

**Anwen Jones Solicitor/Cyfreithiwr**  
*Interim Head of Legal and Democratic Services*  
Pennaeth Dros Dro 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

U'r Ref / Ein Cyf **ST 4**

Date / Dyddiad 20/09/2011

Ask for / Gofynner am Sharon Thomas

Direct Dial / Rhif Union 01352 702324

Fax / Ffacs

Dear Sir / Madam,

A meeting of the **AUDIT COMMITTEE** will be held in the **CLWYD COMMITTEE ROOM, COUNTY HALL, MOLD** on **WEDNESDAY, 28 SEPTEMBER 2011** at **10:00** 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 meetings held on 29/06/11 and 13/07/2011 (copies enclosed).
4. STATEMENT OF ACCOUNTS 2010/11 (TO FOLLOW)
5. AUDIT OF THE 2010/11 FINANCIAL STATEMENTS - REPORTS BY WALES AUDIT OFFICE (WAO) - (TO FOLLOW)

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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. CERTIFICATION OF GRANT CLAIMS AND RETURNS 2009/10  
Report of Head of Finance enclosed
7. HOUSING AND COUNCIL TAX BENEFITS UPDATE REPORT  
Report of Head of Finance enclosed
8. TREASURY MANAGEMENT UPDATE  
Report of Head of Finance enclosed
9. BRIBERY ACT 2010  
Report of Head of Legal and Democratic Services enclosed

**MEETING OF AUDIT COMMITTEE**  
**29 JUNE 2011**

Minutes of the meeting of the Audit Committee of Flintshire County Council held in County Hall, Mold on Wednesday, 29 June 2011

**PRESENT: Councillor I.B. Roberts (Chairman)**

**Councillors:** Q.R.H. Dodd, A.M. Halford and P.R. Pemberton

**SUBSTITUTE:** Councillor E.F. Evans for Councillor B. Mullin

**ALSO PRESENT:** Councillor A. Woolley

**APOLOGIES:** Councillors G.H. Bateman and M.J. Peers, the Head of Legal & Democratic Services and Mr Patrick Green of RSM Tenon Plc

**IN ATTENDANCE:**

Chief Executive (Minute 10 onwards), Head of Finance, Internal Audit Manager, Interim Revenues & Benefits Manager (Minute 7) and Committee Officer

Steve Martin and Amanda Hughes - Wales Audit Office

The Chairman introduced the Wales Audit Office representatives, in particular Amanda Hughes who was the newly appointed auditor for the Council following the departure of Kevin Emmitt.

**1. DECLARATIONS OF INTEREST**

Having previously sought advice from the Legal section, the Chairman declared a personal interest in the following:

Agenda Item 11 - Operational Audit Plan and Recommendation Tracking  
Agenda Item 12 - Final Reports and Performance Indicators

**2. MINUTES**

The minutes of the meeting of the Committee held on 24 March 2011 were submitted.

**Accuracy**

**Minute 59 - Matters Arising from Previous Minutes (A D Waste)**

Councillor Q.R.H. Dodd proposed an amendment to the minute to reflect his request that the monthly information on leavers be automatically sent to Overview & Scrutiny Chairs and Executive Members.

## **Matters Arising**

### **Minute 59 - Matters Arising from Previous Minutes (Risk Management)**

The Chairman raised a question submitted by Councillor G.H. Bateman on gypsy/traveller encampments. Councillor Bateman had asked if the Council received any Council Tax or water costs for Riverside Park and Dollar Park for 2009/10 and 2010/11 and if so, whether this amount was credited to the rent arrears account.

The Head of Finance agreed to contact Councillor Bateman directly as the level of detail requested would need to be raised with the Head of Housing. Following queries raised by Councillor Bateman at the previous meeting, the Head of Finance had written to Audit Committee Members explaining that the site at Riverside Park was under the Council's ownership whereas the Dollar Park site was not. Occupants of both sites were liable for Council Tax but this was not linked to the Council's housing stock.

Councillor P.R. Pemberton highlighted a further site in Gwern Lane, Shordley and questioned how 'official' traveller status was confirmed. The Head of Finance explained that Councillor Bateman's question had arisen as a result of a report on Risk Management, however any in-depth discussion would need to be made via either Overview & Scrutiny or Planning Enforcement.

Councillor Dodd thanked the Head of Finance for ensuring that responses were provided for all outstanding questions raised at Audit Committee.

### **Minute 60 - Management of Internal Audit**

Councillor A.M. Halford commented on the process for appointing the external auditors and queried why there had been some urgency in 2009 for this to be resolved whereas it was now being undertaken in a controlled manner.

The Head of Finance explained that a report had previously been brought to the Audit Committee with a recommendation to move away from existing arrangements. The three year contract with RSM Tenon (formerly Bentley Jennison) had been extended for a further two years until the end of March 2011. A report had been received in September 2010 indicating the approach of the end of that extension period, advising that tender arrangements needed to be put in place with a further report received on the selection process. PricewaterhouseCoopers and RSM Tenon Plc made submissions in response to the tender process with the latter appointed on a two year contract with effect from 1 April 2011, with the option for an extension of a further year.

## **RESOLVED:**

That subject to the above the minutes be received, approved and signed by the Chairman as a correct record.

### **3. REGULATORY PROGRAMME**

The Head of Finance introduced the report to present the proposed Regulatory Programme for Performance Audit Plan of the Wales Audit Office (WAO) for the period April 2011 to March 2012, the 2010/11 Financial Audit Outline for Flintshire County Council and the 2010/11 Financial Outline for the Clwyd Pension Fund.

Whilst Councillor Halford acknowledged the importance of the documents, she asked if future reports could be shortened and also asked how priorities were drawn up (page 37). Mr S. Martin commented on the nature of the documents, adding that future reports on the Regulatory Plan for Performance Audit could be reduced as there would be less local detail than previously, however he noted the request. He went on to explain that stakeholders were consulted on suggestions for programmes and following discussion with the Welsh Government a shortlist was produced. The Auditor General was able to add or replace items in the programme and consultation on the next programme was in the early stages.

In response to a question from Councillor Halford about revisiting previous issues, Mr Martin confirmed that there would be some follow-up work with the remainder subsequently incorporated in the ordinary business where recommendations had been made.

Councillor Pemberton asked if the process enabled a uniform approach from all Councils in Wales and the sharing of good practice. Mr Martin said that although a more consistent approach was being applied for each Authority, it was recognised that each was different and that the WAO focussed on each Council's objectives and drew the main conclusions from those. Attempts would be made to identify good practice which could be shared via the Good Practice Exchange on the WAO website.

Ms. A. Hughes presented the reports on the Financial Audit Outlines for both the Council and the Clwyd Pension Fund and drew attention to Exhibit 1 on each report which set out the key areas where the WAO had identified potential risks for material misstatements. She explained that some risks were generic to all Local Authorities and some specific to the Council or Clwyd Pension Fund.

Councillor Halford referred to the de-consolidation of A D Waste which had been identified as one of the key audit risks for the Council. Ms Hughes said that in the process of the audit of the 2010/11 accounts, the WAO would be looking at whether the assets and liability of the company had been consolidated into the Council in an appropriate way from an accounting point of view. In response to further questions from Councillor Halford, Ms Hughes was aware of Members' interest in the issue but did not have sufficient background knowledge to give any view.

#### **RESOLVED:**

That the proposed Regulatory Programme for Performance Audit Plan of the Wales Audit Office (WAO) for the period April 2011 to March 2012, the 2010/11

Financial Audit Outline for Flintshire County Council and the 2010/11 Financial Outline for the Clwyd Pension Fund be accepted.

#### **4. WALES AUDIT OFFICE REPORT ON INTERNAL AUDIT**

Ms Hughes from Wales Audit Office (WAO) introduced the report to inform the Committee of the results of the Wales Audit Office Assessment of Internal Audit.

This was an annual assessment of Internal Audit's compliance with the Chartered Institute of Public Finance Accountancy (CIPFA) Code of Practice standards and it was confirmed that the recommendations arising from the 2009/10 review had been addressed. Ms Hughes confirmed the view taken by WAO that for 2010/11 Internal Audit had complied fully with nine of the standards and partially complied with two, resulting in two recommendations. The first required the Internal Audit manual to be brought up-to-date and the second recommended that standard reports brought to Audit Committee should be made smarter and more pertinent.

Councillor Dodd congratulated the Internal Audit Manager and his team that no significant non-compliances had been identified and Councillor Pemberton welcomed the two recommendations, in particular that reports should contain clear and concise information. The Internal Audit Manager said that Audit Committee Members would be consulted on the format and content of standard reports in a workshop-type forum to be held prior to the meeting in September 2011.

The Head of Finance pointed out that a report on the WAO assessment had been brought to the Committee in January 2011 where it had been agreed that she would need to report any update on the Action Plan to avoid a conflict of interest for the Internal Audit Manager. That action had since been superseded by the current WAO report.

#### **RESOLVED:**

That the report be accepted.

#### **5. PROTOCOL BETWEEN WALES AUDIT OFFICE AND INTERNAL AUDIT**

The Internal Audit Manager presented the report on the new Protocol between Internal Audit and the Wales Audit Office (WAO). The joint Protocol outlined the joint working arrangements and had been produced and agreed by both parties.

Ms Hughes spoke of the constructive working relationship built up between the WAO and the Internal Audit Manager and his team and that the Protocol sought to provide a useful framework for that.

Councillor Halford commented on indemnity arrangements for Members and allocation of public money. Ms Hughes explained that WAO work included looking at the appropriate legality of spending and that as part of 2010/11 audit

work would also be interested in the need to provide for future costs. However, the work would not extend beyond that unless there were specific issues.

**RESOLVED:**

That the Protocol be accepted as the basis for future co-operation between the external and internal auditors.

**6. INTERNAL AUDIT CHARTER**

The Internal Audit Manager presented the report to outline to Members the updated Internal Audit Charter which defined the roles and responsibilities of Internal Audit within the Council and formed part of the Council's Constitution.

**RESOLVED:**

That the updated Internal Audit Charter be approved.

**7. UPDATE ON THE 2008/09 OVERPAYMENT REPORT AND THE 2009/10 AUDIT OF THE HOUSING AND COUNCIL TAX BENEFIT SUBSIDY CLAIM AND THE IMPROVEMENT ACTION PLAN**

The Head of Finance introduced Sally Grieve, the Interim Revenues & Benefits Manager who presented the report to update Members on progress relating to matters arising from the 2008/09 Overpayment Report and the 2009/10 audit of the Benefit Subsidy Claim report. She went on to explain the management course of action to improve the standard of the Benefit Service and to maximise income to the Council through subsidy payments.

It was reported that a significant amount of work had been undertaken since the previous report considered in March. The misclassification of overpayments had resulted in an overpayment of subsidy of £235,024 which had been agreed with Wales Audit Office (WAO) and the impact of this had been reflected in the accounts. It had previously been thought that failure to secure rent officer determinations would result in a projected loss of subsidy of £397,000 however following extensive work with the co-operation of rent officers, this had been reduced to around £40,000 but was still subject to finalisation. As stated at the March meeting, a letter of mitigation had been sent to the Department of Work & Pensions (DWP) which had been accepted and which had resulted in the much lower figure.

The DWP Performance Development Team had been working with the Council's officers to carry out a review and corrective actions on procedural matters had proved helpful and had been put in place on a daily basis. A detailed Action Plan would be received at Audit Committee in September. Work had started on the 2011/12 Subsidy Claim with regular monitoring in place and improved systems to speed up processing times.

Councillor Halford asked how technical support provided by the software supplier differed from that used by other Councils. She also queried plans to stop

the rollout of Voice Risk Analysis (VRA) technology following a change of view by the DWP. The Interim Revenue & Benefits Manager explained that there were four main suppliers of this type of software to Local Authorities and that they all fulfilled the function. Flintshire had taken part in VRA pilot testing and collated information on its effectiveness, however the DWP had since refused to give special dispensation to verify claims using the technology. Whilst the DWP had not instructed the Council not to use the technology, officers could no longer support verifying claims by the use of VRA as it could jeopardise the level of subsidy to be received. Councillor Halford asked if there was any charge for work undertaken by the DWP and it was explained that an administrative subsidy was given, based on the number of claims processed.

Councillor Pemberton commented on the need for employees to be trained in the use of software and for actions to be carried out to prevent any reoccurrence of this situation. The Interim Revenues & Benefits Manager felt that the situation was improving and that officers would be contacting customers to help improve accuracy and processing times. As the problem relating to the subsidy had been identified partway through the year, it was difficult to predict any further problems at this stage, however the measures referred to had been put in place to improve accuracy of processing and any issues arising could be dealt with.

Councillor Pemberton referred to the effect on staff morale. It was acknowledged that it had been a difficult time for all but the work of the DWP Performance Development Team had involved staff in what was a positive exercise and this process would be ongoing for the next few months.

### **RESOLVED:**

That the report be noted and that a further progress report be made to the next Audit Committee which will include the action plan and progress on the audit of the 2010/11 Subsidy Claim.

## **8. FURTHER INFORMATION ON THE USE OF CONSULTANTS**

The Internal Audit Manager presented the report to provide additional information on the use of consultants requested at the last Audit Committee meeting.

An explanation was provided on the background to the item which had been initiated by a Member request. At the Committee's meeting in March, a report had indicated a total of 152 consultants used by the Council during the first half of 2009/10 at a cost of over £1.25m, however it had been stressed that this figure was unlikely to be accurate due to coding errors. On Members' request, the figures had since been analysed for that period to provide a summary for each Directorate including spend, indicating that 85 consultants had been used at a total cost of £926,290.

Members queried the consultancy costs for the North Wales Regional Waste Partnership (NWRWP). The Head of Finance explained that this related to specialist technical advice on a collaborative procurement exercise of significant



size. As Flintshire was the lead Authority on the project, it was likely that a percentage of these consultancy costs would be recharged to the other four Council partners, however she would seek clarification.

Councillor Dodd commented on the sharing of other costs relating to the NWRWP and felt that the information on consultancy costs would be a useful ongoing process for the Committee, suggesting that a six monthly update could be received.

