings and officers were in the process of putting the significant recommendations into place.

Councillor M.J. Peers referred to the action plan for Main Accounting on page 121 and highlighted the testing which had identified £75,921.70 of duplicated payments of which £11,381.36 had not been recovered. The Head of Internal Audit responded that these were the original test results and the monies had been recovered as a result of the audit. Councillor Peers also queried the review of Return to Work interviews and felt that the topic should be referred to the appropriate Overview & Scrutiny Committee for consideration. He also felt that the Chief Executive should be advised that there had been seven instances where no interviews had been carried out which was 28% of the sample. The Head of Internal Audit referred Members to the recommendation in the plan about reminders being issued to Line Managers; he confirmed that this had been implemented since the date of the audit.

Following a discussion, it was agreed that the issue be referred to the appropriate Overview & Scrutiny Committee for consideration and that the Chief Executive be advised of the findings of the review.

RESOLVED:

- (a) That the amended Operational Plan be approved; and
- (b) That the issue be referred to the appropriate Overview & Scrutiny Committee for consideration and that the Chief Executive be advised of the findings of the review.

45. FINAL REPORTS AND PERFORMANCE INDICATORS

The Head of Internal Audit introduced a report to inform Members of final reports issued since the last Audit Committee (Appendix A), and of Directorates and Internal Audit's performance for responses against target (Appendix B and Appendix C).

He explained that Procurement had highlighted four significant recommendations which were detailed in appendix A but added that there had been a change of management and responsibility. The review of Payroll had highlighted eight significant concerns and the recommendations had been designed to improve controls. The Head of Internal Audit explained that the Leisure Centres Catering Income review included a recommendation to improve

the control of stock and cash accounting; the recommendations had been put in place. The review of Client files was to look at the controls to ensure stock and had been requested by the directorates themselves.

Councillor Q.R.H. Dodd referred to page 247 and the monthly list of employees leaving the authority. He felt that the information would be of value to the Executive Member and the Chairman of the appropriate Overview & Scrutiny Committee; the Head of Internal Audit said that he would forward the suggestion to the Human Resources department. He referred to appendix B on performance indicators and explained that it was the Procurement report which had been 19 days over. As a result of the payroll report referred to on page 254, dedicated officers would now be responsible for co-ordinating the report. The Head of Internal Audit explained that the Financial Management and Control report highlighted in appendix C had now been received.

RESOLVED:

That the report be noted.

46. INVESTIGATIONS PROGRESS REPORT

The Head of Internal Audit introduced a report to outline ongoing proactive counter fraud work and reactive investigation work for Members.

He explained that the National Fraud Initiative 2010 was about to start and he detailed the information provided by the authority when Flintshire County Council took part two years ago. The scheme was run every two years and once the information had been received the Audit Commission would compare the data and produce a list of potential matches to investigate whether fraud had taken place or not. Flintshire County Council had submitted the required information and was awaiting the results for investigation.

Councillor Q.R.H. Dodd queried whether it was the Police or the CPS who had decided not to proceed with a prosecution on the investigation referred to in paragraph 3.02. In response the Head of Internal Audit advised that it was the CPS who had decided not to prosecute.

Councillor G.H. Bateman asked whether there was any further information on the investigation referred to in paragraph 3.04 and the Head of Internal Audit said that the investigation was ongoing and had been reported by the Manager in that area. The Head of Finance said that it was important to note that the investigation had not been concluded yet.

RESOLVED:

That the report be noted.

47. ANNUAL AUDIT LETTER 2009

The Chairman indicated that this item was for information only. The Head of Legal and Democratic Services explained that a more detailed letter would be considered by Council in February 2011. The Head of Finance added that representatives from the Wales Audit Office would also be present at that meeting.

48. DURATION OF MEETING

The meeting commenced at 2.00 p.m. and finished at 4.04 p.m.

49. ATTENDANCE BY MEMBERS OF THE PRESS AND PUBLIC

There were two members of the press present.

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Chairman

SUMMARY OF DECLARATIONS MADE BY MEMBERS
IN ACCORDANCE WITH FLINTSHIRE COUNTY COUNCIL'S
CODE OF CONDUCT

AUDIT COMMITTEE	DATE: 21 DECEMBER 2010
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MEMBER	ITEM	MIN. NO. REFERS
NO DECLARATIONS WERE MADE		

FLINTSHIRE COUNTY COUNCIL

AGENDA ITEM NUMBER: 4

REPORT TO: **AUDIT COMMITTEE**
DATE : **31 JANUARY 2011**
REPORT BY: **HEAD OF FINANCE**
SUBJECT : **TREASURY MANAGEMENT POLICY & STRATEGY**
 STATEMENT & TREASURY MANAGEMENT PRACTICES
 2011/12

1.00 PURPOSE OF REPORT

- 1.01 The purpose of this report is to assist Audit Committee Members in reviewing the Council's Treasury Management Policy and Strategy Statement and Treasury Management Practices and making any observations on it to the Executive at its meeting on 15th February 2011. The recommendations of the Executive will be made to Council on the morning of 31st March 2011.
- 1.02 The report incorporates a quarterly update on matters relating to the Councils 2010/11 Treasury Management Policy Strategy and Practices.
- 1.03 This report will be supplemented with training available to all Members of the Council on treasury management on 31st January 2011.

2.00 BACKGROUND

- 2.01 The Council adopted the 2009 edition of the Chartered Institute of Public Finance (CIPFA) Treasury Management in the Public Sector: Code of Practice from 1st April 2010.
- 2.02 The CIPFA Treasury Management Code requires a body that will be responsible for the scrutiny of the Treasury Management Strategy, Policies and Practices. It was approved by Executive on 16th August 2009 that this will be the Audit Committee.
- 2.03 A Treasury Management Policy and Strategy Statement including key indicators, limits and an investment strategy following the requirements of Welsh Assembly Guidance for 2011/12 must be approved by Council before the end of the financial year. The Council's draft Treasury Management Policy and Strategy Statement for review by this Committee and recommendation to Executive for approval by Council is attached as Appendix A. The Treasury Management Practices are attached as Appendices B and C.
- 2.04 Although both CIPFA and WAG provide guidance, it is for the Council to determine how it manages treasury risks in specific terms. For example, the Council must state the limits of principal sums to be invested in periods over

Date: 24/01/2011

one year but it is for the Council to determine what the limit should be. The CIPFA Code and WAG guidance determines several of these indicators and limits and these are explained in this report and the Policy and Strategy Statement.

- 2.05 The Treasury Management Strategy and Practices for the Council have been reviewed by the Council's Treasury Consultants, Sterling Consultancy Services, with the view of achieving the appropriate balance between risk and return. The recommended changes are included in this report and reflected in the Policy and Strategy Statement and Practices.
- 2.06 The Treasury Management Code also requires that those charged with governance receive appropriate training. Although training is an on-going process, a training session will be hosted by the Audit Committee which is open to all members, on the morning of 31st January 2011.

3.00 A REVIEW OF THE COUNCIL'S TREASURY MANAGEMENT STRATEGY INVESTMENT MANAGEMENT PRACTICES

- 3.01 The guidance from CIPFA and WAG clearly defines 'a prudent investment policy' as one first of all achieving security (protecting the capital sum from loss) and then liquidity (keeping money readily available for expenditure). The generation of investment income is distinct from these prudential objectives and is accordingly not a matter for WAG guidance. However, that does not mean that authorities are recommended to ignore such potential revenues. Provided that proper levels of security and liquidity are achieved, it may (but only then) be reasonable to seek the highest yield consistent with those priorities.
- 3.02 A prudent investment policy has always been followed by the Council. Practices to ensure security of funds include:
- The setting of a minimum credit rating for countries (AA+).
 - Using three credit rating agencies (FITCH, Moody's and Standard and Poors).
 - A policy for those counterparties on negative rating watch.
 - For non-rated building societies, a limit of £5 million.
 - The Treasury Advisors will advise of any market information they have which may require credit ratings to be overwritten.
- 3.03 There will always be a risk of capital loss with any investment, so the aim will always be to spread the risk with as many counterparties as possible. The minimum credit ratings required by counterparties are shown in the Policy Statement.
- 3.04 The planned investment strategy for 2011/12 is documented in paragraph 3.4 of the Policy and Strategy Statement.

4.00 WAG LOCAL GOVERNMENT INVESTMENT GUIDANCE

4.01 As stated in the background to this report, WAG requires the Council to document an investment strategy which includes the following:

- Specified Investments.
- Non-specified Investments.
- Investments which can be prudently committed for more than 1 year.
- Credit Risk Assessment.
- Investment Consultants.
- Investment Training.
- Investment of money borrowed in advance of need.

4.02 These are included in paragraphs 3.3.4 to 3.3.9 in the Policy and Strategy Statement and the content and limits require approval by Council. Changes from the 2010/11 Policy and Strategy Statement are explained later in this report.

5.00 INVESTMENTS AND LANDBANKI UPDATE

5.01 As at 31st December 2010 the investment balance was £60.7 million across 18 counterparties. The details are shown in Appendix D.

5.02 There have been no changes in the interest rate forecast since the previous quarterly report or any other matters of exception to report.

5.03 The percentage of cash invested in the short term has again reduced since September's report from 52.7% to 49.6%, although this is still higher than that stated in the Policy Statement of 35%. This is due to the continued use of call accounts which are still paying higher interest rates than other counterparties in the 1 - 3 month period. Although this does expose the Council to a fall in interest rates, the risk of this event appears low in the current economic environment.

5.04 Identifying counterparties within the Council's credit rating criteria continues to be challenging. This has resulted in investments with other Local Authorities at interest rates lower than the market rate on several occasions. The new Policy and Strategy Statement includes two options for consideration which will assist to alleviate this situation as set out in paragraph 6 below.

5.05 For the Landsbanki investments at risk, the update received from LGA on 6th January 2011 is attached as Appendix E. The trial of test cases has been provisionally listed for 15 - 17 February 2011 and the Head of Finance and Monitoring Officer have received documentation which is subject to legal privilege.

6.00 INVESTMENT OPTIONS FOR CONSIDERATION

Money Market Funds

- 6.01 The use of Money Market Funds (MMFs) within local authorities appears to be increasing. MMFs are mutual funds that invest in short term debt products such as Government Securities, fixed term bank deposits and short term commercial papers issued by large banks and corporates with a fixed maturity period.
- 6.02 The main attraction of MMFs is security. Local authorities will traditionally only use MMFs that are AAA rated and hence the top tier of security. When investing in a MMF, a local authority is spreading the investment over a number of underlying assets; most portfolios carry dozens of securities, often over 100.
- 6.03 A further attraction is same day access, therefore they are highly liquid. With reference to 5.03 above, the Council is currently using call accounts. Changes to bank regulations (Basel III) may limit the attractiveness of these call accounts moving forward. Each MMF will quote a Weighted Average Maturity (WAM). For AAA rated funds, the maximum WAM is 60 days.
- 6.04 There are different types of MMFs, some have a constant net asset value and others have a variable net asset value. Some will distribute interest, others will accumulate the interest and add to the value of the share. To replicate bank deposits, the recommendation is to use MMFs with Constant Net Asset Value and distributing interest.
- 6.05 However, MMFs are far from a panacea and there have been good reasons for not using them in the past:
- In Wales, a 'deposit' into MMFs is considered by regulation as capital expenditure rather than investment. This does not prevent Welsh local authorities investing in MMFs but raises an additional accounting complication if MMFs are held at the year end. This can be overcome by not holding MMFs over the financial year end.
 - The returns from MMFs are usually close to base rate and a review of CIPFA benchmarking club records shows the returns from MMFs are usually lower than those the Council has achieved by using fixed term bank and building society deposits.
 - There could be investments within the MMF which would not be made by the Council because it is not within the Council's Policy Statement. Although this is not a problem as such because of the diversification within the fund, but nevertheless is a point which should be understood.
 - There is an investment management fee for MMFs but this is taken from the interest paid. Fee levels vary between 0.10% and 0.25%.

- 6.06 On balance, it is recommended that the use of MMFs is adopted by the Council to provide flexibility and this is reflected in the draft Policy and Strategy Statement.

Change to Building Society Investment Criteria

- 6.07 This is a minor change for clarification which would currently add a further four building societies to the counterparty list - Principality, Yorkshire, Skipton and Norwich & Peterborough Building Societies.
- 6.08 To remind members, the Council takes additional comfort from the building societies' regulatory framework and insolvency regime where, in the unlikely event of a building society liquidation, the Council's deposits would be paid out in preference to retail depositors.
- 6.09 Hence, the Council can currently invest in high rated building societies e.g. Nationwide, for up to £7 million and up to a period of 5 years. For non-rated building societies, the limits are up to £5 million but for less than 1 year as long as they have a minimum asset size of £1 billion. These restrictions allow for potential changes to the regulatory framework.
- 6.10 However, there are some building societies which are rated but below those rates quoted for 'high rated' building societies such as Nationwide. These could be referred to as 'lower rated' but still of a 'high credit quality', by setting a minimum long term credit rating of BBB.
- 6.11 To clarify, this would now mean the Council can invest in high rated building societies (the credit ratings are shown in the Policy and Strategy Statement) to a limit of £7 million and for up to 5 years. In addition, lower rated (minimum long term rating of BBB) and non-rated building societies of 'high credit quality' and assets of £1 billion or greater to a limit of £5 million but for less than 1 year.
- 6.12 This change is recommended and reflected in the draft Policy and Strategy Statement and Practices.