Councillor Halford thanked the Internal Audit Manager for the work carried out and asked about the authorisation process for employing consultants. The Internal Audit Manager explained that this depended on the individual project. The report in March had highlighted issues of control on the engagement and monitoring of consultancy work. In response to a query on consultancy costs for Finance, the Head of Finance replied that the consultants were used for specialist services, e.g. specialist advice on tax issues and that it was more cost effective to obtain the advice needed rather than employing a member of staff to do this. The report in March had identified the need to tighten up procedures around consultants and a number of recommendations had been made for action by the Heads of Finance, Human Resources & Organisational Development and Procurement. The Head of Finance was due to meet with the Head of Procurement the following week to discuss some of those actions and timescales. Some of the recommendations had already been addressed and were included in the Recommendation Tracking item (page 151).

Councillor Pemberton raised concerns about consultancy fees and the effect on budgeting. He asked if it was felt that consultants were being used too freely rather than using in-house expertise. The Head of Finance commented on the set of recommendations to help control the use of consultants and said that some consultancy work was planned and built into budgets, such as specialist consultancy services in Finance which were required year after year. However, there may be a need for some departments to engage consultants for situations unplanned at the start of the year and in these cases the additional cost would need to be managed with budget or a business case made for the allocation of additional budget.

Following the suggestion made by Councillor Dodd, Councillor E.F. Evans proposed that an update report on consultants be brought back to the Committee in six months' time and this was agreed.

**RESOLVED:**

- (a) That the results of the analysis of the use of consultants during the first half of 2010/11 be noted;
- (b) That the Head of Finance clarify whether consultancy costs relating to the NWRWP would be shared amongst the Council's partners; and
- (c) That an update report on the use of consultants be received at the Audit Committee meeting in December 2011.

## **9. INTERNAL AUDIT ANNUAL REPORT**

The Internal Audit Manager presented the report on the outcome of all audit work carried out during 2010/11 and to give an opinion on the standard of risk management, governance and internal control within the Council.

Councillor Halford sought information on the 3 fundamental and 25 significant recommendations for Legal & Democratic Services, the 2 fundamental and 38 significant recommendations for Community Services and the 4 fundamental and 69 significant recommendations for Environment. In relation to the Environment Directorate, she was surprised at the number of recommendations in view of the spend on consultants discussed under the previous agenda item. The Internal Audit Manager said that there may be no link to the use of consultants but he would respond to the Committee by letter on the issues resulting in these recommendations.

Councillor Evans pointed out errors on the pie charts and the table on other Internal Work on pages 111 and 112.

### **RESOLVED:**

- (a) That the report be noted; and
- (b) That the Internal Audit Manager undertake an analysis of the issues raised on the three Directorates and provide a written response to Members of the Committee.

## **10. OPERATIONAL AUDIT PLAN AND RECOMMENDATION TRACKING**

The Internal Audit Manager presented the report to advise of progress against the revised operational plan for 2010/11 and the operational plan for 2011/12. The report included a copy of the Plans, a summary of the changes from the original Plan including amendments reported to previous Audit Committee meetings and current recommendation tracking since the previous Audit Committee meeting.

The Chairman raised a question submitted by Councillor Bateman on the date of the A D Waste audit as this had been deferred twice. The Internal Audit Manager explained that this had been included in the original Audit Plan for 2010/11 but deferred in December 2010 due to the delayed timing of the A D Waste transfer. It had not been included in the current year's Audit Plan as it would form part of work by the Wales Audit Office Plan, as referred to earlier in the meeting.

On page 145/146 Councillor Bateman had asked why there was no contracts register and sought further details on the three works contracts and two supplier services contracts. The Internal Audit Manager said that Councillor Bateman had been referring to the original audit findings and that page 144 indicated a recommendation to set up a contracts register for larger projects

exceeding the European Union threshold. The management response shown on the same page advised that the register was being updated and circulated. There was no significance to the five contracts listed, as these had merely been selected as sample contracts to be tested on the way they had been set up.

A further question had been received from Councillor Bateman on page 197 asking why a sample of only ten employees had been taken to show approval of holiday entitlement when a larger sample could provide a more accurate result. The Internal Audit Manager explained that in fact a larger sample had been taken covering various areas of the Council and that the small sample taken for employees at Theatr Clwyd was the only area where there had been issues.

Councillor Halford remarked on the size of the report and referred to the 18 significant recommendations on Section 106 Agreements indicated on page 135, as she was aware of a review being undertaken by the Head of Planning. She also referred to non-compliance in the use of consultants (page 151) which linked with earlier discussion on this topic and asked about the monitoring process. The Internal Audit Manager agreed to provide the Committee with further information on Section 106 Agreements and the detail behind unmet affordable housing schemes which was also requested by Councillor Halford. On use of consultants, the report included a recommendation for changes to Contract Procedure Rules on the engagement of consultants which was being acted upon. The Head of Finance would follow up some actions with the Head of Procurement, as explained earlier in the meeting, however some actions may take longer to implement, such as work to be undertaken by the Welsh Local Government Association (WLGA) facilitated national working group. Progress on all actions would be tracked by Internal Audit and reported back to this Committee.

On page 154, Councillor Dodd commented on the recommendation for a specific definition of consultants as he felt that this should already have been agreed. The Internal Audit Manager said that this problem had arisen during his initial work to analyse the use of consultants for 2009/10 and that the four suggested definitions listed in the report had been used to produce that information. As indicated in the report, these definitions had now been formally adopted.

In response to a query from Councillor Dodd on blue badges (page 127), it was explained that a forthcoming audit would be looking at the administration and any potential abuse of the scheme.

**RESOLVED:**

- (a) That the report be noted; and
- (b) That the Internal Audit Manager seek further explanation on the 18 recommendations on Section 106 Agreements and the detail behind unmet affordable housing needs and provide a written response to Members of the Committee.

## 11. FINAL REPORTS AND PERFORMANCE INDICATORS

The Internal Audit Manager presented a report to advise of final reports issued since the last Audit Committee meeting, including performance of Directorates and Internal Audit for responses against targets.

The report contained a list of reports finalised since the last meeting together with a summary of findings and action plans for those reviews which had received little or limited assurance. The Internal Audit Manager referred to the report on the overall function of Communities First (page 315) and explained that such projects were funded by the Welsh Government via the Council. Each Communities First partnership had their own board and the role of Internal Audit was advisory. It was explained that a single telephone number was now in operation for the Streetscene service (page 319) and the remaining recommendations were being dealt with as the service developed. On Appendix B to the report, the Internal Audit Manager was satisfied with the explanations on where deadlines had not been met and said that three of the four outstanding reports listed in Appendix C had now been received.

Councillor Dodd would await the outcome of recommendations for Streetscene as he had concerns about some aspects of the service. He referred to the outstanding report on fleet management and asked if the delayed response of 82 days was justified. By way of background, the Internal Audit Manager explained that due to people using their own vehicles for Council business, a recommendation had been put in place about potential liability for the Council. This had since been raised at Corporate Management Team to consider the way forward and a final report had been completed.

Councillor Pemberton referred to discussions at a previous meeting on vehicle tracking following allegations of misuse of time. The Internal Audit Manager was aware that vehicle tracking was in use and should be monitored by area managers, however Internal Audit had not undertaken any work on this. The Head of Finance said that if Members had any specific concerns on operational matters, these should be raised with the Head of Service at the relevant Overview & Scrutiny Committee. If there was evidence of any lack of control then Internal Audit would be required to look into this.

The Chairman asked if CMT could be informed of Members' concerns on fleet management and the Chief Executive said that this had already been discussed at CMT and resolved. Members raised further concerns about the effectiveness of monitoring over the use of Council vehicles and the length of breaks taken by some users. The Chief Executive said that vehicle tracking was still relatively new to the Council and that a considerable amount of work was being undertaken with other regional Councils on fleet management. He suggested that a report be brought back to the Committee on the use of tracking equipment and urged Members not to generalise but if they had specific concerns these should be reported to Internal Audit for investigation.

**RESOLVED:**

- (a) That the report be noted; and
- (b) That a report on the Authority's use of vehicle tracking systems be received at a future meeting of the Audit Committee.

**12. INVESTIGATIONS PROGRESS REPORT**

The Internal Audit Manager presented a report to outline ongoing proactive counter fraud work and reactive investigative work.

Paragraph 3.02 of the report gave details of completed investigations including the alleged misuse of a Council vehicle which had been confirmed by evidence from the use of the vehicle tracking system, referred to under the previous agenda item.

**RESOLVED:**

That the report be noted.

**13. AUDIT COMMITTEE SELF-ASSESSMENT - RESULTS**

The Internal Audit Manager introduced a report on the results of the Audit Committee self-assessment which fed into the preparation for the Annual Governance Statement to form the basis for further development of the Committee. He highlighted the responses in the section on Internal Control and suggested that a workshop/training session be convened to meet the requirements of Audit Committee Members.

In response to a question from Councillor Dodd on an assessment of the responses made, the Internal Audit Manager said that some of the responses from Members highlighted a need for further training. The suggested workshop could be held prior to the Committee's meeting in September to also include consideration of the format of future standard reports to Audit Committee. Councillor Dodd suggested it may be better to postpone the training session until after 2012 election, but it was felt that Members would benefit from the training this year.

It was noted that as the questionnaire had been compiled by the Chartered Institute of Public Finance & Accountancy (CIPFA), some of the questions did not relate to Flintshire and the Chief Executive suggested that it may be helpful to Members if these particular questions were marked accordingly.

**RESOLVED:**

- (a) That the results of the self-assessment questionnaires be noted; and

- (b) That the Internal Audit Manager arrange a training session for Audit Committee Members to include consideration of the future format of standard reports prior to the next meeting.

**14. DURATION OF MEETING**

The meeting commenced at 10.00am and finished at 12.25pm.

**15. ATTENDANCE BY MEMBERS OF THE PRESS AND PUBLIC**

There were no members of the press or public present.

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**Chairman**

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

<b>AUDIT COMMITTEE</b>	<b>DATE: 29 JUNE 2011</b>
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<b>MEMBER</b>	<b>ITEM</b>	<b>MIN. NO. REFERS</b>
<b>Cllr Ian Roberts</b>	<b>11 - Operational Audit Plan &amp; Recommendation Tracking</b>	<b>10</b>
<b>Cllr Ian Roberts</b>	<b>12 - Final Reports and Performance Indicators</b>	<b>11</b>

**SPECIAL MEETING OF AUDIT COMMITTEE**  
**13 JULY 2011**

Minutes of the special meeting of the Audit Committee of Flintshire County Council held in County Hall, Mold on Wednesday, 13 July 2011

**PRESENT: Councillor I.B. Roberts (Chairman)**

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

**ALSO PRESENT:** Councillor A. Woolley

**APOLOGIES:** Councillor A.M. Halford, the Chief Executive and Head of Legal & Democratic Services

**IN ATTENDANCE:**

Head of Finance, Internal Audit Manager, Interim Corporate Finance Manager, Clwyd Pension Fund Manager, Head of Corporate & Capital Accounting (Minute 17) and Committee Officer

Amanda Hughes - Wales Audit Office

The Head of Finance welcomed the Finance officers who were present at the meeting and thanked them for the significant amount of work undertaken on both reports to be considered.

**16. DECLARATIONS OF INTEREST**

The Chairman declared a personal interest in the following:

Agenda Item 3 - Statement of Accounts 2010/11

**17. STATEMENT OF ACCOUNTS 2010/11**

The Interim Corporate Finance Manager presented a report on the Statement of Accounts 2010/11 (subject to audit) which was for Members' information only at this stage. He delivered a presentation which detailed the main points:

- Purpose and Background
- What is the Statement of Accounts?
- Responsibility for the Statement
- Timeline
- What can be found where
- 'Headlines' for Council Fund, Housing Revenue Account and Capital
- Annual Governance Statement
- What next?



It was explained that the accounts had been 'on deposit' from 6 June to 3 July 2011 where they had been available for inspection by members of the public. Following consideration of the draft accounts at this meeting, a number of drop-in sessions would be arranged for early September 2011 giving Members the opportunity to clarify any issues. The Statement of Accounts would then be brought back to Audit Committee in September seeking a recommendation to County Council.

The Head of Finance stressed that this was the start of the process and that Members were invited to put forward any questions, however a separate response may be required for any queries requiring in-depth explanation.

Queries previously submitted by Councillor A.M. Halford sought clarification on the valuation of A D Waste (pages 3, 63 and 65) and questioned why payment had been made when the company was already owned by the Council. The Head of Finance explained that there had been no cash transaction in terms of the purchase and that detailed guidance had been provided by Eversheds and KPMG on the inter-company loan transfer. The assets of A D Waste had been brought into the Council and now appeared on the balance sheet. Page 63 of the report under 'Property Plant and Equipment' showed £4,385M as the figure for acquiring the company and page 65 showed £146K under 'Investment Properties and Agricultural Estate' which totalled £4.531M, as shown on page 3 under 'Assets Acquired and Liabilities Incurred'. The next step was to move into the liquidation phase of A D Waste where the inter-company loan would cancel out, therefore there had been no cash transaction, only assets transferred. In response to the second question, the Head of Finance said that the A D Waste Directors had a responsibility to maximise the position of the company even though this was owned by the Council. Equally, the Head of Finance and accountancy team had a duty to maximise the Council's position and this was the most tax efficient way of doing this.

On the acquisition of A D Waste purchase shown on page 65, Councillor M.J. Peers asked for an explanation on 'Investment Properties and Agricultural Estate' as the building was no longer there. He also asked if the £1.025M deferred liability for A D Waste shown (page 73) was now the Council's liability. The Head of Finance agreed to respond separately on the first question. The Interim Corporate Finance Manager said that the £1.025M liability was also included in the statements for 2009/10 and related to the liability for future environmental aftercare of landfill sites, due to the responsibility being transferred prior to the transfer of A D Waste. However, monies for this had been set aside for the upkeep of the landfill site by A D Waste. The Head of Finance added that the costs of acquiring A D Waste's assets were split between different headings on pages 63 and 65 due to accountancy classification and that any cash assets in the company following liquidation would transfer to the Council.

Councillor P.R. Pemberton felt that the Member drop-in sessions would be useful but suggested that an alternative title be used. On the subject of A D Waste, he was dissatisfied at the manner in which the wholly owned subsidiary company had been closed down, particularly in view of the £440,000 costs to do this. Referring to the Head of Finance's comments on looking after the interests of

the Council, he felt that this should have also included satisfying the shareholders. He felt that the 'acquisition of A D Waste purchase' in the report was misleading as this was the closing down of the company.