7.00 BORROWING UPDATE AND STRATEGY

- 7.01 There have been no changes to the long term debt portfolio this quarter. Restructuring and/or repayment options are constantly considered in line with the Council's medium term financial plan.
- 7.02 The Borrowing Strategy for 2011/12 and current portfolio is included in section 3.5 of the Policy and Strategy Statement.
- 7.03 There are a number of Treasury Management Indicators which must be

approved by Council and these are shown in paragraph 3.7 of the Policy and Strategy Statement. These remain unchanged from 2010/11.

7.04 The Council will only invest money borrowed in advance of need for known debt maturities or to finance the borrowing requirements for the year concerned.

7.05 The reason for the Council's debt and how this debt is managed will be the focus of the training session on 31st January 2011.

8.00 RECOMMENDATIONS

8.01 That the Audit Committee:

1. Note the quarterly update on investments and borrowing
2. Discuss the use of Money Market Funds and changes to Building Society counterparties as explained in the report.
3. Review the Treasury Management Policy and Strategy Statement for 2011/12 and Treasury Management Practices.
4. Recommend to Executive that the Council approves, subject to any changes determined by this Committee, the Council's Treasury Management Policy and Strategy Statement for 2011/12, which includes all Treasury Management Indicators and limits required by CIPFA and WAG.

9.00 FINANCIAL IMPLICATIONS

9.01 None directly as a result of adoption of the Policy and Strategy Statement. The effect on Council budgets is reported and monitored through the Central Loans and Investment Account (CLIA).

10.00 ANTI-POVERTY IMPACT

10.01 None

11.00 ENVIRONMENTAL IMPACT

11.01 None

12.00 EQUALITIES IMPACT

12.01 None

13.00 PERSONNEL IMPLICATIONS

13.01 None.

14.00 CONSULTATION REQUIRED

14.01 Sterling Consultancy Services.

15.00 CONSULTATION UNDERTAKEN

15.01 Sterling Consultancy Services.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985
BACKGROUND DOCUMENTS

- (i) CIPFA Treasury Management in the Public Services Code of Practice
- (ii) WAG Investment Guidance
- (III) Local Government Act 2008

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FLINTSHIRE COUNTY COUNCIL

DRAFT

**TREASURY MANAGEMENT
POLICY & STRATEGY STATEMENT**

2011/12

CONTENTS

<u>Section</u>		<u>Page</u>
1.0	Treasury Management Policy Statement	1
2.0	Background	1 - 2
3.0	Treasury Strategy Statement	2
	3.1 Introduction	2 - 3
	3.2 Economic Context	3 - 4
	3.3 Investment Strategy	4 - 8
	3.4 Planned Investment Strategy 2011/12	9
	3.5 Borrowing Strategy	9 - 10
	3.6 Planned Borrowing Strategy 2011/12	10 - 11
	3.7 Treasury Management Key Indicators	11 - 12
	3.8 Other Treasury Issues	12
	 APPENDIX A – Debt Maturity Profile	 13

1.0 TREASURY MANAGEMENT POLICY STATEMENT

The Council defines the policies and objectives of its treasury management activities as follows: -

- 1.1 "The management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".
- 1.2 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council.
- 1.3 The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

2.0 BACKGROUND

- 2.01 In 2009, The Chartered Institute of Public Finance and Accountancy (CIPFA) issued a revised Code of Practice for Treasury Management in Public Services and Guidance Notes for Local Authorities (CIPFA TM Code). The Welsh Assembly Government (WAG) also issued updated Guidance on Local Government Investments.
- 2.02 In the case of local authorities in England and Wales, the Code has a particular significance under the provisions of local Government Act 2003. This requires local authorities 'to have regard (a) to such guidance as the Secretary of State may issue, and (b) to such other guidance as the Secretary of State may by Regulations specify....'. In terms of the WAG guidance, Section 15(1) & 24 of the Local Government Act 2003 requires a local authority to have regard (a) to such guidance as Welsh Ministers may issue and (b) to such other guidance as Welsh Ministers may by regulations specify. Local authorities are therefore required to 'have regard' to both the Welsh Assembly Government Guidance and the CIPFA TM Code.
- 2.03 The treasury management framework within which councils operate consists of:
 - Clauses to be formally adopted within Financial Procedures
 - A Treasury Management Policy and Strategy Statement, stating the authority's policies and objectives.
 - Treasury Management Practices, stating how those policies and objectives will be achieved.

- Accompanying schedules, giving specific details of the systems and routines to be employed and the records to be maintained.
- Regular reporting to elected members.

2.04 CIPFA recommends that all public sector organisations adopt four clauses in Financial Procedures. The Council has adopted the following:

1. The Council will create and maintain, as the cornerstones for effective treasury management:
 - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
 - suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities

The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the Council. Such amendments will not result in the Council materially deviating from the Code's key principles.

2. The Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.
3. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Executive, and for the execution and administration of treasury management decisions to Head of Finance, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's *Standard of Professional Practice on Treasury Management*.
4. The Council nominates Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

3.0 TREASURY STRATEGY STATEMENT

3.1 Introduction

This Treasury Strategy Statement details the expected activities of the treasury function in 2011/12. Its production and submission to the Audit Committee for scrutiny, Executive and Council for approval is a requirement of the Council's Financial Procedure Rules. Its content is that recommended in CIPFA's Treasury Management in the Public Services: Code of Practice (the

Code) 2009 as adopted by County Council from 1st April 2010 and the Guidance from WAG on Local Government Investments under section 15 (1) & 24 of the Local Government Act 2003.

The strategy covers:

- Economic Context
- Investment Strategy
- Borrowing Strategy;
- Treasury Management Indicators
- Other Treasury Issues

3.2 Economic Context – as provided by Sterling Consultancy Services

Economic Outlook – as at November 2010

The strength of the UK economy's recovery from recession has surprised analysts and policymakers alike. A 2.0% increase in the six months to September, left Gross Domestic Product (GDP) 2.8% higher than a year ago. Economic activity has been boosted by three main factors: the exceptionally loose stance of monetary policy, the lower value of sterling and the recovery in international trade. With exports cheaper because of the depreciation of sterling, the recovery in global trade has primarily benefited the manufacturing sector

Despite the recession, inflation has remained stubbornly high. The Consumer Price Index (CPI) rate increased to 3.2% in October, and has been above the 2% target for 36 of the past 45 months. A number of factors have boosted consumer price inflation. The resumption of the 17.5% VAT rate, a rise in commodity prices and higher import prices due to the past depreciation of sterling have acted to offset the effect from weaker domestic demand.

The current factors boosting inflation are considered temporary by members of the Monetary Policy Committee (MPC) and not representative of the underlying demand and supply situation. Inflation is expected to remain above target throughout 2011, but fall below target in 2012 as the effect of these temporary factors wanes. This outlook is driven by the expectation that potential supply comfortably exceeds demand, and that this significant margin of spare capacity will bear down on pricing pressure. The continuing low availability of credit and forthcoming fiscal tightening are expected to weigh on domestic demand throughout the forecast period.

The outlook suggests the MPC will look to maintain the current level of accommodative monetary policy to support demand in the face of considerable headwinds. Our central forecast therefore sees Bank Rate remaining at 0.5% for most of 2011, and although rising thereafter, remaining below "normal" levels until 2013. Longer-term interest rates are likely to rise slowly as the economic situation improves and government borrowing increases, but the rate of increase will be tempered by the coalition

government's austerity measures and the safe haven status of UK government debt.

The high level of uncertainty surrounding the economic and geo-political outlook means there are substantial risks to both the up- and downside. The speed of monetary tightening depends on the recovery in domestic demand, which in turn depends on private sector confidence and the strength of the global economy. Long-term rates may rise more significantly if risk appetite increases due to faster economic growth or, if planned spending cuts undershoot expectations, the government loses investor confidence. Equally rates could fall in the event of a sovereign default or non-financial event, as long as the UK retains its safe haven status.

Interest rate forecasts

Sterling Consultancy Services and market forecasts – November 2010

	SCS Central forecast					Market forecast	
	Bank Rate	1 month LIBOR	3 month LIBOR	12 month LIBOR	25 year PWLB	Bank Rate	3 month LIBOR
Q4 2010	0.50	0.60	0.80	1.50	5.35	0.51	0.78
Q1 2011	0.50	0.60	0.80	1.60	5.45	0.50	0.89
Q2 2011	0.50	0.60	0.90	2.00	5.55	0.54	0.98
Q3 2011	0.50	0.60	1.00	2.50	5.65	0.67	1.11
Q4 2011	1.00	1.10	1.50	2.75	5.75	0.70	1.27
H1 2012	2.00	2.10	2.50	3.50	5.85	1.03	1.64
H2 2012	3.00	3.10	3.50	4.25	5.95	1.47	2.07
H1 2013	4.00	4.10	4.50	5.00	6.05		2.47

HM Treasury survey – Forecast for the UK Economy November 2010: Bank Rate forecast

Bank Rate Forecasts	Average Bank Rate (%)			
	2011	2012	2013	2014
Average	0.70	1.50	2.50	3.10
Highest	1.80	3.10	3.60	4.50
Lowest	0.50	0.50	0.60	1.20

3.3 Investment Strategy

3.3.1 The Council holds surplus funds which represent income received in advance of expenditure plus balances and reserves held. Both the CIPFA Code and WAG Guidance require the Council to invest prudently and to have regard to security and liquidity of its investments before seeking the highest rate of return or yield.

3.3.2 Part 1 of the Local Government Act 2003, which introduced the Prudential Capital Finance System, gives a local authority power to invest for any purposes relevant to its functions under any enactment, or for the purposes of the prudent management of its financial affairs. The Act requires an authority to 'have regard to guidance issued by Welsh Assembly Government (WAG)'.

3.3.3 The WAG requires a local authority, before the start of each financial year, to draw up an Investment Strategy which must be approved by the full council and be published. This document should contain certain investment limits. As allowed by the Guidance, Flintshire County Council incorporates the requirements into this Policy Statement. WAG Guidance requires the Council to approve certain investment limits and other related information on the following:

- Specified Investments
- Non-specified Investments
- Investments which can be prudently committed for more than one year
- Credit Risk Assessment
- Investment Consultants
- Investment Training
- Investment of money borrowed in advance of need.

3.3.4 Specified Investments and Credit Risk

Specified investments are those expected to offer relatively high security and liquidity, and can be entered into with the minimum of formalities. The WAG guidance defines specified investments as those:

- Denominated in Sterling
- Due to be repaid within 12 months of arrangement
- Not defined as capital expenditure by legislation
- Invested with one of the UK Government, UK Local Authority or a body awarded a high credit quality.

The Council defines the following as having a high credit quality. The lowest credit rating will be used to determine credit quality. Overseas banks must be from a country with a minimum rating of AA+ unless UK incorporated. Although they are subsidiaries of foreign banks they are incorporated in the UK, have substantial domestic operations and are subject to full oversight by the FSA.

Rating Type	FITCH		MOODY'S		STANDARD & POORS	
	UK & Overseas Banks	Building Societies	UK & Overseas Banks	Building Societies	UK & Overseas Banks	Building Societies
Short Term	F1	F2	P1	P2	A-1	A-2
Long Term	A	A-	A2	A3	A	A-

NB: The definition of these credit ratings is included in the Treasury Management Practices.

- Ratings from the three agencies are updated monthly by Sterling, however, they will provide immediate notification of any changes which affect Flintshire County Council counterparties. If a counterparty no longer

meets the investment criteria, no further investments will be made with that counterparty and consideration will be given to recalling the monies. If a counterparty is being reviewed for a possible downgrade outside the criteria no more investments will be made.

- Sterling will also inform the Head of Finance of any other market information that they have (e.g. credit default swap prices, news, reports and opinions). Full regard will be given to this information and 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.

Other limits for specified investments are:

- Counterparty limit of £7m (or 25% of total portfolio if balances are below £30m)
- Counterparty limit on lower and non-rated building societies is £5m.
- No counterparty or sector limit on UK Government and UK Local Authorities.
- Building Society Limit of 60% of total investments
- A group of banks under the same ownership will be treated as a single organisation for limit purposes.
- Individual overseas country limit is £10m
- Total overseas sector limit is 25% of total portfolio.

Where investment limits are expressed as a percentage, these will apply at the time the investment is made.

Building Societies

UK Building Societies without credit ratings or those which are lower rated will be considered to be of 'high credit quality', but subject to a lower cash limit (£5m) and shorter time period than higher rated building societies in the table above. The Council takes additional comfort from the building societies' regulatory framework and insolvency regime where, in the unlikely event of a building society liquidation, the Council's deposits would be paid out in preference to retail depositors. Investments in lower rated and unrated building societies will be reviewed if the insolvency regime is amended in future.