The Chair said that the drop-in sessions were an opportunity for Members to ask officers more detailed questions and suggested that these be called 'Member consultation sessions'. The Head of Finance said that Members would be able to turn up on the day of the sessions with their questions but that if specific information was required on a particular topic, giving advance notice would allow the relevant officers to be able to attend and provide a full response. The aim of the sessions was to enable Members and officers to have a joint understanding so that Members could feel confident enough to recommend the accounts to Council. The Interim Corporate Finance Manager agreed that the reference to purchasing A D Waste could be confusing but that the wording had been provided following legal advice.

Councillor G.H. Bateman sought clarification on the increase in unsupported (prudential) borrowing from £409,000 in 2010 to £757,000 in 2011 and the decrease in capital grants and contributions (page 3). The Interim Corporate Finance Manager said that due to the current economic climate, an increase in prudential borrowing was expected to continue and that he would provide a written response on capital grants. The Head of Corporate & Capital Accounting said that changes to capital grants were dependent on what schemes were in the Capital Programme, as some may be funded by specific grants. This was likely to vary year on year but depended on the availability of that external funding. The Head of Finance said that detail would have been provided in previous budget monitoring reports throughout the year and this was the way in which the Capital Programme was managed. However, it was not the Council's strategy to increase borrowing and the Medium Term Financial Plan would be brought to Members in the Autumn.

Councillor Bateman queried the total shown on the movement in reserves statement (page 31). The Head of Finance would discuss this separately with Councillor Bateman and said that the Council Fund and Housing Revenue Account movement on reserves was dependent on the in-year position and the effect of other spending, however some reserves had been set aside for a specific purpose.

Further queries were raised by Councillor Bateman on the reduction in Housing Revenue Account gross expenditure to £26,079 in 2011 (page 33) and the increased value of Council dwellings under non-current assets (page 34). The first query related to the valuation of properties and it was explained that significant impairment charges had been incurred in 2009/10 but that no equivalent charge was made in the current financial year. A similar situation also applied to Education & Children's Services shown on the same page. The information on Council dwellings was based on a valuation carried out by the Council's valuers and this would continue to be reviewed. A small percentage of properties had been valued in this financial year resulting in a significant reduction in any potential impairment, which impacted on the figures shown.

An explanation on Councillor Bateman's query on 'borrowing repayable on demand or within 12 months' under current liabilities (page 34) was provided under Note 31 shown on page 71.

Councillor Peers questioned the reduction in Council Tax income indicated on page 2 in comparison with the analysis on page 52. It was explained that the former figure represented income from Council properties whilst the latter figure included the Community Council and Police Authority precept elements. Councillor Peers suggested it may be helpful to clarify this within the report.

Under Borrowing Facilities (page 3), Councillor Peers asked if the principal outstanding remaining figure should be £173.744M as indicated on page 71 and this was confirmed by the officers. On the Annual Governance Statement, he referred to the requirement for improved procedures to achieve sufficient levels of affordable housing (page 28) and spoke of negotiations between officers in Planning and Housing on the terms of the Affordable Housing Policy, suggesting that this be considered by the Audit Committee. The Internal Audit Manager pointed out that the topics listed on page 28 had already been the subject of Audit reports following the identification of risks and that the report on affordable housing had been received by the Audit Committee in March 2011. Following further concerns raised by Councillor Peers on variations in the implementation of the policy, the Internal Audit Manager agreed to prepare a report on this.

Councillor Peers asked if the decreased value in 'other land and buildings' (page 34) under Property, Plant and Equipment was a trend which was likely to continue and he also commented on the increase relating to short-term creditors under current liabilities (page 34). On officers' remuneration details (page 57/58), he asked for clarification on the two individuals who, along with the Chief Executive, fell within the £140,000-144,999 band. He noted that the operating lease rentals paid (page 60) appeared to be static and asked if there were any proposals to increase this. On the provision of a joint community equipment service (page 62), he noted that the figures indicated Flintshire's contribution to be higher than expected, given the partnership arrangement. On the increase in rent arrears (page 88), he asked if the Authority could do anything to help tenants pay their rent. A separate written response would be made for these queries.

Under the terms of delegation of Clwyd Theatr Cymru (page 79), it was reported that the Council would be responsible for any outstanding deficits and/or net closure costs in the event of the theatre's demise and Councillor Peers raised concerns given the theatre's current operating surplus. The Head of Finance advised that a report on Clwyd Theatr Cymru was due to be considered at Executive in July 2011 to seek approval for capital investment to commission a study into the development of the theatre to increase income generation. The Chairman felt that the report on the governance arrangements of Clwyd Theatr Cymru should be received at County Council and said that Flintshire was the only Authority in Wales to subsidise a public theatre. The Head of Finance explained that the difference was that this was a producing theatre whereas others only had touring companies. Whilst the theatre was kept separate, it was owned by the Council who had responsibility for its assets and liabilities.

Councillor Pemberton suggested that the layout of the Statement of Accounts could be simplified and would discuss this separately with officers. He referred to the revaluation of assets (page 4), asking if a higher percentage than 10% of the total assets could be revalued each year and also asked if the Authority was due any VAT payments. He commented on the total amount of rent arrears, which he thought to be around £1.12M although there was no reference to this in the document, and raised concerns that employees may be diverted from work on collecting arrears to carry out other tasks. He also commented on the net gains of £323,000 for the disposal of non-current assets (page 33) asking if these were for items under £10,000 and was advised that a separate written response would be given.

On the revaluation of assets, the Interim Corporate Finance Manager said that the Council was committed to revaluing all of its assets over a five year period and that 10% had been undertaken in 2010/11. This meant that the remaining 90% needed to be reviewed over the following four years. In relation to VAT, he referred to the taxation shown in the list of short term debtors (page 69). The Head of Finance agreed to respond separately on the total figure for rent arrears and confirmed that it was a priority of the Council to pursue rent arrears to deal with the backlog. She reported on work undertaken by the Head of Housing on the collection of rent arrears which was being carried out by a dedicated income support team. In response to a further question from Councillor Pemberton on the officers' remuneration details, it was confirmed that the tables shown on pages 57 and 58 were both correct but that the first page included interim appointments and consultants.

On page 69, Councillor Bateman sought clarification on 'miscellaneous' items and the reason for increased costs for fleet fuel (Queensferry) under Inventories, and asked for an explanation on 'Government departments' under the list of short term debtors. It was explained that miscellaneous referred to stock that was not already listed, however a fuller written response would be made on this and the query on fleet fuel costs. As regards Government departments, the Head of Corporate & Capital Accounting confirmed that the recorded value related to the value of Government grants due to be received at year end; they would remain as debtors until paid.

The Head of Finance agreed to provide written notification to Members of the consultation sessions to be held in September 2011 and would also respond in writing on those questions not answered at this meeting.

**RESOLVED:**

- (a) That the draft Annual Statement of Accounts 2010/11 (including the Annual Governance Statement), together with the underlying policies, be noted;
- (b) That the planned provision of drop-in sessions over the summer period be noted;
- (c) That the Head of Finance respond separately in writing to the Committee on the outstanding queries; and

- (d) That the Internal Audit Manager prepare a report on the implementation of the Affordable Housing Policy.

## **18. TREASURY MANAGEMENT UPDATE**

The Clwyd Pension Fund Manager introduced a report to provide an update on matters relating to the Council's Treasury Management Policy, Strategy and Practices 2010/11 and 2011/12 to the end of June 2011.

Attention was drawn to Appendix 1 to the report which detailed the Treasury Management reporting schedule to Audit Committee, Executive and County Council. The Chairman said that all Council Members had been invited to attend the Treasury Management training sessions in January 2011 which demonstrated that the Audit Committee had been as inclusive as possible.

The Committee was requested to review the draft Treasury Management Annual Report 2010/11 which compared outcomes and performance against the Policy Statement from March 2010. A summary of the findings were outlined in paragraph 3.04 of the report, with paragraph 3.05 detailing the main points on the Council's investments. An update on the Landsbanki investments reported that although there had been success in the District Court, the case would need to be heard at the Supreme Court in September 2011 where it was hoped a final decision would be reached.

Councillor P.R. Pemberton referred to a Member's comments made to the local press about the Council's investments and the suggestion for a leaflet giving further explanation on investments. The Chairman pointed out that the Member concerned had not taken advantage of the training offered by the Committee which would have provided an opportunity to clarify details on the Council's investments. The Head of Finance said that the suggestion of an information leaflet could be considered, however repeated attempts to engage with the Member concerned with an invitation to meet with officers and discuss the concerns had been rejected. The Chairman added that decisions to keep the Council's investments safe had previously been explained and he was disappointed in the comments made by the Member and the potential effect on officers. Other Members of the Committee shared the views of the Chairman and the Head of Finance thanked Members for their support, on behalf of officers and teams.

On page 5 of the Annual Report in relation to debt restructuring, Councillor M.J. Peers queried the selection of five loans which had been replaced by a new variable rate loan and asked if this could be applied to other loans. The Clwyd Pension Fund Manager referred to previous discussions at Audit Committee about the repayment of loans and said that a large premium was incurred for high rate loans whereas a lower premium applied to low rate loans. If more loans were switched to variable rates, this would increase the risk. Officers worked with Treasury advisers to identify the best loans that could be repaid.

On the list of the Council's investments at Appendix 3, Councillor Peers pointed out that the interest rate for Svenska Handelsbanken was lower than the majority of those listed and asked about the strategy for investing overseas, in view of the issues with Landsbanki. The Clwyd Pension Fund Manager explained that there was a limit on what could be invested overseas and that Svenska Handelsbanken was amongst the world's top 20 strongest banks along with Oversea-Chinese Banking Corporation which was another of the Authority's counterparties. In response to a further question from Councillor Peers, it was confirmed that consideration was given to both capital security and the interest rate concerned and that it was an ongoing challenge to find counterparties.

The Clwyd Pension Fund Manager said that Members of the Committee were welcome to meet with the Funds Officer to go through Treasury Management issues to help further their understanding.

Councillor Bateman thanked the Clwyd Pension Fund Manager for the report and praised the team for an excellent job. The Chairman echoed those views, adding that the officers had the full backing of the Committee.

**RESOLVED:**

That the report be noted and agreed that the Treasury Management Annual Report 2010/11 be presented to the Executive on 19 July 2011.

**19. DURATION OF MEETING**

The meeting commenced at 9.00am and finished at 10.50am.

**20. ATTENDANCE BY MEMBERS OF THE PRESS AND PUBLIC**

There were two members of the press in attendance.

.....  
**Chairman**

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

<b>AUDIT COMMITTEE</b>	<b>DATE: 13 JULY 2011</b>
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<b>MEMBER</b>	<b>ITEM</b>	<b>MIN. NO. REFERS</b>
<b>Cllr Ian Roberts</b>	<b>3 - Statement of Accounts 2010/11</b>	<b>17</b>

## **FLINTSHIRE COUNTY COUNCIL**

**AGENDA ITEM NUMBER: 6**

**REPORT TO:**      **AUDIT COMMITTEE**  
**DATE :**           **28 SEPTEMBER 2011**  
**REPORT BY:**    **HEAD OF FINANCE**  
**SUBJECT :**       **CERTIFICATION OF GRANT CLAIMS AND RETURNS 2009/10**

### **1.00 PURPOSE OF REPORT**

1.01    The purpose of the report is to inform members of the grant claim certification for the year ended 31st March 2010.

### **2.00 BACKGROUND**

2.01    The Council's external auditors, the Wales Audit Office (WAO) are required to report annually on the certification of grant claims and returns. Appendix A details the annual report for 2009/10 and WAO will be attending the meeting to present the main findings.

### **3.00 CONSIDERATIONS**

3.01    The Corporate Finance Management Team and the WAO held a meeting in August to discuss the report in detail, and where appropriate actions have been put in place to improve the quality and timing of future grant claim submissions.

3.02    To facilitate the above, the Authority and WAO have also agreed a joint working protocol for the certification of grant claims and returns, and implemented a grant claim completion checklist to ensure that future grant claim submissions are done in a consistent manner.

### **4.00 RECOMMENDATIONS**

4.01    Members note the content of the Grant Claim Certification for 2009/10.

### **5.00 FINANCIAL IMPLICATIONS**

5.01    As detailed in the audit report.

### **6.00 ANTI POVERTY IMPACT**

6.01    None

### **7.00 ENVIRONMENTAL IMPACT**

7.01    None

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Date: 20/09/2011



**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 WAO Report.

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

Grants report.

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WALES **AUDIT** OFFICE  
SWYDDFA **ARCHWILIO** CYMRU

# Certification of Grant Claims and Returns 2009-10

## **Flintshire County Council**

**Audit year:** 2009-10

**Issued:** September 2011

**Document reference:** 323A2011

# Status of report

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The team who delivered the work comprised Amanda Hughes and Melanie Williams.

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.

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# Summary report

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1. Under the Public Audit (Wales) Act 2004 the Auditor General shall, if required by a local government or other grant-receiving body, arrange to certify claims and returns.
2. At the time of drafting this report, Flintshire County Council (the Council) had submitted 32 claims/returns for 2009-10 to the Wales Audit Office for certification, with an aggregate value of over £161 million.
3. All claims/returns have been certified. A list of all claims/returns, together with a summary of the results of our testing, is in [Appendix 1](#). However, it should be noted that the Welsh Government has requested a delay in the audit of HOU03 – HRA Subsidy for 2009-10 until autumn 2011.
4. The Wales Audit Office's current certification arrangements comprise a risk-based approach. The extent of the audit work conducted is dependent upon:
  - the value of the claim;
  - an assessment of the claim preparation control environment; and
  - a conclusion on whether auditors can place reliance on it.
5. Where auditors conclude that they are able to place reliance on the control environment, reduced testing is carried out.
6. The Wales Audit Office has recently consulted on a new Grants Strategy. An extensive range of constructive and detailed responses, including one from the Council, were received. Following analysis and consideration on the responses, the following conclusions have been drawn:
  - auditors will certify schemes only when there exists a clear justification to do so;
  - the de-minimis level for the audit of a grant claim will be applied 'intelligently' and in many cases will rise from the existing £50,000 threshold;
  - substantive testing will be undertaken on all audited claims with no sole reliance on the control environment; and
  - future consideration will be given to the potential introduction of the certification of non-financial project outcomes; reporting at the individual claim, authority and strategic levels; and the development of value-added products on grant management.
7. *A Joint Working Protocol for the Certification of Grant Claims and Returns* for 2010-11 has been agreed with the Council.
8. We undertook our work with the aim of certifying individual claims and to answer the question:  
**'Does the Council have adequate arrangements in place to ensure the production of co-ordinated, timely, accurate and properly documented grant claims and returns?'**

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**9.** We have concluded that:

- The number of claims requiring qualification/amendment has increased from the previous year, showing that improvements are needed to reduce financial loss to the Council.
- While the majority of claims were submitted on a timely basis, claims were often not supported by adequate working papers.
- The Council needs to improve the timeliness of its responses to audit information requests. There were a number of common qualification issues which need to be addressed to reduce the number of qualifications in the future.