However, no investments will be made with building societies that hold a long term credit rating lower than BBB or equivalent, due to the increased likelihood of default implied by this rating.

The minimum asset size of the building society must be £1bn.

3.3.5 Non-specified Investments

Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments in foreign currencies, nor any with low credit quality bodies, nor any that are defined as capital expenditure by legislation (such as company shares or corporate bonds), with the exception of Money Market Funds.

Current Welsh legislation provides that the purchase of shares in a money market fund by a local authority counts as capital expenditure.

Although not currently used it is possible that an external manager may invest for longer than one year and in non-specified investments, hence a limit has been quoted for avoidance of doubt.

The limits for these investments are as follows:-

- Deposits greater than 1 year (including forward deals) £20m
- External Managers (not currently used) £20m
- Money Market Funds (AAA rated constant net asset value) £7m per fund

Each investment greater than 1 year is non-specified by definition and approval is required from the Head of Finance before such an investment is made. The total value of all non-specified investments will not exceed £30m.

3.3.6 Liquidity of Investments (Non-specified by definition)

The amounts that can be prudently invested for longer than one year have been ascertained by estimating short term cash flow requirements. The maximum period of an investment will be 5 years.

3.3.7 External Fund Managers and Treasury Management Advisors

The performance of external cash managers is monitored by Sterling Consultancy Services and if it is considered appropriate in the future to appoint such a manager, a recommendation will be made to Council via the Audit Committee and Executive.

Treasury management advisors are appointed via competitive tender which clearly states the services required. The contract period is usually 3 years with an option to extend. The Council's Contract Procedure Rules are applied.

The responsibility for decisions remains with the Council. Sterling Consultancy Services provide information and advice to assist the Head of Finance. Sterling Consultancy Services provide:

- Advice and guidance on relevant policies, strategies and reports
- Advice on credit ratings and changes.

- Other information on credit quality
- Advice on debt management decisions
- Forecast interest rates
- Accounting advice.
- A 'health check' on the Council's Treasury Management Practices
- Training courses
- Assist with other treasury issues on request.

The quality of the service is monitored by the Head of Finance and reviewed as part of the contract review process.

3.3.8 Investment Training

In house expertise is required which will be supported by advice from the treasury management advisors.

The Head of Finance is a member of CIPFA and as such must follow a Statement of Professional Practice (SOPP) and has a professional need to be committed to ensuring that relevant staff are appropriately trained.

All treasury officers are qualified to Association of Accountancy Technician Level as a minimum. Officer training is reviewed as part of the Council's Employee Appraisal Process. All officer training is recorded on a divisional database.

Flintshire County Council is a member of the CIPFA Treasury Management Network. Treasury officers receive weekly updates from the Network and attend seminars organised by the Network, as required.

Flintshire County Council is lead authority for the Clwyd Pension Fund. The Clwyd Pension Fund Manager is currently responsible for advising the Head of Finance in the discharge of her duties for the Council's treasury function and other duties outlined in Treasury Management Practices. The Clwyd Pension Fund Manager has received training to fulfil this role.

The Finance Function Review will be implemented during 2011/12 and responsibility for advising the Head of Finance will transfer from the Clwyd Pension Fund Manager to the Corporate Finance Manager. There will be a period of transition between the two members of the Senior Finance Team.

3.3.9 Investment of Money Borrowed in Advance of Need

The Council will only invest money borrowed in advance of need for known debt maturities or to finance the borrowing requirement for the year concerned.

3.4 Planned Investment Strategy for 2011/12

3.4.1 The cash flow forecast will be used to divide surplus funds into three categories:

- Short Term (less than 1 month) – cash required to meet known cash outflows in the next month, plus a contingency to cover unexpected cash flows.
- Medium Term (1 month – 12 months) - cash required to manage the annual seasonal cash flow.
- Long Term (1 year to 5 years) – cash not required to meet cash flows and used primarily to generate investment income.

3.4.2 Short term funds are required to meet cash flows in the next month or so, and preservation of capital and liquidity. Investment return is of limited concern. Instant access bank accounts or Money Market Funds will be the main method used to manage short term cash which should return base rate. Where limits are reached, the Government's Debt Management Office could be used but rates will be lower than base rate. It is estimated that about 35% of surplus monies will be short term for cash flow purposes, although this may vary depending on changes to the interest rate yield curve.

3.4.3 Medium term funds which may be required in the next one to twelve months will be managed concentrating on security, with less importance on liquidity but slightly higher emphasis on yield. The majority of the investments will be in the form of fixed term deposits with banks and building societies. A wide spread of counterparties and maturity dates will be maintained to maximise the diversification of credit and interest rate risks. It is estimated that about 55% of surplus funds will be medium term. However, again this may vary depending on changes to the interest rate yield curve.

3.4.4 Cash that is not required to meet any liquidity need can be invested for the longer term with a greater emphasis on returns that will support spending on local authority services. However, in the current economic and financial environment it is likely that only a small percentage, about 10% will be invested longer term, probably over two years in fixed term deposits or callable deposits. Another option will be to appoint an external manager to diversify into a wider range of instruments including certificates of deposits, treasury bills and gilts.

3.4.5 Assuming current interest rate forecasts quoted earlier in this Strategy Statement and a cash balance which is estimated to average around £60m, by implementing this strategy income generated is estimated to be £590K which will be considered as part of the Council's revenue budgeting. The progress of this strategy will be reported to Members quarterly.

3.5 Borrowing Strategy

3.5.1 The Head of Finance will:

- Manage the Council's debt maturity profile, i.e. to leave no one future year with a high level of repayments that could cause problems in re-borrowing with the limits stated in this Strategy Statement. Appendix A analyses the debt portfolio of the Council, as at 31st December, 2010.
- To effect borrowing required in 2011/12 at the cheapest cost commensurate with future risk based on interest rate forecasts.
- To monitor and review the level of variable interest rate loans in order to take greater advantage of interest rate movements, within the limits stated in this Strategy.
- Continue to monitor options for debt-restructuring and debt re-payment.

3.5.2 The Head of Finance will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances, reporting any decisions and actions taken under delegated powers to Executive via the Audit Committee.

3.6 Planned Borrowing Strategy for 2011/12

The Council's debt portfolio position as at 31st December 2010 is:

	Type	Principal £m	Sub- total £m	Average Interest Rate** %
Fixed Rate Funding	PWLB	144.66		
	Market	<u>0.00</u>	144.66	5.88%
Variable Rate Funding	PWLB	10.00		0.70%
	Market*	<u>18.95</u>	<u>18.95</u>	4.53%
Total Long Term Debt			<u>173.61</u>	

* The above market loans are LOBO's (Lenders Option, Borrowers Option) with had fixed interest rate periods of 12, 16 and 23 months followed by a 33, 34 and 35 year variable period, with an option in the variable period to repay the principal prior to maturity if the Lender increases the interest rate.

** If any debt re-structuring or repayment opportunities are implemented before 31st March 2011, this may impact on the average interest rate.

- 3.6.1 The efficient management of cash flow should mean that no short term borrowing is required unless as a short term measure during debt restructuring, but it is assumed the cost of short term borrowing will be zero. The Council has an overdraft limit with the bank of £300,000.
- 3.6.2 The Council has nearly £174m of long terms debt. Most of this debt is with the Public Loans Works Board (£154m of PWLB debt). Loans of £144.66m are at a fixed rate of interest which has the advantage of providing budget certainty. The interest payment on this debt is £8.5m per annum. A loan of £10 million is at a variable rate (currently 0.70%), which cost the Council £62k in 2010/11. The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a formula based on current interest rates. There may be opportunities to re-structure debt in 2011/12 by replacing some higher rate loans with new loans at a lower rate where this will lead to an overall saving or reduce risk.
- 3.6.3 The remainder of the long terms debt (£19m) is received from the market in the form of three LOBOs (Lenders Option, Borrowers Option). These have a short fixed interest rate period (which has now passed for these loans) followed by a longer variable rate period. There is an option for the Council to repay the loan during the variable rate period if the lender increases the interest rate. The advantage of using these loans is that the interest rate, during the fixed rate period especially, can be lower than the PWLB.
- 3.6.4 The interest cost on these loans is estimated to be £860K in 2011/12 but they are all in their variable rate period and the lender could increase the interest rate, albeit given the current expectations for interest rates this is unlikely.
- 3.6.5 For a number of years the Council has not taken any new long term borrowing and used cash reserves to fund capital expenditure. The Council's Capital Programme, including Prudential Borrowing will be reviewed to consider the most financially advantageous method of financing future debt. The situation is monitored on an on-going basis by the Head of Finance.
- 3.6.6 All the above is being considered as part of the Council's budget process for 2011/12.

3.7 Treasury Management Indicators

- 3.7.1 The key indicators proposed to be set by full Council are shown in the table below. The limits for 2012/13 and 2013/14 are indicative figures only and could be changed next year.
- 3.7.2 The Authorised Limit and Operational Boundary for external debt are Prudential Indicators and will be approved alongside the Capital Programme.
- 3.7.3 Interest rate exposures are set to control the Council's exposure to interest rate risk.

Indicator Type	2011/12 £million	2012/13 £million	2013/14 £million
Upper Limit on fixed interest rate exposures	200	200	200
Upper Limit on variable interest rate exposures	20	20	20

3.7.4 The table below proposes the upper and lower limits for the maturity of loans which are internally set so that no future year is left with a high level of repayments and controls exposure to re-financing risk. These limits are proposed for 2011/12, 2012/13 and 2013/14.

Upper and Lower Limits for maturity structure of borrowing	Lower Limit	Upper Limit
Under 12 months	0%	15%
12 months and within 24 months	0%	10%
24 months and within 5 years	0%	30%
5 years and within 10 years	0%	50%
10 years and above	10%	100%

3.7.5 The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of investments.

Prudential limits for principal sums invested in periods longer than 364 days	£ 30 million
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This limit is proposed for 2011/12, 2012/13 and 2013/14

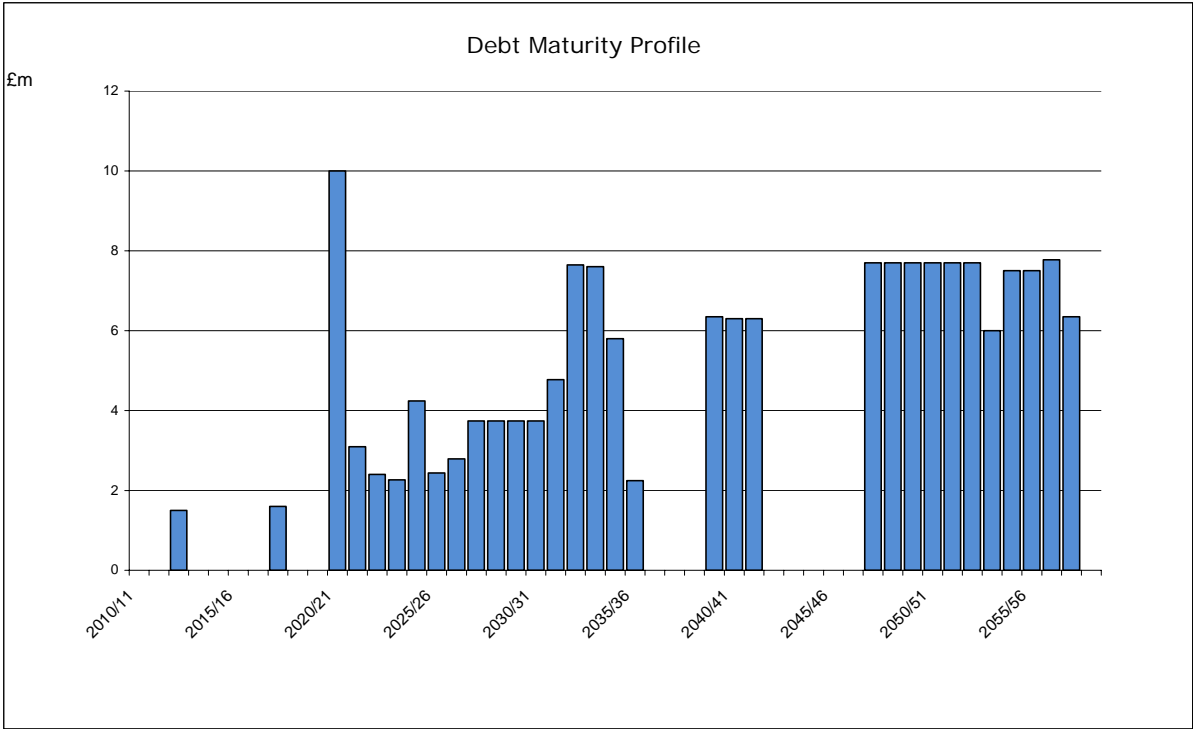
3.8 Other Treasury Issues

3.8.1 Treasury Management Practices (TMPs)

As part of the compliance with CIPFA's Treasury Management in the Public Services: Code of Practice (the Code) 2009, the following TMPs have been documented:-

- TMP 1 Treasury Risk management
- TMP 2 Performance measurement
- TMP 3 Decision - making and analysis
- TMP 4 Approved instruments, methods and techniques
- TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements
- TMP 6 Reporting requirements and management information arrangements
- TMP 7 Budgeting, accounting and audit arrangements
- TMP 8 Cash and cash flow management
- TMP 9 Money laundering
- TMP 10 Staff training and qualifications
- TMP 11 Use of external service providers
- TMP 12 Corporate governance

APPENDIX A – DEBT MATURITY PROFILE



TREASURY MANAGEMENT PRACTICES

Part 1: Main Principles

2011/12

Flintshire County Council

Treasury Management Practices 2011/12

TREASURY MANAGEMENT PRACTICES

Treasury Management Practices (TMPs) set out the manner in which this organisation will seek to achieve its treasury management policies and objectives and how it will manage and control those activities.