# Detailed report

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## **The number of claims requiring qualification/amendment has increased from the previous year, showing that improvements are needed to reduce financial loss to the Council**

10. We have used the number of grants amended and/or qualified as a result of audit testing as an indicator of the Council's accuracy in preparing claims.
11. Of the 32 grants certified for 2009-10, 12 were qualified (38 per cent) and eight were amended (25 per cent). In 2008-09, 9 of the 29 grants were qualified (31 per cent) and five were amended (17 per cent). Overall, in 2009-10, 44 per cent of grants were subject to either qualification and/or amendment (note 6 claims were both qualified and amended) which clearly raises concerns about the accuracy of preparation.
12. The net effect of the amendments made following audit was to decrease the amount of grant payable to the Council by £407,531. However, in addition, where we have qualified the grant, further reductions in grants payable may be made, once the grant-paying body has considered our findings in respect of the qualification made. Further detail on which claims were amended and/or qualified, including the reasons, is included in [Appendix 1](#).
13. We recommend that grant officers undertake a formal follow-up review of qualification and amendment matters prior to the compilation of the grant claims for 2010-11. This will ensure the reasons for amendments and qualifications in 2009-10 have been addressed and thereby reduce the likelihood of recurrence in 2010-11 and subsequent years. We also noted that four grants amended or qualified in 2009-10 were also amended or qualified in 2008-09; details of the grants affected are given in [Appendix 1](#).

## **While the majority of claims were submitted on a timely basis, claims were often not supported by adequate working papers**

14. During 2009-10, 28 out of 32 (88 per cent) grants were received by the submission deadline. However, only 18 out of 32 (56 per cent) grants were certified by the required deadline.
15. While grants were submitted for audit on time, they were not always supported by adequate working papers. This resulted in delays to either the commencement or the timely progression of the audit.
16. Additionally, in a number of cases, the Council had not made appropriate arrangements to ensure that working papers were made available during periods of absence by the responsible grant officer. This prevented us from commencing our audit work.

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17. We would therefore encourage the Council to ensure that a complete set of working papers are made available on submission of the grant for audit and that these working papers are available even if the responsible grant officer is away. This would help prevent delays to our audit work.
  18. To assist the Council we have requested that a *Grant Completion Checklist* (attached in [Appendix 3](#)) is submitted with the claims in future years as an aid to preparing the working papers which accompany grants. The checklist is part of the *Joint Working Protocol for Grants*, which has been agreed with the Council for the 2010-11 year.
  19. In accordance with the protocol, we recommend that all grant officers complete the *Grant Completion Checklist* for 2010-11 grants onwards. We also recommend that completed grant claims and accompanying working papers are reviewed by the grant officer's line manager prior to submission to further strengthen the overall grant arrangements.
  20. These measures should improve the quantity and quality of documentary evidence in order for us to undertake a more informed risk assessment of the claim control environment. This in turn may reduce the level of substantive audit testing and will ultimately reduce the time required of the grants officers and other Council staff in responding to audit queries and requests for further information.

## **The Council needs to improve the timeliness of its responses to audit information requests**

21. During 2009-10, we have certified 14 claims/returns after the deadline (or agreed an extension) prescribed by the paying body as follows:
  - BEN01 Housing Benefit
  - EDU14 Better Schools Fund
  - LA01 National Non Domestic Rates Return
  - RG01 Communities First (eight claims)
  - RG73 Physical Regeneration Fund
  - SOC28 Promoting Independence and Wellbeing
  - TRA25 Capital Road Maintenance Fund
22. There were specific reasons for the late certification of the Communities First claims and the Physical Regeneration Fund claim. However, late certification of the remainder could have been avoided with improvements to internal procedures.
23. Our audit identified instances where the claim preparer did not have involvement in the day-to-day operation of the grant. Therefore, we were directed to additional Council officers to gather working papers and answer audit queries. This caused delays in the audit process as we waited for information to allow us to complete our work.

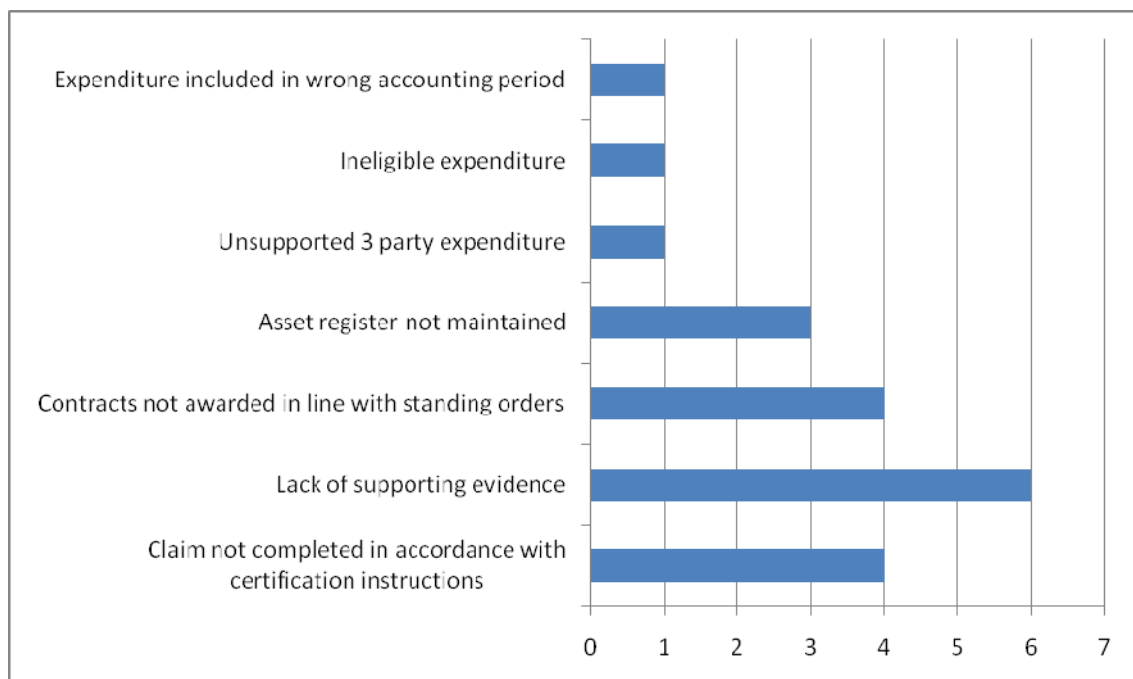


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24. We recommend that the appointed grant officer should act as the first point of contact for all audit queries. The grant co-ordinator needs to work with the grant officers to ensure that relevant staff are aware of the need to provide evidence and explanations to auditors on a timely basis. The successful implementation of these recommendations will reduce the audit time required to complete our work and will have a positive impact on the level of fees charged.

## There were a number of common qualification issues which need to be addressed to reduce the number of qualifications in the future

25. **Exhibit 1** analyses the reasons for the qualified grants in 2009-10. A number of the grants qualified had more than one qualification issue which applied and therefore appear more than once in **Exhibit 1**.

### Exhibit 1: Analysis of the reasons grant claims resulted in auditor reports



- 
- 26.** The main four reasons for qualification were:
- lack of supporting evidence;
  - claim not completed in accordance with Certification Instructions (CIs);
  - contracts not awarded in line with standing orders; and
  - asset register not maintained.
- 27.** Lack of evidence to support the expenditure on grant claims was the main reason for qualification in 2009-10. This was the case for six claims:
- RG02 Communities First (four claims)
  - HLG13 Joint Working Special Grant
  - LG01 National Non Domestic Rates Return
- 28.** To prevent this being an issue in future years we recommend that detailed evidence is retained to support each transaction.
- 29.** For four grants the claim was not completed in line with the grant instructions. The grants affected were:
- BEN01 Housing Benefit – this grant is subject to a detailed separate report which was presented to audit committee on 24 March 2011;
  - EDU14 Better Schools Fund;
  - HLG13 Joint Working Special Grant; and
  - TRA15 Transport Grant.
- 30.** The Council should ensure that all grant officers are fully aware of the grant conditions imposed by the grant-paying body and that these are adhered to in all cases.
- 31.** The Council has in place standing orders in relation to the awarding of capital contracts. These standing orders apply to all capital contracts awarded including those funded by grant funding. During 2009-10, four claims over three grant streams had contracts which were not awarded in line with standing orders. The following grants were affected:
- TRA15 Transport Grant
  - TRA25 Capital Road Maintenance Fund
  - RG02 Communities First (two claims)
- 32.** The Council should remind grant officers that all capital contracts, regardless of the funding streams, need to be awarded in accordance with standing orders.
- 33.** The asset register was not properly maintained, particularly in relation to disposals, for three Communities First grants. The officers responsible for Communities First grants should be reminded of the importance of maintaining the asset register.

- 
- 34.** In addition, on the Promoting Independence and Wellbeing grant, the following three qualification issues applied:
- unsupported third-party expenditure;
  - ineligible expenditure; and
  - expenditure included in the wrong accounting period.
- 35.** This claim was also qualified in 2008-09 for problems with unsupported third-party expenditure.
- 36.** The need to qualify grants increases the audit time required, which leads to an increase in the audit fee levied on the Council. It also leads to a higher audit risk assessment in the subsequent year, which in turn may increase the amount of substantive testing required.
- 37.** As noted in [paragraph 12](#), qualification of a claim may also result in a financial penalty to the Council if the grant-paying body elects to claw back funds as a result.
- 38.** We, therefore, wish to emphasise the importance of following up reasons for amendments or qualifications to grants to allow the Council to improve its arrangements in subsequent years.

# Appendix 1

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## 2009-10 claims and returns certified to date (as at 1 June 2011)

### Objectives

The objective of our grant certification work is to reach a conclusion, after carrying out the tests specified in the CIs and obtaining such evidence and explanations as we consider necessary, as to whether each claim is fairly stated and in accordance with the relevant terms and conditions.

Where there are matters which affect such conclusions then we are required to draw them to the attention of the grant-awarding body in a qualification letter.

CI	Claim or return	Amount claimable £000	Submission deadline	Date received	Rec'd on time (Y/N)	Audit deadline	Date claim certified	Cert'd on time (Y/N)	Amended/qualified (A/Q)	Correction £+/-	Reason for amended/qualified claim/return
BEN01	Housing and Council Tax Benefits	41,019,702	31/05/2010	27/05/2010	Y	30/11/2010	15/03/2011	N	A + Q	-£208,143	Variety of reasons for the amendment and qualification. Subject to separate report taken to audit committee on 24/3/11. This claim was also qualified in 2008-09.
CIV41	Safer Communities Fund	207,982	30/09/2010	12/08/2010	Y	31/12/2010	16/09/2010	Y	N/A	£0	

CI	Claim or return	Amount claimable £000	Submission deadline	Date received	Rec'd on time (Y/N)	Audit deadline	Date claim certified	Cert'd on time (Y/N)	Amended/qualified (A/Q)	Correction £+/-	Reason for amended/qualified claim/return
EDU14	Better Schools Fund	1,110,538	31/07/2010	14/07/2010	Y	31/10/2010	19/11/2010	N	Q	£0	Expenditure not in line with grant conditions. This issue was resolved directly with the grant-paying body, following certification.
EDU17	School Building Improvement Grant (Formula)	1,298,000	23/07/2010	11/06/2010	Y	22/10/2010	20/10/2010	Y	N/A	£0	
EDU17	School Building Improvement Grant (£9 million)	418,248	23/07/2010	11/06/2010	Y	22/10/2010	20/10/2010	Y	N/A	£0	
EDU43	Learning Pathways non-ESF	950,855	30/09/2010	17/06/2010	Y	31/12/2010	07/12/2010	Y	N/A	£0	
EYC01	Flying Start	1,130,882	30/09/2010	16/09/2010	Y	31/12/2010	07/12/2010	Y	N/A	£0	

CI	Claim or return	Amount claimable £000	Submission deadline	Date received	Rec'd on time (Y/N)	Audit deadline	Date claim certified	Cert'd on time (Y/N)	Amended/qualified (A/Q)	Correction £+/-	Reason for amended/qualified claim/return
EYC14	Cymorth	2,079,442	30/09/2010	16/09/2010	Y	31/12/2010	07/12/2010	Y	N/A	£0	
HC02	Substance Misuse Action Plan Fund	695,690	30/09/2010	6/10/2010 (but original posted to Ewloe 6/9/10 and lost in post)	Y	31/12/2010	23/12/2010	Y	N/A	£0	
HC03	Mental Handicap and Illness Strategy resettlement and disabilities	1,620,241	31/08/2010	12/08/2010	Y	31/12/2010	16/09/2010	Y	N/A	£0	
HLG13	Joint Working Special Grant	413,830	30/09/2010	27/09/2010	Y	31/12/2010	22/12/2010	Y	Q	£0	Expenditure not in line with grant conditions and lack of supporting documentation for a transaction of £100.38. This claim was also qualified in 2008-09.

CI	Claim or return	Amount claimable £000	Submission deadline	Date received	Rec'd on time (Y/N)	Audit deadline	Date claim certified	Cert'd on time (Y/N)	Amended/qualified (A/Q)	Correction £+/-	Reason for amended/qualified claim/return
HOU03	HRA Subsidy		30/09/2010	Delayed by the Welsh Government	N/A	31/12/2010	Delayed by Welsh Government	N/A	N/A	N/a	
LA01	National Non Domestic Rates Return	45,986,531	29/05/2010	20/05/2010	Y	15/09/2010	17/09/2010	N	A + Q	£-68,108	Lack of supporting evidence caused by a system problem. This issue was resolved after certification following work with the software supplier.
LA12	Sustainable Waste Management	2,815,067	30/09/2010	13/09/2010	Y	31/12/2010	22/12/2010	Y	N/A	£0	
LD02	Land Drainage Scheme – Afonwen	1,358,989	Not Prescribed	23/08/2010	Y	Within 18 or 24 months of project completion	07/12/2010	Y	N/A	£0	



CI	Claim or return	Amount claimable £000	Submission deadline	Date received	Rec'd on time (Y/N)	Audit deadline	Date claim certified	Cert'd on time (Y/N)	Amended/qualified (A/Q)	Correction £+/-	Reason for amended/qualified claim/return
LD02	Land Drainage Scheme – Gadlys Lane, Bagillt	629,337	Not Prescribed	23/08/2010	Y	Within 18 or 24 months of project completion	22/12/2010	Y	N/A	£0	
PEN05	Teachers Pension Return	51,476,654	30/06/2010	30/06/2010	Y	30/11/2010	22/11/2010	Y	A	-£5,372	Calculation error
RG02	Communities First – Castle Ward Core	132,918	31/07/2010	28/07/2010	Y	31/10/2010	09/05/2011	N	A + Q	-£18,709 (The Welsh Government has confirmed that £18,660.08 of the above amendment can be claimed on the 2010-11 grant claim which will be subject to audit this year.)	Contracts not awarded in line with standing orders and lack of supporting evidence for petty cash and expenditure items.

CI	Claim or return	Amount claimable £000	Submission deadline	Date received	Rec'd on time (Y/N)	Audit deadline	Date claim certified	Cert'd on time (Y/N)	Amended/qualified (A/Q)	Correction £+/-	Reason for amended/qualified claim/return
RG02	Communities First – Castle Ward Non-core	18,384	31/07/2010	28/07/2010	Y	31/10/2010	09/05/2011	N	N/A	£0	
RG02	Communities First – Bryn Gwalia Core	107,938	31/07/2010	28/07/2010	Y	31/10/2010	09/05/2011	N	Q	£0	Contracts not awarded in line with standing orders and asset register not properly maintained in relation to disposals.
RG02	Communities First – Bryn Gwalia Non-Core	24,384	31/07/2010	28/07/2010	Y	31/10/2010	09/05/2011	N	N/A	£0	

CI	Claim or return	Amount claimable £000	Submission deadline	Date received	Rec'd on time (Y/N)	Audit deadline	Date claim certified	Cert'd on time (Y/N)	Amended/qualified (A/Q)	Correction £+/-	Reason for amended/qualified claim/return
RG02	Communities First – Higher Shotton	128,747	31/07/2010	28/07/2010	Y	31/10/2010	09/05/2011	N	A + Q	-£2871 (The Welsh Government have confirmed that £2,695.89 of the above amendment can be claimed on the 2010-11 grant claim which will be subject to audit this year.)	Lack of supporting evidence for petty cash and expenditure items and the asset register not properly maintained in relation to disposals.

CI	Claim or return	Amount claimable £000	Submission deadline	Date received	Rec'd on time (Y/N)	Audit deadline	Date claim certified	Cert'd on time (Y/N)	Amended/qualified (A/Q)	Correction £+/-	Reason for amended/qualified claim/return
RG02	Communities First – Hollywell	165,593	31/07/2010	28/07/2010	Y	31/10/2010	09/05/2011	N	A + Q	-£256	Lack of supporting evidence for petty cash and expenditure items and the asset register not properly maintained in relation to disposals.
RG02	Communities First – Rural North	161,048	31/07/2010	28/07/2010	Y	31/10/2010	09/05/2011	N	Q	£0	Lack of supporting evidence for petty cash payments.
RG02	Communities First – Central Team	81,826	31/07/2010	28/07/2010	Y	31/10/2010	09/05/2011	N	A	-£1410	Expenditure included in the wrong year.
RG73	Physical regeneration fund	7,276	31/07/2010	19/08/2010	N	30/11/2010	27/01/2011	N	N/A	£0	

CI	Claim or return	Amount claimable £000	Submission deadline	Date received	Rec'd on time (Y/N)	Audit deadline	Date claim certified	Cert'd on time (Y/N)	Amended/qualified (A/Q)	Correction £+/-	Reason for amended/qualified claim/return
SOC07	Social care workforce development programme	411,326	03/09/2010	27/08/2010	Y	29/01/2011	16/09/2010	Y	N/A	£0	
SOC09	Social services performance management development fund	239,167	30/09/2010	27/09/2010	Y	29/01/2011	27/01/2011	Y	N/A	£0	
SOC27	Community Equipment	519,372	30/09/2010	15/10/2010	N	31/12/2010	22/12/2010	Y	N/A	£0	

CI	Claim or return	Amount claimable £000	Submission deadline	Date received	Rec'd on time (Y/N)	Audit deadline	Date claim certified	Cert'd on time (Y/N)	Amended/ qualified (A/Q)	Correction £+/-	Reason for amended/ qualified claim/return
SOC28	Promoting Independence and Wellbeing	134,709	30/09/2010	27/09/2010	Y	31/12/2010	10/01/2011	N	A + Q	-£102,662 (This was a technical adjustment which resulted in no additional loss to the Council.)	Arithmetical error on the claim form resulting in amendment. Qualification for ineligible expenditure, expenditure of £19 included in the wrong accounting period and lack of evidence to support third-party expenditure. The evidence to support third-party expenditure was obtained by the Council after the certificate date and this has been forwarded to the grant paying body. This claim was also qualified in 2008-09.

CI	Claim or return	Amount claimable £000	Submission deadline	Date received	Rec'd on time (Y/N)	Audit deadline	Date claim certified	Cert'd on time (Y/N)	Amended/qualified (A/Q)	Correction £+/-	Reason for amended/qualified claim/return
TRA15	Transport Grant	3,225,012	31/08/2010	24/08/2010	Y	30/11/2010	30/11/2010	Y	Q	£0	Contracts not awarded in line with standing orders and expenditure not in line with grant terms and conditions. This claim was also qualified in 2008-09.
TRA23	Free Concessionary Travel	1,881,540	30/09/2010	26/10/2010	N	31/12/2010	22/12/2010	Y	N/A	£0	
TRA25	Capital Road Maintenance Fund	857,493	30/09/2010	10/11/2010	N	31/12/2010	03/02/2011	N	Q	£0	Contracts not awarded in line with standing orders.

# Appendix 2

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## Joint Working Protocol

A *Joint Working Protocol* for grants has been agreed between the Council and the Wales Audit Office which is effective from 2010-11. A copy of the agreed protocol is attached.





WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU



CYNGOR  
**Sir y Fflint**  
**Flintshire**  
COUNTY COUNCIL

April 2011

Wales Audit Office and Flintshire County Council

# Joint Protocol for the Certification of Grant Claims and Returns **Flintshire County Council and the Wales Audit Office**



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### **Status of this report**

This document has been prepared solely for the use of the Wales Audit Office and Flintshire County Council in the management and audit of the Council's grant claims and returns.

## Summary

1. The management, compilation and audit of the grant claims and returns involve considerable time and effort on behalf of both officers of Flintshire County Council (the Authority) and auditors. In addition it is important both to the paying bodies and for the purposes of the Authority's accounts that all claims are properly supported, submitted and certified by the required deadlines.
2. To facilitate this, the Authority and the Wales Audit Office (WAO) have agreed a joint working protocol for the certification of grant claims and returns.
3. The joint grants protocol – as agreed by the Authority and the WAO – is shown at Appendix 1. The joint protocol covers the co-ordination of the certification process as well as key stages of the audit of individual claims / returns. It should be read in conjunction with internal protocol and procedures documents, prepared by the Authority and WAO respectively. The joint protocol may be subject to amendment during the year in respect of any changes to job titles and responsibilities following the outcome of the Finance Function Review

## Joint Grants Protocol

Area		Wales Audit Office	Flintshire County Council
<b>Co-ordination</b>			
1	Grant Co-ordinators	The WAO will establish a key audit contact to co-ordinate the grant claims / return certification process (Grants Team Leader Ron Parker)	The Authority will establish a key Authority contact to co-ordinate the grant / return certification process (the Authority's Grant Co-ordinator, Andrew Evans).
2	Corporate Grant Register	The Grants Team Leader will compile a register of grant claims / returns expected for audit based on information provided by the WAO's Central Grants Team.	The Departmental Grant Contacts (Gaynor Myers, David Ledsham, Sara Dulson and Sian H Jones) will, ultimately, be responsible for the updating of the Corporate Grant Register (CGR) with details of all claims / returns to be audited based on Authority grant take up for their service area. Responsible Finance Officers and Departmental Grant Contacts will update the CGR with the schemes in operation following grant award. The CGR will include listings of grants that have been applied for or unsuccessfully applied for and not just those that the Authority has been successful in applying for.
3	Corporate Grant Register	The Authority's Grants Co-ordinator and the Wales Audit Office Grants Team Leader will meet when the certification index for the year first becomes available to compare their respective grant database / register. Monthly checks will be made to ensure that the two registers are consistent as part of the monthly grant update meetings. Updates to be shared by email.	

Area		Wales Audit Office	Flintshire County Council
4	New claims	The Grants Team Leader will review the monthly update to the Certification Index issued by the WAO Central Grants Team to identify any amendments, such as the inclusion of new claims / returns requiring audit or changes to certification deadlines. These should be notified to the Authority's Grants Co-ordinator.	The Departmental Grants Contacts will notify the WAO Grants Team Leader of any new claims / returns that will be subject to audit. The CGR will be updated and agreed at monthly grant update meetings
5	Progress	The Grants Team Leader will prepare a progress note for discussion at the monthly progress meeting held with the Grants Co-ordinator. The progress note will provide a list of grants audited in the period concerned, the deadlines for submission and audit, together with the actual submission and audit completion dates with an accompanying narrative including details of any qualifications (if appropriate).	
<b>Administration</b>			
6	Guidance	Audits will be conducted in accordance with guidance circulated by the WAO Central Grants Team (CIA01) and follow the process set out in the WAO's Procedure for the Certification for the Grant Claims / Returns.	Grant schemes / returns will be managed in accordance with the Authority's internal procedures.
7	Provision of grant working papers	The WAO will provide training if and when requested in respect of core working paper requirements	Working papers should conform to the WAO core requirements. Appropriate training and/or guidance notes should be provided to staff, both in finance and service departments, to ensure that they are made aware of their responsibilities in this regard
8	Good Practice	The WAO have developed a Good Practice Exchange which has a module on Grants Management. Further training on Grants Management Good Practice can be provided by the WAO at request from the Authority.	
9	Submission of grants for audit	All grants received by the WAO are logged immediately on the grants receipting schedule and the original claims securely stored	Claims ready for audit should be either presented to a member of the audit team, or submitted by post to the WAO regional office in Ewloe

Area		Wales Audit Office	Flintshire County Council
<b>Grant Submission</b>			
10	Submission of grants for audit (1)		A Responsible Finance Officer will be assigned for each of the Authority's grant claims. The Responsible Finance Officers will liaise with the appropriate grants officer to ensure the preparation of grant claims and collation of supporting documentation. It is the responsibility of grant officers, upon award of grant, to notify their directorate finance team, to ensure that a responsible finance officer is assigned.
11	Submission of grants for audit (2)		The Departmental Grants Contacts will ensure that all claims / returns are signed by an appropriate officer, and claims / returns submitted for audit include original signatures and the Grant Completion Checklist, signed as being completed by the preparer and reviewer is attached submitted with the claim to the WAO.
12	Submission of grants for audit (3)		The Responsible Finance Officer for each grant will be responsible for sending the grant claim for audit, either by hand delivering it to a member of the audit team or by posting it to the WAO Ewloe office
13	Acknowledgement	<p>WAO will acknowledge receipt of a grant claim on completion of the following:</p> <p>The original grant claim / return has been sent to the WAO from the Authority's Grant Co-ordinator;</p> <p>The Grants Review form has been completed and signed by the preparer and reviewer;</p> <p>The WAO will communicate any concerns regarding compliance with this process at the commencement of the audit. This will be communicated to the Grants Co-ordinator</p>	The original grant claim / return will be accompanied by the Grant Completion Checklist that confirms that the working papers to support the claim / return are ready for collection, the name of the key contact for any queries and the availability of that key contact between the grant submission date and audit deadline.

Area		Wales Audit Office	Flintshire County Council
<b>Submission deadlines</b>			
14	Pre-audit submission deadlines (i.e., date of submission of unaudited claims to funding bodies)		The Responsible officer on behalf of the Department Grant Contact will ensure that pre-audit submission deadlines are met. Where deadlines cannot be met, the Authority will request an extension from the paying body and provide confirmation of the extension in writing to the WAO at the earliest opportunity. The Departmental Grant Contacts are responsible for monitoring this process.
15	Audit deadlines	The WAO will endeavour to meet all deadlines for certification. Where this is not achieved, the matter shall be reported to the Grants Co-ordinator and/or Head of Corporate & Capital Accounting, together with an appropriate explanation at the earliest opportunity.	Where audit submission deadlines cannot be met due to circumstances beyond the control of the WAO, the Authority will request an extension from the Paying Department and provide confirmation of the extension to the WAO in writing.
<b>Working papers</b>			
16	Provision of grant working papers	The WAO can provide copies of the latest version of the certification instructions for each of the grants upon request. The WAO will provide training if and when requested in respect of core requirements.	Working papers should be readily available to fully support all aspects of the grant claim and associated instructions. Appropriate training and / or guidance notes should be provided to staff, both in finance and service departments, to ensure that they are made aware of their responsibilities in this regard.