	Page
Treasury Management Practices (TMPs)	2
TMP 1 Treasury risk management	3- 4
TMP 2 Performance Measurement	5
TMP 3 Decision-making and analysis	5
TMP 4 Approved instruments, methods and techniques	5
TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements	5 – 6
TMP 6 Reporting requirements and management information arrangements	6
TMP 7 Budgeting, accounting and audit arrangements	7
TMP 8 Cash and cash flow management	7
TMP 9 Money laundering	7
TMP 10 Staff training and qualifications	7 - 8
TMP 11 Use of external service providers	8
TMP 12 Corporate governance	8

TMP1 TREASURY RISK MANAGEMENT

The Head of Finance will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives in this respect, all in accordance with the procedures set out in TMP6 Reporting requirements and management information arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

[1] Credit and counterparty risk management

The Council regards a prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments, methods and techniques and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

[2] Liquidity risk management

The Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to which are necessary for the achievement of its business/service objectives.

The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

[3] Interest rate risk management

The Council will manage its exposure to fluctuations in interest rates with a view to containing its net interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirement and management information arrangements.

It will achieve these objectives by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. The above are subject at all times to the consideration and, if required, approval of any policy or budgetary implications.

Treasury Management Practices 2011/12

[4] Exchange rate risk management

The Council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

[5] Refinancing risk management

The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over-reliance on any one source of funding if this might jeopardise achievement of the above.

[6] Legal and regulatory risk management

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1.1 Credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

[7] Fraud, error and corruption, and contingency management

The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

[8] Market risk management

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

Treasury Management Practices 2011/12

TMP2 PERFORMANCE MEASUREMENT

The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its Treasury Management Policy Statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document.

TMP3 DECISION-MAKING AND ANALYSIS

The Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule to this document.

TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1, Risk management.

TMP5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

The Council considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, and for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

Treasury Management Practices 2011/12

If and when the Council intends, as a result of lack of resources or other circumstances, to depart from these principles, the Head of Finance will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.

The Head of Finance will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangement for absence cover. The present arrangements are detailed in the schedule to this document.

The Head of Finance will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule to this document.

The delegations to the Head of Finance in respect of treasury management are set out in the schedule to this document. The Head of Finance will fulfil all such responsibilities in accordance with the Council's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on treasury management.

TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and the transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum:

The County Council will receive:

- An annual report on the strategy and plan to be pursued in the coming year
- A mid-year review
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's Treasury Management Policy Statement and TMPs.

In addition to the above, the Audit Committee will receive regular monitoring reports on treasury management activities and risks. Audit Committee will also have responsibility for the scrutiny of treasury management policies and practices.

Treasury Management Indicators will be reported in the Policy Statement.

The present arrangements and the form of these reports are detailed in the schedule to this document.

TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

The Head of Finance will prepare, and this organisation will approve and, if necessary, from time to time amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk management, TMP2 Performance Measurement, and TMP4 Approved instruments, methods and techniques. The Head of Finance will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 Reporting requirements and management information arrangements.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

TMP8 CASH AND CASH FLOW MANAGEMENT

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation will be under the control of the Head of Finance, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Head of Finance will ensure that these are adequate for the purposes of monitoring compliance with TMP1 [1] Liquidity risk management. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

TMP9 MONEY LAUNDERING

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule to this document.

TMP10 STAFF TRAINING AND QUALIFICATIONS

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Head of Finance will recommend and implement the necessary arrangements.

Treasury Management Practices 2011/12

The Head of Finance will ensure that committee/council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangements are detailed in the schedule to this document.

TMP11 USE OF EXTERNAL SERVICE PROVIDERS

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Head of Finance, and details of the current arrangements are set out in the schedule to this document.

TMP12 CORPORATE GOVERNANCE

The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and has implemented the key recommendations of the Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Head of Finance will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

TREASURY MANAGEMENT PRACTICES

Part 2: Schedules

2011/12

Flintshire County Council

Treasury Management Practice Schedules 2011/12

TREASURY MANAGEMENT PRACTICES - SCHEDULES

This section contains the schedules which set out the details of how the Treasury Management Practices (TMPs) are put into effect by this organisation.

	Page
Treasury Management Practices – Schedules	2
TMP 1 Risk management	3-7
TMP 2 Performance Measurement	8 - 9
TMP 3 Decision-making and analysis	9 - 10
TMP 4 Approved instruments, methods and techniques	10 -12
TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements	12 -16
TMP 6 Reporting requirements and management information Arrangements	16 -19
TMP 7 Budgeting, accounting and audit arrangements	19
TMP 8 Cash and cash flow management	19-20
TMP 9 Money laundering	20
TMP 10 Staff training and qualifications	21
TMP 11 Use of external service providers	21-22
TMP 12 Corporate governance	22
Appendix A – Definition of ratings	23-25

Treasury Management Practice Schedules 2011/12

TMP1 RISK MANAGEMENT

1.1 Credit & Counterparty Policies

1.1.1. Criteria to be used for creating/managing approved counterparty lists/limits -

1. The Head of Finance will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising time, type, sector and specific counterparty limits.
2. Treasury Management staff will add or delete counterparties to/from the approved counterparty list in line with the policy on criteria for selection of counterparties. The complete list is available in the Funds Section. It should be noted that not all of these counterparties will be used. This depends on whether they are in the market at the time of investment and whether they are offering competitive rates.
3. The Council will use credit criteria in order to select creditworthy counterparties for placing investments with (see also 1.1.3)
4. Credit ratings will be used as supplied from Fitch, Moody's and Standard & Poors credit rating agencies.
5. The minimum level of credit rating for an approved counterparty will be as follows: -

	FITCH		MOODY'S		STANDARD & POORS	
Rating Type	UK & Overseas Banks	Building Societies	UK & Overseas Banks	Building Societies	UK & Overseas Banks	Building Societies
Short Term	F1	F2	P1	P2	A-1	A-2
Long Term	A	A-	A2	A3	A	A-

A definition of the ratings can be found in appendix A.

6. In addition, UK Building Societies without credit ratings or those which are lower rated will be considered to be of 'high credit quality', but subject to a lower cash limit (£5m) and shorter time period than higher rated building societies in the table above. However, no investments will be made with building societies that hold a long term credit rating lower than BBB or equivalent, due to the increased likelihood of default implied by this rating. The minimum asset size of the building society must be £1bn. Due to the strong regulatory framework to which building societies must adhere, the additional risk is minimised and widening the scope for investment will maximise the investment return available.

Treasury Management Practice Schedules 2011/12

7. The Council also has access to all UK local authorities, the Governments Debt Management Office (DMO) and AAA rated Money Market Funds (MMFs)
8. The maximum period for investments will be 5 years.
9. For rated banks and building societies, the maximum value for any one investment transaction will be £7 million or 25% of the total portfolio if balances fall below £30 million. For non-rated the limit will be £5 million or 10% of the total portfolio if balances fall below £30 million. The aim is to spread any risk over as many Counterparties as are available within the credit rating criteria.
10. A group of financial institutions under the same ownership will be treated as a single organisation for limit purposes with a maximum limit of £7m.
11. The maximum percentage of the portfolio which may be invested in the building society sector will be 60%.
12. The approved counterparty list may include non UK registered counterparties from foreign countries with a minimum sovereign rating of AA+. The individual overseas country limit will be £10 million. Total Overseas % of investment portfolio will be 25%.

*Overseas banks do not include UK incorporated banks e.g. Clydesdale. Although they are subsidiaries of foreign banks they are incorporated in the UK, have substantial domestic operations and are subject to full oversight by the FSA.

13. The sector limits are shown below –

UK banks	100%
Building Societies	60%
Overseas Banks	25%
Money Market Funds	100%
Debt Management Office (DMO)	100%

1.1.2. Approved methodology for changing limits and adding/removing counterparties

Credit ratings for individual counterparties can change at any time. The Head of Finance is responsible for applying the stated credit rating criteria in 1.1.1. for selecting approved counterparties, and will add or delete counterparties as appropriate to / from the approved counterparty list when there is a change in the credit ratings of individual counterparties or in banking structures e.g. on mergers or take-overs. The Head of Finance will also adjust lending limits and periods when there is a change in the credit ratings of individual counterparties or in banking structures e.g. on mergers or take-overs in accordance with the criteria in 1.1.1.

Ratings Watch Negative/Review for Possible Downgrade/Credit Watch

'Ratings Watch Negative' (Fitch), 'Review for possible downgrade' (Moody's) and 'Credit Watch' (Standard & Poors) are the terms used when a Counterparty's ratings will be reviewed during the next 3 months and could possibly be downgraded. If ratings are likely to fall below the Council's required criteria, then no more investments must be made with this Counterparty and consideration will be given to recalling the monies. If ratings will remain within the criteria, then investments can be made as usual.

1.1.3. Details of Credit Rating Agencies' services or other services which provide current credit ratings and updates on changes.

- a. The Council uses credit ratings from Fitch, Moody's and Standard & Poors credit rating agencies supplied via its treasury management advisers, Sterling Consultancy Services together with full rating agency text of rating changes.
- b. Sterling will also inform the Head of Finance of any other market information that they have (e.g. Credit Default Swap prices, news reports and opinion, balance sheet analysis in the absence of credit ratings) which may require credit ratings to be overridden and no further investment to be made with that counterparty.

1.2 Liquidity

1.2.1 Amounts of approved minimum cash balances and short-term investments

- a. The Council manages its cash balances on a daily basis, dependent upon cash flow demands. The objective is to achieve a balance of +/- £300,000 each day by means of temporary investments and borrowing. Temporary investments are cash flow driven with the objective of ensuring that future temporary borrowing is minimised.

1.2.2 Details of:

- a. Standby facilities - Short-term borrowing undertaken
- b. Bank overdraft arrangements - authorised arrangement up to £300,000 overdrawn
- c. Short-term borrowing facilities - short term borrowing will be arranged for any overdrawn balance in excess of £200,000 through the money market if no call money is available
- d. Insurance/guarantee facilities - not required
- e. Other contingency arrangements - negotiations with the Council's bankers
- f. Call Accounts with limits of £7 million each (subject to ratings and sector limits)

Treasury Management Practice Schedules 2011/12

1.3 Interest Rate

1.3.1. Details of approved interest rate exposure limits

- a. The upper limit on fixed interest rate exposures is £200 million
- b. The upper limit on variable interest rate exposures is £20 million

1.3.2. Trigger points and other guidelines for managing changes to interest rate levels

- a. This is monitored in conjunction with the Council's treasury advisers, Sterling and through the London money market on a daily basis.
- b. The management of a balanced investment portfolio which retains a mix of long term investments (fixed rate) and shorter term (variable rate) investments which are variable to protect against interest risk.

1.4 Exchange Rate

1.4.1 Approved criteria for managing changes in exchange rate levels

- a. The Council does not make payments or receive foreign currency in sufficient levels that warrant currency management e.g. hedging

1.5 Refinancing

1.5.1. Debt/other capital financing maturity profiling, policies and practices.

- a. To manage the Council's debt maturity profile i.e. to leave no one future year with a high level of repayments that could cause problems in re-borrowing.

1.5.2. Projected capital investment requirements.

- a. The borrowing requirement is determined as part of the Capital Programme.

1.5.3. Policy concerning limits on revenue consequences of capital financing.

- a. This is part of the ongoing budget monitoring process

1.6 Legal & Regulatory

1.6.1. References to relevant statutes and regulations

- a. Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Head of Finance to be satisfied, by reference to the Monitoring Officer, the Authority's legal department and external advisors as appropriate, that the proposed transaction does not breach statute, external regulations or the Authority's Financial Procedures.

Treasury Management Practice Schedules 2011/12

- b. The Council's legal powers and regulatory requirements come from –
- Local Government Act 2003
http://www.opsi.gov.uk/acts/acts2003/pdf/ukpga_20030026_en.pdf
 - Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 (and subsequent amending regulations)
http://www.opsi.gov.uk/legislation/wales/wsi2003/wsi_20033239_en.pdf
 - Welsh Assembly Government “Guidance on Local Government Investments”
<http://wales.gov.uk/topics/localgovernment/publications/guideinvest/:j;sessionid=mp3KKnDTyn91SG3PQvIFrpqnBVTnlXvyGH1pynJcCpJg5n9hLQtP!514291769?lang=en>
 - CIPFA “Treasury Management in the Public Services Code of Practice”
 - CIPFA “Prudential Code for Capital Finance in Local Authorities”

Hard copies are available in the Funds Section.