Area		Wales Audit Office	Flintshire County Council
<b>Claim certification</b>			
17	Application of the de-minimis threshold	The WAO will return those claims with recorded expenditure less than the de-minimis level for audit (currently £50,000 relevant to the overall scheme or in year grant claim as appropriate).	The authority will provide WAO with access to the CGR to enable the WAO Grant Team Leader to identify (for completeness) how many Grant claims below the de-minimus there were in the year.
18	Claim certification	The WAO will accept for audit only those claims / returns authorised by appropriate certifying officers.	The Grant Co-ordinator will provide the WAO with the names and sample signatures of those officers authorised to certify grant claims / returns on behalf of the Authority.
19	Emerging issues	The WAO will, at the earliest opportunity, bring to the Grant Coordinator's attention any significant issues arising from the results of the audit of any claim / return.	
20	Amendments	The WAO will agree with the Responsible Grant Officer and /or the appropriate Directorate Finance officer any amendments required to the claim prior to certification.	Where the claim requires amendment, the change will be made and 're-initialled' (or a replacement claim completed and signed) by the appropriate certifying officer, i.e. the Responsible Finance Officer unless delegated to other officers.
21	Qualifications	The WAO will agree the wording of any qualification letter with the Responsible Grant Officer and/or the appropriate Departmental Grant Contact prior to sending to the paying body. The WAO will provide the Responsible Grant Officer with copies of certified claims, along with an accompanying grant qualification report (where relevant). Details of qualifications will also be provided to the relevant Departmental Grant Contact and the overall Grant Co-ordinator.	
22	Overall Grants report	The Grants Team Leader will prepare an Overall Grant Report for the annual claims for the year. This will highlight key successes, issues, and areas for improvement. The draft report will be issued for comment to the Grants Co-ordinator. The final report will be presented to the Corporate Finance Managers Team (CFMT).	The Grants Co-ordinator will agree the content of the Year end Overall Grant Report with the relevant Finance Officers prior to presentation to the Corporate Finance Managers Team (CFMT).

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Area	Wales Audit Office	Flintshire County Council
<b>Monitoring of the grants process</b>		
23	Monthly Grant update meetings	Monthly meetings will be held between the WAO Grants Team Leader and the Council Grants Coordinator to discuss progress with the audit and the relevant action that is needed.

# Appendix 3

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## Grant Completion Checklist

The purpose of this checklist is to highlight the key areas that the Wales Audit Office will be reviewing when auditing the grant claim. The checklist also highlights the importance of the working paper file and what as a minimum should be included.

Please look at each of these areas and consider the appropriateness of it, for the particular grant in question.

There will be some grants where some of these areas will not be relevant.

By itself this checklist will not be sufficient for the more complex schemes such as Housing and Council Tax Benefits scheme, HRA Subsidy, Teachers pension and National non-domestic rates.

In the event of any uncertainty as to what is required for a particular grant, please contact your Authority Grants Coordinator – xxxxxxxxxxxxxxxxxxxxxxx on Ext xxxxx.

**Name and period of the Claim/Return:**

### DOES THE WORKING PAPER INCLUDE:

- Claim/return submitted for audit, signed and dated by the Chief Financial Officer, or an officer with delegated authority

### Copies of documentation:

- Grant application, scheme guidance and grant terms and conditions
- Grant approval for the year, including project plan/budget, and signed acceptance by the authority
- Variances to the project plan
- Virements and associated correspondence, including formal approval from the grant-paying body where required
- Remittance advices for contributions towards the project from other organisations
- Signed partnership/SLA agreements

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### Supporting evidence:

- Eligibility of third-party expenditure ie, payments monitoring system, spot checks or independently audited statements of expenditure (note: where these are outstanding, provide details of the project partners and expected date of receipt)
- Details of any contracts reflected in the claim/return which have been awarded in accordance with the authorities contract standing orders
- Details of any expenditure relating to goods or services provided in-house included within the claim, and confirmation that it is on the same basis as those charged to non-grant-earning activities
- If applicable, evidence of actions taken to address matters raised in the prior-year qualification letter issued to the paying body/any correspondence with the grant-paying body in relation to resolution of the matters
- Current internal audit reports relating to the scheme
- Prior approval from the grant-paying body where assets obtained with grant funds have been disposed

### Explanations/analysis:

- Explanations for significant variances in actual expenditure compared to budgeted/approved and prior-year expenditure
- A reconciliation of the entries shown on the claim/return to the financial ledger, supported by an extract from the financial ledger (hard copy, plus e-copy to Wales Audit Office Grants Team Leader: xxxxxxxxxxxx on Extn xxxx)
- A ledger analysis of the grant receipts from the grant-paying body to the certification date, supported by all remittance advices
- Details of any apportionments included in the claim/return, and the basis for the apportionment

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**PLEASE CONFIRM THAT:**

- Ex VAT expenditure included within the claim , is that incurred on an accruals basis
- For invoices that relate to a service straddling the year-end, prepaid expenditure is excluded from the claim
- Audit fees have been excluded from the claim (unless specifically permitted within grant T&C)
- Expenditure included in the claim has not been used to claim funding from any another grant scheme

**Grant claim and supporting working papers PREPARED by:**

**Name:**

**Job title:**

**Contact number:**

**E-mail:**

**Date:**

**ACCOUNTANT DECLARATION**

*I confirm that:*

- Pre audit checks for arithmetic accuracy, completeness and reasonableness have been undertaken
- This claim is appropriate and fit for auditing and that I am satisfied with the way the grant claim was compiled

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**Signed:**

**Contact number:**

**E Mail:**

**Date:**



WALES AUDIT OFFICE  

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## FLINTSHIRE COUNTY COUNCIL

AGENDA ITEM NUMBER: 7

**REPORT TO:**      **AUDIT COMMITTEE**  
**DATE :**            **28 SEPTEMBER 2011**  
**REPORT BY:**    **HEAD OF FINANCE**  
**SUBJECT :**        **HOUSING AND COUNCIL TAX BENEFITS UPDATE REPORT**

### **1.00 PURPOSE OF REPORT**

- 1.01 To update Members on the final outcome of the Wales Audit Office (WAO) 2009/10 Housing and Council Tax Subsidy Audit and progress made in relation to the Benefit Action plan, which was produced to deal with the issues arising from the reports to improve the standard of the Benefit Service and to maximise income to the Council through subsidy payments.
- 1.02 To advise on progress with the audit of the 2010/11 Subsidy claim.
- 1.03 To provide an update on Welfare Reform for information.

### **2.00 BACKGROUND**

- 2.01 In March 2011, we reported the outcomes of the WAO reports on Overpayments 2008/9 and 2009/10 Subsidy Audit which highlighted weaknesses in the Benefit Service. As a result of this an action plan was drawn up to drive the improvements needed to bring the service up to standard. An update was provided to the last Audit Committee and an undertaking given that there would be a further update to this meeting.

### **3.00 CONSIDERATIONS**

#### **3.01 2009/10 Benefit Subsidy Audit**

The WAO report indicated proposed reductions to the subsidy claim for 2009/10 as a result of the audit carried out.

**Misclassification of Overpayments** £235,024 - as previously reported this was agreed and adjusted in June following the testing work done by WAO

**Rent Officer Referral** £397,000 - subsidy had been claimed where the rent officer referral had lapsed. In June following further testing work by WAO this was estimated to be in the region of a £40k reduction. However all cases have now been referred to Rent Officer, where a rent officer referral was required. As a result of this exercise the figure has been reduced to £10k and has now been agreed by WAO and recommended that the Department of Works and Pensions accept this figure.

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Date: 20/09/2011



### 3.02 **Benefits Improvement Plan**

Following the WAO reports a remedial action plan was drawn up to deal with the emerging issues. To ensure that the improvement plan was as comprehensive as possible the Department of Work and Pensions Performance Development Team were engaged to carry out an independent review the service and advise on areas for improvement. During their work they have provided interim reports on areas for improvement which we have started to implement.

The Department of Work and Pensions Performance Development Team (PDT) have been working closely with the Benefit Service to give independent advice on improvements that can be made to provide a more effective and streamlined service. This review has been carried out over the last few months and where possible, improvements identified have been made immediately, in others they have been scheduled in over the coming months.

The work covered the following areas and reflects the same issues raised in the initial improvement plan which was drawn up as a result of findings raised in the Wales Audit Office reports.

- Management Information - this is being developed to inform decision making such as throughput of claims and use of outer offices. Senior Benefits Officers also visited a high performing Benefit Service to compare their working methods and management information.
- Performance Management including prioritisation of work and dealing with peaks in demand - A team leader now has responsibility for managing the work queues - and will monitor this throughout the day. All processes are being reviewed to ensure that they are as short as possible and with the aim of calculating a claim the same day if a customer can supply all of the supporting information.
- Relationship with Council Tax - ensuring that information flows between Council Tax and Benefits are as streamlined as possible. To ensure that this happens a buddying system has been introduced to action Council Tax changes at the same time as Benefit changes to save double handling of work.
- Scanning and Indexing Review - it is important that all post is scanned and indexed as efficiently as possible. The PDT team found that there were too many document types being used and this was slowing down the process. This has been reviewed and document types reduced and any delays in the process have been removed to ensure that documents are on the system at the earliest time.
- IT issues - there are some issues with our software supplier in providing management information.
- Quality Assurance and Training - improvement of accuracy of claims and speed of processing which includes staff feedback on a daily basis and target setting. Outcomes from checking are logged and analysed to identify trends in errors.

- Information gathering and verifying evidence to support claims - to speed up this process the use of Text Messaging (SMS) is being trialled.
- Customer Services and use of outer offices - ensuring that the service meets the customers needs - Customer surveys are being carried out to determine the level of satisfaction with dealing with claims.
- Overpayments - full review of overpayment systems, review of policies and procedures, target setting and reporting on collection.

### 3.03 **2010/2011 Subsidy Claim**

The audit of the subsidy claim for 2010/11 has just started and the completion deadline is 30 November 2011. The initial testing work has commenced and there are detailed arrangements in place to ensure the smooth running of the audit, managing the testing and validation of issues raised in the process. Significant time has been invested with the WAO to set up the arrangements for the 2010/11 audit.

### 3.04 **Welfare Reform**

Details on Welfare Reform are and will continue to be reported to Corporate Resources & Housing Scrutiny Committees. The following information is provided for Audit Committee to provide the wider context within which the improvements to the Benefits Service are being made.

#### **Local Housing Allowance changes - Preparation for January 2012.**

The first reforms, were introduced in April 2011, to limit the amount of benefit for privately rented accommodation with the aim of saving £215m nationally, and encouraging people to return to work. This included a minimum bedroom rate and also capped the amount payable at 30th percentile of the local rate. The lead in time for these changes allowed for a 9 month protection period to allow Local Authorities time to contact individuals to ensure that they could make adequate arrangements. In addition, the Shared Accommodation Rate age was increased to 35 which means that this will be applied on the anniversary date of the letting for those people in privately rented accommodation who are between 25 and 35.

The effect of these changes will put considerable pressure on the Discretionary Housing Payment funding which local authorities have to make up shortfalls in benefit in exceptional cases. DWP have estimated that there are 170 people in Flintshire affected by these changes with an average loss of benefit of £24 per week. This change will put additional pressure on the Discretionary Housing Payment budget.

### **Council Tax Benefit**

In the government spending review, it was announced that Council Tax Benefit would be abolished and replaced by local schemes, scheduled to be introduced from April 2013 and will be subject to a 10% reduction in the overall costs. This is currently undergoing consultation in England.

The only criteria identified so far is that eligible pensioners will see no change in their current award. In addition local authorities should consider ensuring support for vulnerable groups and support work incentives.

There are immediate difficulties identified in this approach, which are:

- Ongoing limited budgets.
- Limited lead in time to decide on the new scheme and whether to do this on a shared basis.
- Specifying and procuring the associated software to support the scheme  
Managing the additional demand for advice as a result of debt problems where there have been shortfalls in benefits.
- Pressure on the Council Tax collection fund as council tax benefit will be reduced and shortfalls will result in arrears.

### **Universal Credit**

The White paper introduced "Universal Credit: Welfare that works" in November 2010. The government are actively encouraging Local Authorities to influence the design of Universal Credit before the detailed regulations are laid. The DWP are engaging in discussions with customers of the current benefit system and Local Authorities on the choices that need to be made to develop the detailed structure and operational arrangements. The main objective is to simplify the system and reduce complexity. It is intended that new claims will be dealt with by DWP from 2013, with Local Authorities still administering existing claims as Housing Benefit until they are transferred to Universal Credit.

#### **4.00 RECOMMENDATIONS**

- 4.01 That the report be noted and a progress report be made to the next Audit Committee on the action plan and the 2010/11 Subsidy Claim.

#### **5.00 FINANCIAL IMPLICATIONS**

- 5.01 The remaining subsidy issue for 2009/10 - Referral to Rent Officer cases has now been resolved and the amount to be reclaimed by DWP is £10k subject to their agreement of the WAO recommendation. There is sufficient provision within the subsidy reserve to cover this adjustment.

**6.00 ANTI POVERTY IMPACT**

6.01 None arising directly from this report. There will be no impact on individual customers receiving Housing and Council Tax Benefit.

**7.00 ENVIRONMENTAL IMPACT**

7.01 None arising directly from this report.

**8.00 EQUALITIES IMPACT**

8.01 None arising directly from this report.

**9.00 PERSONNEL IMPLICATIONS**

9.01 None arising directly from this report.

**10.00 CONSULTATION REQUIRED**

10.01 None arising directly from this report.

**11.00 CONSULTATION UNDERTAKEN**

11.01 None arising directly from this report.

**12.00 APPENDICES**

12.01 None

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

Benefit Action Plan.

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E-Mail: sally\_grieve@flintshire.gov.uk

## **FLINTSHIRE COUNTY COUNCIL**

**AGENDA ITEM NUMBER: 8**

**REPORT TO:**      **AUDIT COMMITTEE**  
**DATE :**           **28 SEPTEMBER 2011**  
**REPORT BY:**   **HEAD OF FINANCE**  
**SUBJECT :**       **TREASURY MANAGEMENT UPDATE**

### **1.00 PURPOSE OF REPORT**

1.01 To provide an update on matters relating to the Council's Treasury Management Policy, Strategy and Practices 2011/12 to the end of August 2011.

### **2.00 BACKGROUND**

2.01 The Council has nominated the Audit Committee to be responsible for ensuring effective scrutiny of treasury management strategy and policies. The Audit Committee has previously agreed to include Treasury Management as a standing item on each quarterly agenda to receive an update.

2.02 On 1st March 2011 the Council approved the Treasury Management Policy and Strategy Statement for 2011/12, following the recommendation of the Executive and consideration by Audit Committee.

### **3.00 CONSIDERATIONS**

#### **Treasury Management Mid Year Report 2011/12**

3.01 The draft Treasury Management Mid Year Report for 2011/12 is attached as Appendix 1 for consideration. As required by Financial Procedures, this will be reported to Executive and Council with any views from the Audit Committee as a result of its deliberations.

3.02 The Mid Year Report reviews the activities and performance of the treasury management operations during the period 1st April to 31st August 2011 and compares this with the Policy Statement.

3.03 In summary, the key points of the report are:

- Confirmation that the treasury function operated within limits detailed within the Treasury Management Policy and Strategy Statement 2011/12.
- The financial environment within which the treasury function operated remained challenging.
- Performance during the period was in line with the expectations of the Policy Statement 2011/12.

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Date: 20/09/2011

### **Treasury Management Policy and Strategy Statement 2011/12**

3.04 A schedule setting out the Council's investments as at 31st August 2011 is attached as Appendix 2. Members should note the following:

- The investment balance was £69.25 million across 18 counterparties
- Credit risk increased noticeably in early September with concerns of the knock-on effect of possible Greek sovereign debt default.
- In response, the investment strategy was reassessed once again, with advice taken from Sterling, the Council's Treasury Consultants and appropriate changes made to lower credit risk where possible until stability returns to financial markets. The changes made are within the boundaries of the Policy Statement.
- During the quarter, the Council has commenced deposits with AAA Money Market Funds. As at the 31st August members will note £4,550,000 was deposited with SSGA Liquidity Fund.
- Sterling have revised their base rate forecast, with no increase in the rate forecast until the second half of 2012, with a 0.25% increase to 0.75%. The longer term projections are also lower. A comparison is included on page 2 of the Mid Year Report.

3.05 There have been no changes to the Council's long term borrowing in 2011/12.

### **Landsbanki**

3.06 The last update from the LGA was received on 8th September 2011 and is attached as Appendix 3. The Supreme Court hearing was scheduled on 14th - 15th September 2011 for test cases and it is anticipated that the result of this will be known within 4 weeks.

The Supreme Court is the highest court in Iceland which means that once its decision is delivered there will be no further right of appeal in Iceland. If the Supreme Court upholds the District Court judgement in our favour, authorities can expect to recover up to 98% of their deposits, subject to a number of complex issues on foreign exchange movements. The LGA will continue to represent authorities' interests in relation to these issues once the outcome is known.

The Council is not a test case. Submission of non test cases has been filed, but as stated in the letter, it is intended that the winding-up board of Landsbanki will apply any ruling made in the Icelandic Supreme Court.

### **4.00 RECOMMENDATIONS**

4.01 To review and discuss the draft Treasury Management Mid Year Report 2011/12 and identify any matters to be drawn to the attention of Executive on 18th October 2011.

4.02 That Members note the report.

**5.00 FINANCIAL IMPLICATIONS**

5.01 None.

**6.00 ANTI POVERTY IMPACT**

6.01 None.

**7.00 ENVIRONMENTAL IMPACT**

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 Appendix 1 - Treasury Management Mid Year Report 2011/12  
Appendix 2 - Investments as at 31st August 2011  
Appendix 3 - LGA Landsbanki Update Sept 2011

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

Treasury Management Mid Year Report 2011/12.

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# **FLINTSHIRE COUNTY COUNCIL**

*DRAFT*  
**TREASURY MANAGEMENT**

## **MID YEAR REPORT 2011/12**



## **1.00 INTRODUCTION**

- 1.01 The Council approved the Treasury Management Policy and Strategy Statement (Policy Statement) 2011/12 including key indicators, limits and an annual investment strategy, on 1<sup>st</sup> March 2011.
- 1.02 The Policy Statement was produced based on the 2009 edition of the CIPFA Treasury Management in the Public Services: Code of Practice.
- 1.03 The purpose of this report is to review the activities and performance of the treasury management operations during the period 1<sup>st</sup> April to 31<sup>st</sup> August 2011 and compare with the Policy Statement.

## **2.00 TREASURY MANAGEMENT COMPLIANCE STATEMENT 2011/12**

- 2.01 Treasury management comprises the management of the local authority's 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.
- 2.02 All treasury management activity undertaken so far during 2011/12 complied with the approved Policy and Strategy Statement 2011/12, the CIPFA Code of Practice 2009, and the relevant legislative provisions.
- 2.03 The Authority's current policy is to appoint external consultant to advise on its treasury management function. The external adviser is Sterling Consultancy Services.

## **3.00 ECONOMIC & INTEREST RATE REVIEW – APRIL TO AUGUST 2011**

- 3.01 The UK base rate remained at 0.50% throughout.
- 3.02 The table below shows that the current interest rate forecast has changed from that assumed in the Policy Statement and on which the strategy was based:

	<b>Policy Forecast</b>	<b>Current Forecast</b>
<b>Q1 2011</b>	0.5%	0.5%
<b>Q2 2011</b>	0.5%	0.5%
<b>Q3 2011</b>	0.5%	0.5%
<b>Q4 2011</b>	1.0%	0.5%
<b>H1 2012</b>	2.0%	0.5%
<b>H2 2012</b>	3.0%	0.75%
<b>H1 2013</b>	4.0%	1.25%

3.03 As shown in the table above, interest rates are now forecast to remain lower than stated in the Policy Statement 2011/12.

3.04 Economic review and outlook – April to August 2011 by Sterling Consultancy Services.

The first months of the financial year have been characterised by deteriorating expectations for global economic growth and continued concern about sovereign creditworthiness, and the potential knock-on effects for the banking system. These concerns ultimately culminated in the volatility in financial markets in August, as investors fled riskier investments for safe havens.

Many Western developed nations have initiated fiscal tightening policies to curb excessive budget deficits, forced in most cases by worried investors. Despite bailouts for Greece, Ireland and Portugal, the Eurozone sovereign debt crisis has rumbled on due to both the lack of effective leadership and credible policies to tackle the situation. Italy and Spain were forced to introduce further spending cuts to placate investors, while the interlinked banking system is under pressure on concerns about exposure to government debt and the rising regulatory burden. Confidence was further damaged by Standard and Poors downgrade of the sovereign rating for the US government, brought about by difficulties in raising the debt ceiling and the lack of a credible deficit reduction plan.

Fiscal tightening and resulting low confidence has depressed demand in many developed nations, including the UK. Meanwhile, Asian economies have been tightening monetary policy to combat rising inflation, due to increased costs for raw materials. This, in addition to the earthquake in Japan, has started to dampen demand in the region.

Although inflationary pressures have pushed the Consumer Price Index (CPI) rate well above the Bank of England's remit target, the weak outlook for UK growth, due to slowing foreign demand and subdued domestic spending, has convinced Monetary Policy Committee (MPC) members to maintain Bank Rate at 0.5%. The financial markets have pushed back the expectation for the first rise in Bank Rate to 2013, amid rising expectations of additional Quantitative Easing (QE).

#### **4.00 TREASURY MANAGEMENT ACTIVITIES DURING THE PERIOD APRIL – AUGUST 2011**

4.01 The following were the main treasury activities during the period:

- A quarterly update report including a Landsbanki update was presented to the Audit Committee on 13<sup>th</sup> July 2011. Another update is due at the meeting on 28<sup>th</sup> September.
- The maximum investments the Authority had on deposit at any one time

was £84.4 million. The average investment balance was £70.85m. The financial environment during this time continued to be challenging.

- Two longer term investments were made during May 2011 (see paragraph 6.06).
- The 3 year rolling cash flow forecast is being reviewed.
- The Council's cash flow was managed on a daily basis. The Authority acted both as a borrower and as a lender and was a net borrower over the period in question. The maximum long-term borrowing at any one time was £173.6m.
- After a change in the Policy Statement and improvements to the ratings of counterparties, several new counterparties were added to the Council's lending list. However, some counterparties have had to be removed from the list as their ratings have been downgraded.
- Three AAA rated Money Market Funds have been opened and used during August, earning an average rate of 0.65%.

## **5.00 TREASURY MANAGEMENT DEBT STRATEGY**

5.01 The total long term debt outstanding, brought forward into 2011/12 totalled £173.6m of which £144.7m was at fixed rate and £28.9m was variable in the form of LOBOs (Lender's Option, Borrower's Option) (£18.9m) and PWLB variable (£10m). The Council's overall borrowing rate was 5.43%

5.02 The Debt Strategy as stated in the Policy Statement 2011/12 and the mid-year outcomes are recorded below:

- To effect borrowing required in 2011/12 at the cheapest cost commensurate with future risk based on interest rate forecasts outlined in the strategy statement.

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. There has been no new borrowing in 2011/12.

- The Head of Finance will keep under review, along with its Treasury Consultants, the opportunities which may arise for restructuring the Council's debt in order to take advantage of potential savings as interest rates change and to enhance the balance of the long term portfolio (amend the maturity profile and/or the balance of volatility). Any actions carried out under delegated powers will be reported to the Executive and County Council as appropriate.

No restructuring opportunities have been identified during 2011/12.

- 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 with the limits stated within the strategy statement.

The debt maturity profile as at 31 August 2011 is shown on page 8. This shows a debt maturity profile in line with CIPFA's recommendations of having no more than 10% of the debt portfolio maturing in any one future year. This has remained unchanged during 2011/12.

- 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 the strategy statement.

The Council has one variable PWLB rate loan of £10 million. This is within the Council's limit of £20 million for variable interest rate exposures. The interest rate on the Council's LOBOs can be increased by the lender but the Council has the opportunity to repay. This event has not occurred in 2011/12 as market rates remain low.

## **6.00 TREASURY MANAGEMENT INVESTMENT STRATEGY**

6.01 The Council's investment strategy is:

The Council hold surplus funds which represent income received in advance of expenditure plus balances and reserves held. Both the CIPFA Code and Welsh Assembly Government (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.

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 WAG'.

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 incorporate the requirements 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 money borrowed in advance of need.

6.02 Investment transactions totalled £109.5m during the period April – August 2011 with interest earned amounting to £277k. Temporary investment income receivable for 2011/12 is currently projected to be near the budgeted level of £590k. A full list of transactions undertaken is available in the background papers. All investments were made in accordance with the Treasury Management Policy & Strategy Statement 2011/12.

6.03 The weighted average temporary investment rate obtained for August of 1.03% is higher than the seven day LIBID rate of 0.48% which is a proxy of a return without effective cash flow management.

6.04 No temporary borrowing was required during this period which is a measure of the accuracy of short term cash flow management.

6.05 The maturity of investments has been regularly reviewed with the aim of maximising returns whilst managing the risk of future interest rate movements. As at 31 August 2011, the maturity of investments is shown in the table below:

Maturity Due	Percentage of Portfolio	
	Policy %	August 2011 %
< 1month	35.0	34.0
1 – 12 months	55.0	61.0
> 12 months	10.0	0.0
Icelandic Investments	0	5.0

The two longer term investments made in May have now fallen into the 1 – 12 month bracket. This creates scope to look at investing more funds in the longer term. However, although a combination of concerns for the global economy and the Eurozone sovereign debt crisis raised longer-term interest rates for investments, these are only with counterparties perceived to be of lesser credit quality. The current credit risk environment suggests that only the most highly creditworthy counterparties should be used for longer-term investments, but these are paying low interest rates.

6.06 The Investment Strategy sets a limit of £30 million for non-specified investments. Non-specified investments are defined as investments over 364 days, including forward deals with counterparties which meet the credit rating or investments in Money Market Funds. The following long term investments have been made in

2011/12:

- £2 million invested with Bank of Scotland 445 days at 2.65%
- £2 million invested with Bank of Scotland 434 days at 2.65%

6.07 It is Council policy to minimise daily cash flow balances. However, on certain occasions it is uneconomic to deal (below £200,000) and therefore, the balance is kept in the bank account.

6.08 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, then a recommendation will be made to Executive.

### **7.00 LANDSBANKI INVESTMENTS - UPDATE**

7.01 On 7<sup>th</sup> October 2008, Landsbanki was placed in receivership. At that time Flintshire had £3.7 million of Council monies invested with the UK subsidiary. The investments were made as follows –

£1.2 million maturing 17<sup>th</sup> October 2008 (invested on 22<sup>nd</sup> July 2008)

£1.5 million maturing 14<sup>th</sup> November 2008 (invested on 1<sup>st</sup> September 2008)

£1.0 million maturing 18<sup>th</sup> November 2008 (invested on 8<sup>th</sup> September 2008)

7.02 The Audit Committee, Executive and Council will continue to be updated with the latest position as per the result of the Supreme Court hearing on 14 and 15 September.