1.7 Fraud, error and corruption, and contingency management

1.7.1. Details of systems and procedures to be followed, including internet services.

- a. These are documented in the Treasury Management Operational Guidelines.

1.7.2. Emergency and contingency planning arrangements

- a. This process is currently under review.

1.7.3 Fraud, Error & Corruption.

- a. There is a system of internal control in place to prevent and identify fraud and error.
- b. Any issue identified will be immediately reported to the Head of Finance and Head of Internal Audit and subsequently to Audit Committee and Council.

1.8 Market Value of Investments

1.8.1. Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (Government Issue Long Term Stock - GILTS, Certificates of Deposit - CDs, etc.)

- a. No current investments are held where capital values may be influenced by market movements and fluctuate.

Treasury Management Practice Schedules 2011/12

TMP 2 PERFORMANCE MEASUREMENT

2.1 Performance Measurement

- 2.1.1 The Council's Treasury Management Consultants recommended the following for use as benchmarks against which to compare performance. For investments, the most commonly used benchmark is the 3 month London Inter-Bank Bid (LIBID) rate.
- 2.1.2 In the annual Treasury Management Out-turn Report, investment and borrowing rates are analysed against the above recommended rates and with previous years.
- 2.1.3 Health checks are undertaken by the Council's Treasury Management Consultants.
- 2.1.4 The Council is a member of CIPFA's benchmarking club on Treasury Management

2.2 Value for Money

- 2.2.1 Frequency for reviewing and tendering for the following services:
- a. Banking services - tendered every 5 years
 - b. Money-broking services - annual review
 - c. Treasury Consultant services – tendered every 3 years
 - d. External Cash Managers - none currently employed but this will be analysed as part of a continuous review.

2.3 Methods to be employed for measuring the performance of the organisation's Treasury Management activities

- 2.3.1 The Head of Finance will receive a monthly update on Treasury Management from the Clwyd Pension Fund Manager.
- 2.3.2 The performance of treasury management will be reported quarterly to the Audit Committee and then to Executive and Council in the mid year review Annual Out-turn Report using the performance measures outlined in 2.1.

2.4 Benchmarks and calculation methodology:

- 2.4.1 Debt management:

Average rate on all external debt
Average rate on external debt borrowed in previous financial year
Average rate on internal borrowing
Average period to maturity of external debt
Average period to maturity of new loans in previous year

Treasury Management Practice Schedules 2011/12

2.4.2 Investment:

The performance of investment earnings will be measured against the following benchmarks: -

3 month LIBID rate

Indicative rates provided by the CIPFA Benchmarking Club on Treasury Management

TMP 3 DECISION-MAKING AND ANALYSIS

3.1 Funding, borrowing, lending and new instruments/techniques:

3.1.1 Records to be kept:

- a. These are documented in the Treasury Management Operational Guidelines. All records are kept to provide a full audit trail for all Treasury decisions.

3.1.2 Processes to be pursued:

- a. All reports on Treasury Management issues are submitted to the Head of Finance for decision making

3.1.3 Issues to be addressed:

3.1.3.1. In respect of every decision made the Council will:

- a. Above all be clear about the nature and extent of the risks to which the Council may become exposed
- b. Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained
- c. Be content that the documentation is adequate both to deliver the Council's objectives and protect the organisation's interests, and to deliver good housekeeping
- d. Ensure that third parties are judged satisfactory in the context of the Council's creditworthiness policies, and that limits have not been exceeded
- e. Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

3.1.3.2 In respect of borrowing and other funding decisions, the Council will:

- a. Evaluate the economic and market factors that might influence the manner and timing of any decision to fund.
- b. Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships.

Treasury Management Practice Schedules 2011/12

- c. Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.
- d. Consider the ongoing revenue liabilities created, and the implications for the organisation's future plans and budgets.

3.1.3.3 In respect of investment decisions, the organisation will:

- a. Consider the optimum period, in the light of cash flow availability and prevailing market conditions.
- b. Consider the alternative investment products and techniques available, especially the implications of using any which may expose the organisation to changes in the value of its capital.

3.1.4 Considerations to be made before each temporary borrowing and investment decision

3.1.4.1 Borrowing

- a. Are funds available in call accounts?
- b. Arrange temporary borrowing through a broker for the shortest period of time at the lowest rate of interest available.

3.1.4.2 Investing

- a. Establish funds available to be invested
- b. Establish a maturity date using cash flow and Sterling's weekly investment strategy
- c. Using the Ratings spreadsheet –
Check the limit for building societies (60% of portfolio)
Headroom available with each counterparty
- d. Check the credit ratings and other market information available for the chosen counterparty.
- e. Use a broker to find the highest rate of interest for the requirements above
- f. If after the above, funds still cannot be placed and call accounts are full, then invest with DMO.

TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1 Approved activities of the Treasury Management operation

All borrowing is undertaken in accordance with the Local Government Act 2003 section 1 and all investments undertaken in accordance with section 12.

The approved activities are:

- borrowing;
- lending;
- debt repayment and rescheduling;

Treasury Management Practice Schedules 2011/12

- consideration, approval and use of new financial instruments and treasury management techniques;
- managing the underlying risk associated with the Council's capital financing and surplus funds activities;
- managing cash flow;
- banking activities;
- leasing.

4.2 Approved Instruments for Borrowing

All borrowings are undertaken in line with the following approved loan instruments:-

- Public Works Loan Board (PWLB)
- European Investment Bank (EIB)
- Money Market Loans - Long Term
- Money Market Loans - Temporary
- Money Market Loans - LOBO's
- Overdraft
- Negotiable Bonds
- Stock Issues
- Internal sources
- Sterling commercial paper (for 7 days to 1 year)
- Sterling medium term notes (for 1 to 5 years)

4.3 Approved Instruments for Investments

The annual Treasury Management Strategy provides details of specified and non-specified investments and the maximum limits for each, as is required under Guidance issued by the Welsh Assembly. The approved investment instruments are

- Fixed Term Deposits
- Certificates of Deposit
- Bank Accounts (Instant Access & Notice Accounts)
- Pooled Investment Vehicles (Such as Money Market Funds)
- U.K. Treasury Bills
- U.K. Government Bonds (Gilts)
- Supranational Bonds Issued by Multilateral Development

4.4 Approved Techniques

- Forward dealing up to 364 days;
- Callable deposits.

4.5 Approved methods and sources of raising capital finance

Finance will only be raised in accordance with the Prudential Code for Capital Finance, and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

On Balance Sheet

Public Works Loan Board (PWLB)
European Investment Bank (EIB)
Market (long-term)
Market (temporary)
Market (LOBOs)
Stock issues
Overdraft
Negotiable Bonds
Internal sources (capital receipts & revenue balances)
Sterling commercial paper
Sterling medium term notes
Finance Leases

Off Balance Sheet

Deferred Purchase

Other Methods of Financing

Government and EC Capital Grants
Lottery monies
Private Finance Initiative (PFI)

All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Head of Finance has delegated powers through this Policy and the Strategy to take the most appropriate form of borrowing from approved sources.

TMP5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

5.1 Limits to Responsibilities/Discretion at Committee/Executive levels

5.1.1 County Council

The Council is responsible for:-

- a. Receiving and reviewing reports on treasury management policies, practices and activities.
- b. Approval of annual policy and strategy.
- c. Approval of/amendments to the organisation's adopted clauses, treasury management policy and strategy.
- d. Budget consideration and approval.
- e. Approval of the division of responsibilities.

Treasury Management Practice Schedules 2011/12

5.1.2 Executive

The Executive is responsible for:

- a. Receiving reports from the Head of Finance informed by the deliberations of the Audit Committee on the implementation and regular monitoring of its treasury management policy, strategy and practices.
- b. Consideration of Treasury Policy and Strategy for approval by Council.

5.1.3 Audit Committee

The Audit Committee is responsible for –

- a. Reviewing the treasury management policy and practices and making recommendations to Executive.
- b. Receiving and reviewing regular monitoring reports.

5.2 Principles and practices concerning segregation of duties

Procedure	Regular	Trained in Absence
Cash Balances	Senior Officer (Funds)	Accountancy Technician/Accountancy Assistant
Dealing and Limit Calculations	Senior Officer (Funds)	Accountancy Technician/Accountancy Assistant
Logotech (TM reporting system)	Senior Officer (Funds)	Accountancy Technician/Accountancy Assistant
Dealing Internal Control Check	Accountancy Technician	Accountancy Assistant/Funds Manager
Dealing Authorisation	6 Authorised Bank Signatories (Head of Finance, Corporate Finance Manager, 4 Heads of Service)	
Funds Transfer Operators	Accountancy Assistant	5 Accountancy Technicians
Funds Transfer Approval	4 Principal Accountants	
Bankline (On Line Banking & Payments System) Administrators	Administration Manager	Business Support Officer

5.3 Statement of duties/responsibilities of each Treasury post

5.3.1 Head of Finance

- a. Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- b. Submitting regular treasury management policy and strategy reports.
- c. Submitting budgets and budget variations.

Treasury Management Practice Schedules 2011/12

- d. Receiving and reviewing management information reports.
- e. Reviewing the performance of the treasury management
- f. Ensuring the adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function.
- g. Ensuring the adequacy of internal audit and liaising with external audit
- h. Approving the selection of external service providers (within the Council's Contract Procedure Rules) and agreeing terms of appointment.

5.3.2 Clwyd Pension Fund Manager

- a. To deputise for the Head of Finance.
- b. To advise the Head of Finance in the discharge of his/her duties.
- c. Regularly review the Treasury Management function.
- d. Submitting management information reports to the Head of Finance.
- e. Drafting reports for Audit Committee, Executive and Council.
- f. Review a monthly report from the Funds Manager on the performance of the Treasury Management function.

5.3.3 Funds Manager

- a. Supervise treasury management staff
- b. Review the draft report on the performance of the Treasury Management function.
- c. Identify and recommend opportunities for improved practices.
- d. Ensure that the day to day activities accord with the Treasury Management Policy Statement and Practices

5.3.4 Senior Officer – Funds

- a. Execution of transactions
- b. Adhere to agreed policies and practices on a day-to-day basis
- c. Maintain relationships with counterparties and external service providers.

Treasury Management Practice Schedules 2011/12

- d. Draft reports for Audit Committee, Executive and Council
- e. Produce cash flow projections and monitor performance.
- f. Report on the performance of the Treasury Management function.

5.3.5 Other Officers

- a. To deputise as necessary for the above posts, adhering to their duties and responsibilities.

5.4 Dealing Limits

5.4.1 As outlined in 1.1 - Credit and Counterparty Policies

5.5 List of Approved Brokers

5.5.1 Four of the following five approved brokers are currently used by the Council (see 11.1.2).

- Garban Intercapital Limited
- Martin Brokers (UK) Plc
- Prebon Marshall Yamane (UK) Limited
- Sterling International Brokers Ltd (not currently used to avoid conflict of interest as advisors)
- Tradition (UK) Ltd

5.6 Policy on Brokers' Services

5.6.1 Reviewed annually

5.7 Policy on taping conversations

5.7.1 No conversations are currently taped

5.8 Direct Dealing Practices

5.8.1 This is undertaken as and when required to maximise investment return

5.9 Settlement transmission procedures

5.9.1 Standard Settlement Instructions

5.10 Documentation Requirements

- Flintshire CC Treasury Management Policy Statement.
- Flintshire CC Treasury Management Annual Outturn Report.
- Treasury Management Health checks.
- Loans and Treasury Management System Manual (LOGOTECH).

Treasury Management Practice Schedules 2011/12

- Manual Diary and Cash Flow Statement (LOGOTECH).
- Money Market Dealing Form.
- Loans Outstanding Form / Limit Calculations.
- List of Brokers and Telephone Numbers.
- Approved Counterparties (Regular update from Sterling).
- Outstanding and Matured Investments/Borrowing File.
- Previous TM Consultants Correspondence Files.
- Sterling Consultancy Services Correspondence File (TM Consultants).
- Treasury Management Operational Guidelines.
- Treasury Management (Long Term Borrowing) Operational Guidelines.

5.11 Arrangements concerning the management of third-party funds.

5.11.1 Third party funds are included in the net daily bank balance and the funds are utilised by the Council on that basis. Interest is paid as follows -

Education Trust Funds – base rate, annually

Optec Youth Exchange Fund – average monthly rate, quarterly

Insurance Fund – average seven day rate, annually

Education Delegated Fund – average seven day rate, annually

TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

6.1 Annual Treasury Management Strategy Statement

6.1.1 The Treasury Management Strategy sets out the specific expected treasury activities for the forthcoming financial year. This Strategy will be scrutinised by Audit Committee, submitted to the Executive and then to the County Council Committee for approval before the commencement of each financial year.

6.1.2 The formulation of the annual Treasury Management Strategy involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter-term variable interest rates. For instance, this organisation may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early if fixed interest rates are expected to rise.

6.1.3 The Treasury Management Strategy is concerned with the following elements:

- the prospects for interest rates;
- the limits placed by this organisation on treasury activities
- the expected borrowing strategy;
- the expected investment strategy;
- the expectations for debt rescheduling;
- any extraordinary treasury issue.
- Treasury Management Indicators.

Treasury Management Practice Schedules 2011/12

6.1.4 The Treasury Management Strategy will establish the expected move in interest rates (using all available information such as published interest rate forecasts where applicable)..

6.2 Prudential Code for Capital Finance

6.2.1 In accordance with legislation, the Council is required to approve key indicators and limits for the Prudential Code for Capital Finance. These are listed below and reported in the Prudential Indicators Report.

- Estimates of Capital Expenditure
- Ratio of financing costs to net revenue stream
- Incremental impact of capital investment decisions on council tax/housing rents
- Capital financing requirement
- Authorised limit for external debt
- Operational Boundary for external debt

The following are within the Treasury Management Code.

- Upper limit on fixed interest rate exposures
- Upper limit on variable interest rate exposures
- Upper and lower limits for maturity structure of borrowing
- Limit for principal sums invested for periods longer than 364 days

6.2.2 The Head of Finance is responsible for incorporating the relevant limits for the Treasury Management Code into the Annual Treasury Management Strategy, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the Head of Finance shall submit the changes for scrutiny by the Audit Committee and recommendation by the Executive before submission to County Council for approval.

6.3 Annual Investment Strategy

6.3.1 The Welsh Assembly Government requires the documentation of an Annual Investment Strategy including the following:

- Specified Investments – Investments offering high security and liquidity
- Non-specified Investments – Investments with greater potential risk
- Investments which can be prudently committed for longer than 1 year.
- Credit Risk Assessment.
- Use of Investment Consultants.
- Investment Training.
- Investment money borrowed in advance of need.

Treasury Management Practice Schedules 2011/12

6.4 Annual Report on Treasury Management Activity

6.4.1 An annual report will be presented to the Audit Committee, Executive and then the County Council at the earliest practicable meeting after the end of the financial year, but in any case by the end of September. This report will include the following: -

- a comprehensive picture for the financial year of all treasury policies, plans, activities and results
- transactions executed and their revenue (current) effects
- report on risk implications of decisions taken and transactions executed
- monitoring of compliance with approved policy, practices and statutory / regulatory requirements
- monitoring of compliance with powers delegated to officers
- degree of compliance with the original strategy and explanation of deviations
- explanation of future impact of decisions taken on the organisation
- measurements of performance
- report on compliance with CIPFA Code recommendations

The report will be subject to review by the Audit Committee

6.5 Mid-Year Review

6.5.1 A mid-year report will be presented to the Audit Committee, Executive and Council, which will include the following:

- activities undertaken
- variations (if any) from agreed policies/practices
- interim performance report
- regular monitoring
- monitoring of treasury management indicators for local authorities.

The report will be subject to review by the Audit Committee

6.6 Management Information Reports

6.6.1 The Funds Manager will report management information to the Clwyd Pension Fund Manager monthly for review. The Clwyd Pension Fund Manager will report monthly to the Head of Finance

6.7 Presentation of Reports

As a minimum:

The County Council will receive:

- An annual report on the strategy and plan to be pursued in the coming year

Treasury Management Practice Schedules 2011/12

- A mid-year review
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's Treasury Management Policy Statement and TMPs.

In addition to the above, the Audit Committee and Executive will receive regular monitoring reports on treasury management activities and risks. Audit Committee will also have responsibility for the scrutiny of treasury management policies and practices.

Treasury Management Indicators will be reported in the Policy Statement.

TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1 Statutory/ Regulatory Requirements

7.1.1 The Treasury Management part of the statement of accounts has been prepared in accordance with the accounting policies applicable to local authorities.

7.2 Accounting Practices and Standards

7.2.1 The accounts are prepared in accordance with the CIPFA Treasury Management in the Public Sector Code of Practice, supported by guidance notes on the application of accounting standards.

7.3 Information passed to Head of Corporate & Capital Accounting

7.3.1 Information showing original budget for investment income compared to actual achieved with forecast is to be passed the Head of Corporate & Capital Accounting on a monthly basis.

TMP 8 CASH AND CASH FLOW MANAGEMENT

8.1 Arrangements for preparing/submitted cash flow statements

8.1.1 Annual cash flow prepared before the start of the financial year and updated throughout the year

8.2 Content and frequency of cash flow budgets

8.2.1 All known cash flow factors are included for the coming financial year

8.3 Listing of sources of information

8.3.1 Correspondence from external organisations and internal departments, together with various information extracted from the Annual Budget Book.

Treasury Management Practice Schedules 2011/12

External –

Welsh Assembly
North Wales Police Authority
North Wales Fire Authority

Internal –

Payroll
Pensions
Council Tax
Creditors

8.4 Bank statement procedures

8.4.1 All bank statement information is obtained electronically from the NatWest Bankline website.

8.5 Procedures for banking of funds

8.5.1 All day to day treasury management transactions are paid and received by the Clearing House Automated Payments System (CHAPS).

8.6 Cash Flow Management

8.6.1 Arrangements as detailed in section 3.1.4

8.7 Debtors and Creditors

8.7.1 Debtors and Creditors are monitored so that any significant moves can be prepared for. Creditors provide warning of payments 2 days in advance.

TMP 9 MONEY LAUNDERING

9.1 Procedures for establishing identity/authenticity of Lenders

9.1.1 The Council does not accept loans from individuals. All loans are obtained from the PWLB or from authorised institutions on the FSA Register which is a public record of financial service firms, individuals and other bodies which fall under its regulatory jurisdiction as defined in the Financial Services & Markets Act 2000 (FSMA). This Act came into force on 1st December 2001.

9.1.2 Any borrowing undertaken from the money markets is through money brokers, who are also authorised and regulated by the Financial Services Authority. This adds a further layer of protection as the broker vets the institutions involved in any transactions.

Treasury Management Practice Schedules 2011/12

TMP 10 STAFF TRAINING AND QUALIFICATIONS

10.1 Details of approved training courses

10.1.1 Reviewed as part of the annual Employee Appraisal process. Sterling also provide training on treasury issues to staff when required.

10.1.2 Flintshire County Council is a member of the CIPFA Treasury Management Network. Treasury officers receive weekly updates from the Network and attend seminars organised by the Network, as required.

10.2 Records of training received by Treasury staff

10.2.1 All training is recorded on a departmental database.

10.3 Approved qualifications for Treasury staff

10.3.1 All treasury officers are qualified to AAT Technician level as a minimum.

10.3.2 Flintshire County Council is lead authority for the Clwyd Pension Fund. The Clwyd Pension Fund Manager is responsible for advising the Head of Finance in the discharge of her duties for the Council's Treasury function and other duties outlined in Treasury Management Practices. The Clwyd Pension Fund Manager has received training to fulfil this role.

10.4 Training of Members

10.4.1 Audit Committee Members will receive a quarterly Treasury Management report and training will be given as required. Other Members will be invited to attend training and receive Treasury reports as outlined in these Practices.

10.5 Statement of Professional Practice (SOPP)

10.5.1 Where the Head of Finance is a member of CIPFA, there is a professional need for the Head of Finance to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.

10.5.2 Other staff involved in treasury management activities who are members of CIPFA must also comply with the SOPP.

TMP 11 USE OF EXTERNAL SERVICE PROVIDERS

11.1 Details of contracts with Service Providers, including Bankers, Brokers, Consultants & Advisers

11.1.1 Banking services:

- National Westminster Bank Plc
- Contract commenced June 2008 to run for 5 years.

Treasury Management Practice Schedules 2011/12

- Cost of core service - £35,000 p.a.
- Payments due on an ongoing basis throughout the year

11.1.2 Money-broking services:

The following money market brokers services are utilised for day to day transactions as and when required.

- Garban Intercapital plc
- Martin Brokers (UK) plc
- Prebon Marshall Yamane (UK) Limited
- Tradition UK Limited

11.1.3 Treasury Consultant services:

- Sterling Consultancy Services
- Contract commenced 1st May 2010 for 3 years with the option to extend for a further 2 years.
- Cost of service - £8,800 plus VAT per annum
- Payments due quarterly

11.2 Procedures and frequency for tendering services

11.2.1 See TMP2 Performance Measurement section (2.2.1) for full details of services tendered. The process must comply with the Council's Contract Procedure rules.

TMP 12 CORPORATE GOVERNANCE

12.1 List of documents to be made available for public inspection

12.1.1 Treasury Management Policy & Strategy Statement

12.1.2 Treasury Management Mid Year Report

12.1.3 Treasury Management Annual Out-turn Report

APPENDIX A

Definition of Ratings

Fitch Short Term

- **F1+** - Best quality grade, indicating exceptionally strong capacity of obligor to meet its financial commitment
- **F1** - Best quality grade, indicating strong capacity of obligor to meet its financial commitment
- **F2** - Good quality grade with satisfactory capacity of obligor to meet its financial commitment

Fitch Long Term

- **AAA** -Highest credit quality. Rating denotes the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for payment of financial commitments. The capacity is highly unlikely to be adversely affected by foreseeable events.
- **AA** - Very high credit quality. Rating denotes expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
- **A** - High credit quality. Rating denotes expectation of low credit risk. The capacity for payment of financial commitments is considered strong. The capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
- **BBB** - Good quality rating. 'BBB' ratings indicate that there are currently expectations of low credit risk. The capacity for payment of financial commitments is considered adequate but adverse changes in circumstances and economic conditions are more likely to impair this capacity. This is the lowest investment grade category.

The modifiers "+" & "-" may be appended to any of the ratings above to denote a relative status within major categories.

Moody's Short Term

- **P1** Issuers have a superior ability to repay short-term debt obligations
- **P2** Issuers have a strong ability to repay short-term debt obligations

Treasury Management Practice Schedules 2011/12

Moody's Long Term

- **Aaa** - Judged to be one of the highest quality, with minimal credit risk
- **Aa** - Judged to be of high quality and are subject to very low credit risk
- **A** - Considered upper-medium grade and are subject to low credit risk
- **Baa** - Offers adequate credit quality. However, certain protective elements may be lacking or may be characteristically unreliable over any great length of time.

Moody's appends numerical modifiers 1, 2 and 3 to each rating classification. 1 indicates that the obligation ranks in the higher end of its category, 2 mid-range and 3 a ranking in the lower end of that category.

Standard & Poors Short Term

- **A-1** - A short-term obligation rated 'A-1' is rated in the highest category by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.
- **A-2** - A short-term obligation rated 'A-2' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.

Standard & Poors Long Term

- **AAA** - An obligor rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.
- **AA** - An obligor rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.
- **A** - An obligor rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.
- **BBB** - An obligor rated 'BBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

Plus (+) or minus (-) The ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories

Flintshire County Council

Investments as at 31st December 2010 - by maturity date

Counterparty Name	Amount £m	Start Date	Maturity	Interest Rate	Interest Earned during investment period	Period to Maturity	£m
LANDSBANKI ISLANDS	1.2	22-Jul-08	17-Oct-08	5.82%	16,646.79	Not Returned	Iceland
LANDSBANKI ISLANDS	1.5	1-Sep-08	14-Nov-08	5.70%	17,334.25	Not Returned	Iceland
LANDSBANKI ISLANDS	1.0	8-Sep-08	18-Nov-08	5.67%	11,029.32	Not Returned	Iceland
NATIONAL COUNTIES BUILDING SOCIETY	2.0	6-Oct-10	14-Jan-11	0.65%	3,561.64	1 month or less	
PROGRESSIVE BUILDING SOCIETY	1.0	1-Oct-10	18-Jan-11	0.80%	2,389.04	1 month or less	
LEEDS BUILDING SOCIETY	2.0	8-Oct-10	18-Jan-11	0.64%	3,576.99	1 month or less	
OVERSEA-CHINESE BANKING CORPORATION	0.7	11-Oct-10	18-Jan-11	0.53%	1,006.27	1 month or less	
CUMBERLAND BUILDING SOCIETY	1.0	15-Oct-10	18-Jan-11	0.55%	1,431.51	1 month or less	
COVENTRY BUILDING SOCIETY	2.0	3-Nov-10	28-Jan-11	0.68%	3,204.38	1 month or less	
COVENTRY BUILDING SOCIETY	1.8	3-Nov-10	28-Jan-11	0.68%	2,883.95	1 month or less	
SCHROEDERS & CO	0.5	3-Nov-10	28-Jan-11	0.50%	589.04	1 month or less	
NATIONAL WESTMINSTER BANK	0.9	1-Apr-10	31-Jan-11	0.85%	6,392.47	1 month or less	
NATIONAL WESTMINSTER BANK	5.1	1-Sep-10	31-Jan-11	0.80%	16,990.68	1 month or less	
NATIONAL WESTMINSTER BANK	1.0	3-Sep-10	31-Jan-11	0.80%	3,287.67	1 month or less	
SVENSKA HANDELSBANKEN	1.1	22-Oct-10	31-Jan-11	0.75%	2,282.88	1 month or less	
SVENSKA HANDELSBANKEN	1.0	25-Oct-10	31-Jan-11	0.75%	2,013.70	1 month or less	
SVENSKA HANDELSBANKEN	2.4	1-Nov-10	31-Jan-11	0.75%	4,487.67	1 month or less	
CLOSE BROTHERS LTD	0.5	1-Nov-10	31-Jan-11	0.75%	934.93	1 month or less	
CLOSE BROTHERS LTD	1.5	3-Nov-10	31-Jan-11	0.75%	2,743.15	1 month or less	
CLYDESDALE BANK	1.0	1-Dec-10	31-Jan-11	0.85%	1,420.55	1 month or less	
BANK OF SCOTLAND	0.7	1-Dec-10	31-Jan-11	0.75%	877.40	1 month or less	
BANK OF SCOTLAND	1.4	15-Dec-10	31-Jan-11	0.75%	1,352.05	1 month or less	
BANK OF SCOTLAND	0.5	17-Dec-10	31-Jan-11	0.75%	462.33	1 month or less	
BANK OF SCOTLAND	2.3	20-Dec-10	31-Jan-11	0.75%	1,984.93	1 month or less	
BANK OF SCOTLAND	0.7	29-Dec-10	31-Jan-11	0.75%	474.66	1 month or less	31.1
LANCASHIRE COUNTY COUNCIL	1.0	15-Nov-10	15-Feb-11	0.65%	1,638.36	1 - 2 months	
BIRMINGHAM CITY COUNCIL	1.0	3-Dec-10	18-Feb-11	0.45%	949.32	1 - 2 months	
NATIONWIDE BUILDING SOCIETY	2.0	3-Dec-10	22-Feb-11	0.60%	2,663.01	1 - 2 months	
BIRMINGHAM CITY COUNCIL	1.8	3-Dec-10	22-Feb-11	0.45%	1,797.53	1 - 2 months	
MIDLOTHIAN COUNCIL	3.0	3-Dec-10	28-Feb-11	0.50%	3,575.34	1 - 2 months	
BARCLAYS BANK	1.0	7-Dec-10	28-Feb-11	0.40%	909.59	1 - 2 months	9.8
PROGRESSIVE BUILDING SOCIETY	1.5	3-Nov-10	18-Mar-11	1.00%	5,547.95	2 - 3 months	
LEEDS BUILDING SOCIETY	3.0	3-Dec-10	18-Mar-11	0.55%	4,746.58	2 - 3 months	
NOTTINGHAM BUILDING SOCIETY	2.5	5-Oct-10	28-Mar-11	1.10%	13,109.59	2 - 3 months	
PROGRESSIVE BUILDING SOCIETY	2.5	5-Oct-10	31-Mar-11	1.15%	13,941.78	2 - 3 months	9.5
BARCLAYS BANK	2.0	15-Jun-10	17-Jun-11	1.34%	26,946.85	5 - 6 months	2.0
NOTTINGHAM BUILDING SOCIETY	1.4	19-Nov-10	16-Sep-11	1.50%	17,317.81	8 - 9 months	1.4
NATIONAL COUNTIES BUILDING SOCIETY	1.2	4-Nov-10	03-Nov-11	1.65%	19,745.75	10 - 11 months	1.2
BARCLAYS BANK	2.0	15-Jun-10	15-Jun-12	1.85%	74,101.37	12 months+	2.0
	60.7				296,349.08		60.7
Summary		Total	1 month or less	1 - 3 months	3 months +	12 months +	Iceland
	£m	%	£m	£m	£m	£m	
DEBT MANAGEMENT OFFICE (DMO)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
UK	45.0	74.1	25.9	12.5	4.6	2.0	0.0
OVERSEAS	5.2	8.6	5.2	0.0	0.0	0.0	0.0
OTHER LOCAL AUTHORITIES	6.8	11.2	0.0	6.8	0.0	0.0	0.0
ICELAND (LANDSBANKI)	3.7	6.1	0.0	0.0	0.0	0.0	3.7
	60.7		31.1	19.3	4.6	2.0	3.7
		100.0%	51.2%	31.8%	7.6%	3.3%	6.1%

Flintshire County Council

Investments as at 31st December 2010 - by bank

Counterparty Name	Amount £m	Start Date	Maturity	Interest Rate	Interest Earned during investment period	Period to Maturity	£m
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	60.7				296,349.08		60.7

ESTIMATED INTEREST FOR 2010/11 AS AT 31ST DECEMBER 2010 £497,913.88

*From the Chairman and Chief Executive of the
Association
Baroness Eaton DBE
John Ransford*

To Group Leaders and Chief Executives
All councils with exposure to Icelandic banks

6 January 2011

Dear Colleague

This briefing updates you on the latest developments relating to the Icelandic banks.

Landsbanki and Glitnir

Test-cases

Our legal team has been busy preparing for the trial of the test cases, which have been provisionally listed for 15-7 February 2011 in Landsbanki and 14-17 March in Glitnir.

They have also been working on the oral pleadings and written skeleton to be filed at court on the day of trials, and discussing the strategy for trial with counsel, our legal advisers in Iceland and the steering committee. This work has included reviewing our opponents' submissions filed in the Glitnir test cases. As no new arguments were raised in them, they do not feel we would need to respond by filing further documents or amending the submissions in the Glitnir non-test cases in light of them.

Non-test cases

Our opponents in Landsbanki had until 10 December 2010 to file their submissions in relation to Tranche 1 of the non-test cases and we expect to be given a deadline shortly for filing all of our submissions, which have been split into several tranches. Our legal team has reviewed the Tranche 1 submissions and is considering making some minor amendments to the submissions with our Icelandic legal advisers. They are nevertheless on track to complete the first drafts of all non-test case submissions by the end of January 2011.

All of the Glitnir non-test case submissions have now been filed at court and we are awaiting the opponents' submissions which will be filed in 3 tranches over the coming weeks. Copies of the final submissions filed have been sent to all Glitnir clients.

KSF

The administration of KSF continues to be on track. A fifth dividend in the amount of 8p in the pound was paid on 8 December 2010, bringing total recoveries to 53p in the pound.

Heritable

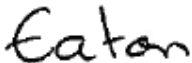
The administration of Heritable is also on track. The administrators intend to declare a sixth dividend in January 2011 although they have not yet indicated the amount.

Support for local authorities

CLG issued formal capitalisation directions on 17 December 2010 which benefitted a number of authorities with Icelandic deposits. Before these directions were issued, we urged CLG to recognise the extraordinarily challenging situation that all authorities will face following Spending Review 2010 and pressed them to take a more transparent and consistent approach in reaching their decisions this year than they did last year.

If you have any queries about any of the information in this update, please do get in touch.

Yours sincerely



Baroness Eaton DBE
Chairman



John Ransford
Chief Executive

FLINTSHIRE COUNTY COUNCIL

AGENDA ITEM NUMBER: 5

REPORT TO: **AUDIT COMMITTEE**
DATE : **31 JANUARY 2011**
REPORT BY: **CHIEF EXECUTIVE**
SUBJECT : **RISK MANAGEMENT UPDATE**

1.00 PURPOSE OF REPORT

1.01 To update Members on a number of issues on Risk Management and Business Continuity.

2.00 BACKGROUND

2.01 Quarterly Risk Management reports are reported to Audit Committee.

3.00 CONSIDERATIONS

3.01 SARC Refresh

The Council's Strategic Assessment of Risks and Challenges (SARC) document was created during 2007/08 and has provided a detailed assessment of the Council's risks and challenges and a basis for action. Over time, there has been a need to refresh the SARC to reflect changing circumstances and amendments to the risk description, title and deletions, mergers and new risks.

3.02 A Joint Scrutiny workshop was held which gave Members the opportunity to contribute to the review.

3.03 The review exercise proposed to:

- Delete eight risks which had been fully mitigated and achieved Green (Low) risk status.
- Create five risks that pose a challenge to the Council going forward.
- Merge eight risks having similar task based activities.
- Amend 32 risks to ensure the risk was captured in its entirety.
- 14 existing risks, being still current and appropriate.

3.04 Detail to reviews:

Deletions

CL02: Flintshire in Partnership
CL08: Older People Independent Sector

Date: 24/01/2011

CD09: Cemetery Provision
CD25: Direct Payments
CG01: Corporate Project Management
CG02: Performance Management/Business Planning
CG03: Strategic Policy
CG17: Health and Safety Management Strategy

Creations

CG21: Government Spending Review
CD34: Impact of Severe Winter Weather
CD35: Grant Funding
CD37: Food Waste Treatment Project
CL14: North Wales Regional Waste Treatment Partnership

Mergers

CL13: NHS Restructuring (to be included in CL07: Local Health Boards and Public & Primary Health).
CD01: Energy (to be included with CL08: Climate Change and Flood Risk Management).
CD11: Communities Facilities Stock (to be included with CG05: Asset Management).
CD18: Supporting People (to be included in CD35: Grant Funding).
CD27a: Waste Management Strategy and CD27b: Waste Management (Participation) to be amalgamated to become CD27: Waste Management Targets.
CD33: Greenfield Valley Reservoir (to be included with CL08: Climate Change and Flood Risk Management).
CG09a: Information Management Strategy (to be included with CG09b: Information, Security, Governance and Sharing and to be renamed Information Assurance).

Amended

CL08: Climate Change and Flood Risk Management
CL09: Economic Regeneration
CL10: Decline of Town Centre
CL11: Integrated and Public Transport Infrastructure
CD02: Streetscene
CD03: Transition from UDP - LDP
CD04: Planning Protocol
CD05: Highways Infrastructure
CD06: Transport Arranged for Service users
CD07: Depot Provision
CD08: Connah's Quay, Shotton & Deeside Renewal Area
CD10: Leisure - Future Provisions
CD12a: Housing Strategy

CD12b: Housing Management
CD12c: Housing Repairs and Maintenance Services
CD12d: Homelessness
CD12e: Sheltered housing
CD14: Housing Ballot
CD20: School Buildings/School Modernisation
CD22: School Effectiveness Framework and School Improvement Service
CD23: Procurement of Independent Sector Placements for Looked after Children
CD24: Social Care Recruitment & Retention of Staff
CD27: Waste Management Targets
CD27c: Waste Management (Operations)
CD27d: Waste Management (AD Waste)
CG05: Asset Management
CG08: ICT Strategy
CG09: Information Governance
CG12: County Hall Campus Management
CG18: Procurement
CG19: Business Continuity (including Winter Disruption) - change of category from Council Delivery to Council Governance
CG20: Business Performance of Semi Commercial Functions - change of category from Council Delivery to Council Governance

No change

CL03: Voluntary Sector Compact and Grants Review
CL04: Affordable Housing
CL05: Social Care for Older People
CL12: Skills Needs of Employers
CD19: Gypsies and Travellers
CD26: Disabled Grant Facilities
CG04: Risk Management
CG06: Medium Term Financial Strategy
CG07: Financial Management and Control
CG10: Human Resources and Management
CG11: Single Status and Terms and Conditions of Employment
CG13: Customer Focus
CG14: Code of Corporate Governance
CG16: Management Change, Organisation Stability and Succession Planning

- 3.05 Copies of the SARC document are on deposit in the Member's Library and are also available on the infonet.
- 3.06 The contents of the SARC and the actions to mitigate the risks will continue to be reported quarterly within the Quarterly Performance Reports by each Head of Service as is standard practice.

3.07 **Business Continuity**

Business Continuity Management (BCM) is a process that helps manage risks to the smooth running of an organisation or delivery of service, ensuring:

- continuity of "mission critical services" in the event of a disruption
- and effective and timely recovery.

The disruption could be loss of ICT, loss of building, loss of staff, or loss of key partner. Business Continuity Management is one of the Council's strategic risks.

3.08 Following the development of the Corporate Business Continuity Plan and the Mission Critical Plans a programme of testing was planned.

3.09 Practical scenarios were used for the testing. The Corporate Business Continuity Plan was tested by the Strategic Response Team and Mission Critical Service Plans were tested in further sessions.

3.10 The aim of the exercise was to highlight areas for further development and to identify lessons learnt. The scenario based exercise " Operation Phased Out" which was developed in - house to specifically target the Council's approach, gave plan owners the opportunity to identify any shortfalls or gaps in their plans.

3.11 The key issues which emerged in testing the Corporate Plan were:

- Invoking the Plan;
- Communications;
- Alternative Office Accommodation.

The key issues which emerged in testing the Mission Critical Services Business Continuity Plans were:

- Reviewing Plans regularly;
- Communications;
- Alternative Office Accommodation;
- Resources.

3.12 Actions are being undertaken to ensure that improvements are made to the Plans.

3.13 Following the recent severe weather, questionnaires have been sent to the Strategic Business Response Team for the Corporate Review and owners of the Mission Critical Services Plans for service resilience, which includes:

- The approach to winter resilience;

- Partners performance;
- Weather forecasting;
- Communications and public expectations.

3.14 This information will be shared with our Partners for comment. Any lessons learnt will be added to the plans with relevant actions.

3.15 A further update will be given at a future Audit Committee meeting.

4.00 RECOMMENDATIONS

4.01 That Members note the report.

5.00 FINANCIAL IMPLICATIONS

5.01 None as a direct result of this report.

6.00 ANTI POVERTY IMPACT

6.01 None as a direct result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None as a direct result of this report.

8.00 EQUALITIES IMPACT

8.01 None as a direct result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None as a direct result of this report.

10.00 CONSULTATION REQUIRED

10.01 Corporate Management Team, Audit Committee (process), Scrutiny Committee (detail).

11.00 CONSULTATION UNDERTAKEN

11.01 Corporate Management Team, Audit Committee, Scrutiny Committee.

12.00 APPENDICES

12.01 None

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985 BACKGROUND DOCUMENTS

Strategic Assessment of Risks and Challenges

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FLINTSHIRE COUNTY COUNCIL

AGENDA ITEM NUMBER: 7

REPORT TO: **AUDIT COMMITTEE**
DATE : **31 JANUARY 2011**
REPORT BY: **HEAD OF FINANCE**
SUBJECT : **WALES AUDIT OFFICE REPORT ON INTERNAL AUDIT**

1.00 PURPOSE OF REPORT

1.01 To inform the committee of the results of the Wales Audit Office Assessment of Internal Audit.

2.00 BACKGROUND

2.01 Wales Audit Office are required to consider whether the internal financial control arrangements for the Council are adequate. As Internal Audit is a key element of the system of internal control, they complete a formal annual assessment. This was the first such assessment after the transfer of external audit from PwC to the Wales Audit Office.

3.00 CONSIDERATIONS

3.01 The Assessment was made against the professional standards set out by the Chartered Instituts of Public Finance Accountancy Code of Practice for Internal Audit in Local Government in the United Kingdom.

3.02 The assessment found that Internal Audit are fully compliant with seven of the eleven standards and partially compliant with the other four. Eight recommendations have been made to enhance compliance.

3.03 A copy of the report is attached.

4.00 RECOMMENDATIONS

4.01 The committee is requested to accept the report.

5.00 FINANCIAL IMPLICATIONS

5.01 None.

6.00 ANTI POVERTY IMPACT

6.01 None.

7.00 ENVIRONMENTAL IMPACT

Date: 24/01/2011

7.01 None.

8.00 EQUALITIES IMPACT

8.01 None.

9.00 PERSONNEL IMPLICATIONS

9.01 None.

10.00 CONSULTATION REQUIRED

10.01 None.

11.00 CONSULTATION UNDERTAKEN

11.01 None.

12.00 APPENDICES

12.01 Assessment of Internal Audit

**LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985
BACKGROUND DOCUMENTS**

None

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WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

2009-10

September 2010

Authors: Ron Parker and Kevin Emmitt

Ref: 433A2010

Assessment of Internal Audit 2009-10

Flintshire County Council

Internal Audit has fully complied with seven of the 11 standards and partially complied with four.

Contents

Summary and Recommendations	4
Detailed Report	
Internal Audit has fully complied with five of the organisational standards and partially complied with the sixth	6
Internal Audit has fully complied with the two of the operational standards and partially complied with three	8
Appendices	
Internal Audit standards and aspects	10

Status of this report

This document has been prepared for the internal use of Flintshire County Council as part of work performed in accordance with statutory functions, the Code of Audit Practice and the Statement of Responsibilities issued by the Auditor General for Wales.

No responsibility is taken by the Wales Audit Office (the Auditor General and her staff) and, where applicable, the appointed auditor in relation to any member, director, officer or other employee in their individual capacity, or to any third party.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales (and, where applicable, her appointed auditor) is a relevant third party. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at infoofficer@wao.gov.uk.

Internal Audit has fully complied with seven of the 11 standards and partially complied with four

1. The Code of Audit Practice issued by the Auditor General and the International Standard on Auditing 610 requires us to consider whether the internal financial control arrangements of Flintshire County Council (the Council) are adequate. As Internal Audit is a key element of the system of internal control, we complete an annual assessment.
2. We have assessed Internal Audit against its professional standards as set out in the Chartered Institute of Public Finance Accountancy's (CIPFA) Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. Where these standards are met, wherever possible, we will seek to rely on their work when documenting or testing the Council's financial systems as part of our accounts audit; although any work completed by them will have to be reviewed. Further information on the individual aspects covered by each standard can be found in Appendix 1.
3. We undertook a review of seven audit files, which overall, were compliant with the standards. We did identify some areas for improvement.
4. Our assessment of each of the standards is set out in Exhibit 1.

Exhibit 1: Seven of the standards were fully met

Standard and aspects		Standard met/comment
1	Scope of Internal Audit	Partially compliant
2	Independence	Yes
3	Ethics for internal auditors	Yes
4	Audit Committee	Yes
5	Relationships	Yes
6	Staffing, training and continuous professional development	Yes
7	Audit strategy and planning	Partially compliant
8	Undertaking audit work	Partially compliant
9	Due professional care	Yes
10	Reporting	Partially compliant
11	Performance quality and effectiveness	Yes

-
5. Our detailed report sets out our findings in respect of each of the CIPFA standards. We have made eight recommendations.

Recommendations

R1	The Internal Audit Charter contains no reference to rights of access to partner organisations' records, staff and premises.
R2	The amount of consultancy work in the Audit Plan should be clearly detailed along with the type of consultancy work and in what circumstances this is carried out.
R3	The strategy should confirm how the Internal Audit service is delivered and resourced.
R4	Review of Internal Audit files identified issues around housekeeping of working papers that should be addressed.
R5	The Internal Audit Annual Report should compare the actual work undertaken with that planned.
R6	The Internal Audit Annual Report should summarise the performance of Internal Audit against the performance measures and targets that have been set.
R7	The Internal Audit Annual Report should make reference to Internal Audit's compliance with the CIPFA standards or the results of the quality assurance programme.
R8	Internal Audit and External Audit should agree a formal protocol to confirm the arrangements between both parties.

Internal Audit has fully complied with five of the organisational standards and partially complied with the sixth

The scope of Internal Audit is clearly defined but there is scope to enhance this

6. The overall scope of Internal Audit is set out in the Internal Audit Charter, and generally conforms to the requirements of the Internal Audit standards. The scope of Internal Audit work is agreed in the Internal Audit Annual Plan by the Audit Committee.
7. The Internal Audit Charter has no reference to rights of access to partner organisations' records, staff and premises.
8. The amount of consultancy work planned is difficult to identify from Internal Audit Plan. This should be clearly detailed, confirming the type of consultancy work and in what circumstances this is carried out.

R1	The Internal Audit Charter contains no reference to rights of access to partner organisations' records, staff and premises.
R2	The amount of consultancy work in the Audit Plan should be clearly detailed along with the type of consultancy work and in what circumstances this is carried out.

Internal Audit has sufficient organisational status and independence

9. The Internal Audit Charter stipulates that audit staff do not undertake any non-audit duties and that all the activities of the Internal Audit function are carried out in accordance with the Financial Regulations of the Authority.
10. All Internal Audit staff are required to complete annual declarations of interest.

Internal Audit has arrangements in place to ensure compliance with the ethical codes issued by professional institutes

11. The Internal Audit section is expected to follow the code of ethics of its own professional institution.
12. The Internal Audit Manual stipulates that Internal Audit should safeguard information they receive in carrying out their duties.

The Audit Committee makes an effective contribution to the overall process for ensuring that an effective internal control system is maintained

13. The role, responsibilities and composition of the Audit Committee are detailed in Article 7 of the Constitution.
14. The Audit Committee completes an annual self-assessment and this is submitted to the Head of Finance.
15. The Internal Audit Charter details the rights of access of the Head of Internal Audit to all members.
16. The Head of Internal Audit and one partner, from RSM Tennon, attend the Audit Committee meetings.

Internal Audit has established effective relationships with management, other auditors and other review bodies

17. Internal Audit has built positive relationships with management. A constructive relationship continues to be developed between Internal Audit and the Wales Audit Office. This could be enhanced by both Internal Audit and External Audit agreeing a formal protocol to confirm the arrangements between both parties.

R8 Internal Audit and External Audit should agree a formal protocol to confirm the arrangements between both parties.

Internal Audit is adequately staffed and resourced

18. Adequate arrangements have been established to ensure that Internal Audit is adequately staffed and that employees have the appropriate skills to fulfil their responsibilities.
19. There is access to RMS Tennon's workforce for specialist skills, such as IT audit.
20. A six-monthly appraisal process is in place and key competencies defined to identify and focus training needs.
21. All staff are required to maintain a record of training and development and adhere to their professional bodies' CPD requirements.

Internal Audit has fully complied with two of the operational standards and partially complied with three

An Audit Strategy and Annual Audit Plan are prepared and reviewed and approved by the Audit Committee

22. Internal Audit has developed a Strategy for Internal Audit Strategy, for 2009-10 to 2011-12. The Strategy details that work is carried out to meet the Internal Audit objective of providing an annual opinion to inform the Annual Governance Statement.
23. The Strategy and Annual Plan is updated by the Head of Internal Audit and certified by the Head of Finance before it is approved annually by the Audit Committee.
24. The Strategy covers overall resources to deliver the plan, but does not describe how the service is delivered, through RSM Tennon, or what the blend of staffing will be, between internal staff and RSM Tennon resources.
25. The Annual Audit Plan is included in the appendix in the Strategy, and for 2009-10, the Audit Plan was agreed at the Audit Committee on 15 April 2009.

R3 The Strategy should confirm how the Internal Audit service is delivered and resourced.

Internal Audit approach to the recording of audit work is comprehensive but some improvements were identified

26. The Internal Audit standards require all auditors to obtain and record sufficient relevant evidence to support their conclusions and to demonstrate the adequacy of evidence obtained to support professional judgements.
27. Each review has a detailed assignment planning sheet which identifies the scope, objectives, risks and resources for the review.
28. A review of seven Internal Audit files identified:
 - assignment planning sheets were not signed by the client (project sponsor) to evidence their approval of the scope of the audit and participation in planning;
 - debrief sheets were not signed off by the client; and
 - system notes were not updated (as per Internal Audit Manual, section 6.5).

R4 Review of Internal Audit files identified issues around housekeeping of working papers that should be addressed.

Internal Audit applies due professional care when performing its duties

29. Internal Audit staff are suitably qualified and have a range of guidance on conduct, from the Constitution, Code of Conduct for officers, the Internal Audit Manual and their professional bodies' code of ethics.
30. All work performed is reviewed by a senior auditor and certified by the Internal Audit Manager.

Internal Audit prepares assignment reports and an Annual Report in accordance with the requirements of the Internal Audit standards but there is scope for further improvements

31. Internal Audit reports are templates that have been designed to meet the Internal Audit standards.
32. The Annual Report provides an opinion on the governance, risk management and control in operation in the Council.
33. The Internal Audit Annual Report does not compare the work actually undertaken with the work that was planned or summarise the performance of Internal Audit against its performance measures and targets. The report does not comment on Internal Audit's compliance with the CIPFA standards or the results of the quality assurance programme.

R5	The Internal Audit Annual Report should compare the actual work undertaken with that planned.
R6	The Internal Audit Annual Report should summarise the performance of Internal Audit against the performance measures and targets that have been set.
R7	The Internal Audit Annual Report should make reference to Internal Audit's compliance with the CIPFA standards or the results of the quality assurance programme.

Internal Audit has in place quality control and review procedures

34. Performance management for staff is in accordance with the Council's six-monthly appraisal process.
35. For the Internal Audit function, quarterly performance reports are presented to the Audit Committee. Performance indicators are reported to the Audit Committee at each meeting and the majority relate to timeliness of issue of reports.
36. Arrangements for internal quality assurance are detailed in the Internal Audit Manual.

Appendix 1

Internal Audit standards and aspects

Standard and aspects	
1	Scope of Internal Audit <ul style="list-style-type: none"> • Terms of reference • Scope of work • Other work • Fraud and corruption
2	Independence <ul style="list-style-type: none"> • The principles of independence • Organisational independence • Status of the Head of Internal Audit • Independence of individual internal auditors • Independence of Internal Audit contractors • Declaration of interest
3	Ethics for internal auditors <ul style="list-style-type: none"> • Purpose • Integrity • Objectivity • Competence • Confidentiality
4	Audit Committee <ul style="list-style-type: none"> • Purpose of the Audit Committee • Internal Audit's relationship with the Audit Committee
5	Relationships <ul style="list-style-type: none"> • Principles of good relationships • Relationships with management • Relationships with other internal auditors • Relationships with external auditors • Relationships with other regulators and inspectors • Relationships with elected members
6	Staffing, training and continuing professional development <ul style="list-style-type: none"> • Staffing Internal Audit • Training and continuing professional development
7	Audit strategy and planning <ul style="list-style-type: none"> • Audit strategy • Audit planning
8	Undertaking audit work <ul style="list-style-type: none"> • Planning • Approach • Undertaking audit assignments

Standard and aspects	
9	Due professional care <ul style="list-style-type: none">• Principles of due professional care• Responsibilities of the individual auditor• Responsibilities of the Head of Internal Audit
10	Reporting <ul style="list-style-type: none">• Principles of reporting• Reporting on audit work• Follow-up audits and reporting• Annual reporting and presentation of audit opinion
11	Performance quality and effectiveness <ul style="list-style-type: none">• Principles of performance quality and effectiveness• Quality assurance and audit work• Performance and effectiveness of the audit service



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