### **8.00 PEER GROUP PERFORMANCE COMPARISON**

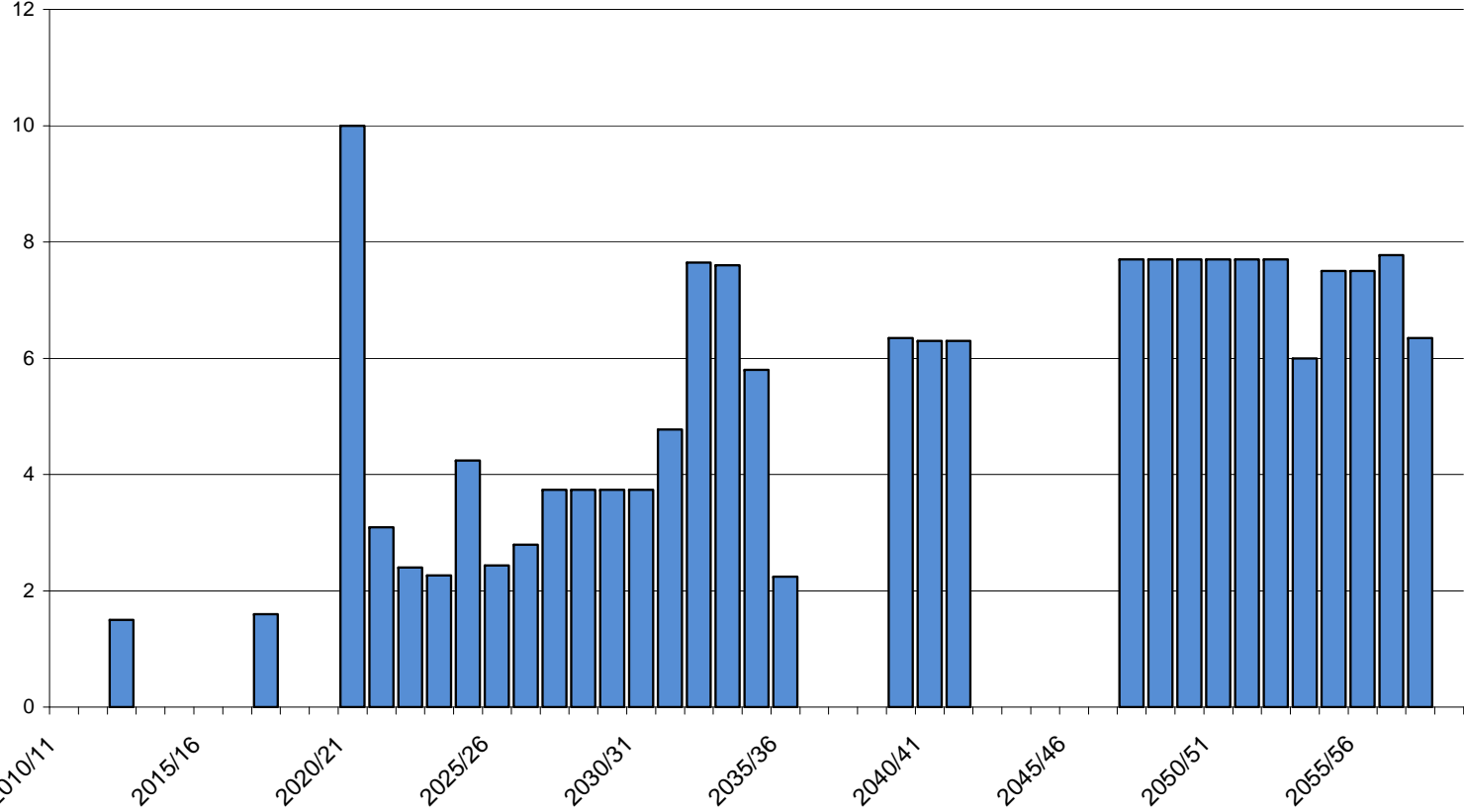
8.01 Flintshire County Council is a member of the CIPFA Treasury Management Benchmarking Club. Half yearly data will be sent to CIPFA in early October and the Benchmarking Report will be returned at the end of October. The findings will be reported to Audit Committee on 14<sup>th</sup> December 2011.

### **9.00 CONCLUSION**

9.01 The treasury management function has operated within the statutory and local limits detailed in the 2011/12 Treasury Management Policy Statement.

# Debt Maturity Profile

£m



## Flintshire County Council

## Investments as at 31st August 2011 - 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
NOTTINGHAM BUILDING SOCIETY	1.4	19-Nov-10	16-Sep-11	1.50%	17,317.81	1 month or less	
OVERSEA-CHINESE BANKING CORPORATION	1.5	1-Jun-11	16-Sep-11	0.73%	3,210.00	1 month or less	
COVENTRY BUILDING SOCIETY	2.8	3-Jun-11	16-Sep-11	0.81%	6,524.38	1 month or less	
NATIONWIDE BUILDING SOCIETY	2.1	3-Jun-11	22-Sep-11	0.79%	5,045.18	1 month or less	
LEEDS BUILDING SOCIETY	0.9	3-Jun-11	22-Sep-11	0.76%	2,080.11	1 month or less	
COVENTRY BUILDING SOCIETY	1.1	3-Jun-11	22-Sep-11	0.81%	2,709.62	1 month or less	
PROGRESSIVE BUILDING SOCIETY	0.9	6-Jun-11	28-Sep-11	0.85%	2,389.32	1 month or less	
NATIONAL COUNTIES BUILDING SOCIETY	1.0	8-Jun-11	28-Sep-11	0.95%	2,915.07	1 month or less	
SKIPTON BUILDING SOCIETY	1.6	1-Jul-11	28-Sep-11	0.80%	3,121.10	1 month or less	
BANK OF SCOTLAND	3.0	31-Mar-11	30-Sep-11	0.75%	11,280.82	1 month or less	
SKIPTON BUILDING SOCIETY	1.1	1-Jul-11	30-Sep-11	0.80%	2,193.97	1 month or less	
NATIONWIDE BUILDING SOCIETY	1.5	1-Jul-11	30-Sep-11	0.73%	2,730.00	1 month or less	18.9
SSGA GBP LIQUIDITY FUND	4.6	3-Aug-11	03-Oct-11	0.69%	5,246.84	1 - 2 months	
PROGRESSIVE BUILDING SOCIETY	2.1	31-Mar-11	14-Oct-11	1.30%	14,734.52	1 - 2 months	
NATIONWIDE BUILDING SOCIETY	1.4	1-Jul-11	18-Oct-11	0.79%	3,302.85	1 - 2 months	
SCHRODERS & CO	2.0	5-Jul-11	18-Oct-11	0.80%	4,602.74	1 - 2 months	
YORKSHIRE BUILDING SOCIETY	1.0	5-Jul-11	21-Oct-11	0.55%	1,627.40	1 - 2 months	
SKIPTON BUILDING SOCIETY	1.0	18-Jul-11	21-Oct-11	0.81%	2,108.22	1 - 2 months	
BARCLAYS BANK	2.0	21-Jul-11	21-Oct-11	0.73%	3,680.00	1 - 2 months	
BARCLAYS BANK	1.0	21-Jul-11	28-Oct-11	0.78%	2,110.19	1 - 2 months	15.1
NATIONAL COUNTIES BUILDING SOCIETY	1.2	4-Nov-10	03-Nov-11	1.65%	19,745.75	2 - 3 months	
PROGRESSIVE BUILDING SOCIETY	1.0	11-May-11	18-Nov-11	1.22%	6,384.11	2 - 3 months	
BARCLAYS BANK	2.0	3-Aug-11	18-Nov-11	0.80%	4,702.14	2 - 3 months	
CLOSE BROTHERS	2.0	3-Aug-11	22-Nov-11	0.90%	5,473.97	2 - 3 months	
SVENSKA HANDELSBANKEN	4.6	31-Mar-11	28-Nov-11	0.75%	22,873.97	2 - 3 months	
NATIONAL WESTMINSTER BANK	7.0	31-Mar-11	28-Nov-11	0.80%	37,128.77	2 - 3 months	17.8
NATIONAL COUNTIES BUILDING SOCIETY	1.5	15-Feb-11	16-Dec-11	1.60%	19,989.04	3 - 4 months	1.5
NOTTINGHAM BUILDING SOCIETY	1.1	7-Jan-11	06-Jan-12	1.75%	19,197.26	4 - 5 months	
CUMBERLAND BUILDING SOCIETY	1.0	1-Jul-11	18-Jan-12	1.17%	6,443.01	4 - 5 months	
CUMBERLAND BUILDING SOCIETY	1.5	7-Jul-11	27-Jan-12	1.08%	9,054.25	4 - 5 months	3.6
NOTTINGHAM BUILDING SOCIETY	1.7	4-May-11	17-Feb-12	1.45%	19,517.40	5 - 6 months	
CUMBERLAND BUILDING SOCIETY	1.0	5-Aug-11	28-Feb-12	1.05%	5,954.79	5 - 6 months	2.7
BARCLAYS BANK	2.0	15-Jun-10	15-Jun-12	1.85%	74,101.37	9 - 10 months	2.0
BANK OF SCOTLAND	2.0	9-May-11	27-Jul-12	2.65%	64,616.44	10 - 11 months	2.0
BANK OF SCOTLAND	2.0	20-May-11	27-Jul-12	2.65%	63,019.18	10 - 11 months	2.0
	<b>69.3</b>				<b>522,141.95</b>		<b>69.3</b>
<b>Summary</b>		<b>Total</b>	<b>1 month or less</b>	<b>1 - 3 months</b>	<b>3 months +</b>	<b>12 months +</b>	<b>Iceland</b>
	<b>£m</b>	<b>%</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	
DEBT MANAGEMENT OFFICE (DMO)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
UK	54.9	79.2	17.4	23.7	13.8	0.0	0.0
OVERSEAS	6.1	8.8	1.5	4.6	0.0	0.0	0.0
OTHER LOCAL AUTHORITIES	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ICELAND (LANDSBANKI)	3.7	5.3	0.0	0.0	0.0	0.0	3.7
MONEY MARKET FUNDS	4.6	6.7	0.0	4.6	0.0	0.0	0.0
	<b>69.3</b>		<b>18.9</b>	<b>32.9</b>	<b>13.8</b>	<b>0.0</b>	<b>3.7</b>
		100.0%	27.3%	47.5%	19.9%	0.0%	5.3%



**Flintshire County Council**

**Investments as at 31st August 2011 - by bank**

Counterparty Name	Amount £m	Start Date	Maturity	Interest Rate	Interest Earned during investment period	Period to Maturity	£m
BANK OF SCOTLAND	3.0	31-Mar-11	30-Sep-11	0.75%	11,280.82	1 month or less	
BANK OF SCOTLAND	2.0	9-May-11	27-Jul-12	2.65%	64,616.44	10 - 11 months	
BANK OF SCOTLAND	2.0	20-May-11	27-Jul-12	2.65%	63,019.18	10 - 11 months	7.0
BARCLAYS BANK	2.0	21-Jul-11	21-Oct-11	0.73%	3,680.00	1 - 2 months	
BARCLAYS BANK	1.0	21-Jul-11	28-Oct-11	0.78%	2,110.19	1 - 2 months	
BARCLAYS BANK	2.0	3-Aug-11	18-Nov-11	0.80%	4,702.14	2 - 3 months	
BARCLAYS BANK	2.0	15-Jun-10	15-Jun-12	1.85%	74,101.37	9 - 10 months	7.0
CLOSE BROTHERS	2.0	3-Aug-11	22-Nov-11	0.90%	5,473.97	2 - 3 months	2.0
COVENTRY BUILDING SOCIETY	2.8	3-Jun-11	16-Sep-11	0.81%	6,524.38	1 month or less	
COVENTRY BUILDING SOCIETY	1.1	3-Jun-11	22-Sep-11	0.81%	2,709.62	1 month or less	3.9
CUMBERLAND BUILDING SOCIETY	1.0	1-Jul-11	18-Jan-12	1.17%	6,443.01	4 - 5 months	
CUMBERLAND BUILDING SOCIETY	1.5	7-Jul-11	27-Jan-12	1.08%	9,054.25	4 - 5 months	
CUMBERLAND BUILDING SOCIETY	1.0	5-Aug-11	28-Feb-12	1.05%	5,954.79	5 - 6 months	3.5
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
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LEEDS BUILDING SOCIETY	0.9	3-Jun-11	22-Sep-11	0.76%	2,080.11	1 month or less	0.9
NATIONAL COUNTIES BUILDING SOCIETY	1.0	8-Jun-11	28-Sep-11	0.95%	2,915.07	1 month or less	
NATIONAL COUNTIES BUILDING SOCIETY	1.2	4-Nov-10	03-Nov-11	1.65%	19,745.75	2 - 3 months	
NATIONAL COUNTIES BUILDING SOCIETY	1.5	15-Feb-11	16-Dec-11	1.60%	19,989.04	3 - 4 months	3.7
NATIONAL WESTMINSTER BANK	7.0	31-Mar-11	28-Nov-11	0.80%	37,128.77	2 - 3 months	7.0
NATIONWIDE BUILDING SOCIETY	2.1	3-Jun-11	22-Sep-11	0.79%	5,045.18	1 month or less	
NATIONWIDE BUILDING SOCIETY	1.5	1-Jul-11	30-Sep-11	0.73%	2,730.00	1 month or less	
NATIONWIDE BUILDING SOCIETY	1.4	1-Jul-11	18-Oct-11	0.79%	3,302.85	1 - 2 months	5.0
NOTTINGHAM BUILDING SOCIETY	1.4	19-Nov-10	16-Sep-11	1.50%	17,317.81	1 month or less	
NOTTINGHAM BUILDING SOCIETY	1.1	7-Jan-11	06-Jan-12	1.75%	19,197.26	4 - 5 months	
NOTTINGHAM BUILDING SOCIETY	1.7	4-May-11	17-Feb-12	1.45%	19,517.40	5 - 6 months	4.2
OVERSEA-CHINESE BANKING CORPORATION	1.5	1-Jun-11	16-Sep-11	0.73%	3,210.00	1 month or less	1.5
PROGRESSIVE BUILDING SOCIETY	0.9	6-Jun-11	28-Sep-11	0.85%	2,389.32	1 month or less	
PROGRESSIVE BUILDING SOCIETY	2.1	31-Mar-11	14-Oct-11	1.30%	14,734.52	1 - 2 months	
PROGRESSIVE BUILDING SOCIETY	1.0	11-May-11	18-Nov-11	1.22%	6,384.11	2 - 3 months	4.0
SCHROEDERS & CO	2.0	5-Jul-11	18-Oct-11	0.80%	4,602.74	1 - 2 months	2.0
SKIPTON BUILDING SOCIETY	1.6	1-Jul-11	28-Sep-11	0.80%	3,121.10	1 month or less	
SKIPTON BUILDING SOCIETY	1.1	1-Jul-11	30-Sep-11	0.80%	2,193.97	1 month or less	
SKIPTON BUILDING SOCIETY	1.0	18-Jul-11	21-Oct-11	0.81%	2,108.22	1 - 2 months	3.7
SSGA GBP LIQUIDITY FUND	4.6	3-Aug-11	03-Oct-11	0.69%	5,246.84	1 - 2 months	4.6
SVENSKA HANDELSBANKEN	4.6	31-Mar-11	28-Nov-11	0.75%	22,873.97	2 - 3 months	4.6
YORKSHIRE BUILDING SOCIETY	1.0	5-Jul-11	21-Oct-11	0.55%	1,627.40	1 - 2 months	1.0
<b>69.3</b>					<b>522,141.95</b>		<b>69.3</b>

ESTIMATED INTEREST FOR 2011/12 AS AT 31ST AUGUST 2011 £660,968.84

*From the Chairman and Chief Executive of the  
Association  
Sir Merrick Cockell  
John Ransford*

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

8 September 2011

Dear Colleague

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

### **Landsbanki and Glitnir**

#### Test cases

We have been working closely with our legal team to prepare for the Supreme Court hearings, which are scheduled for 14 and 15 September 2011 in the case of Landsbanki and 26 September 2011 in the case of Glitnir. Our written submissions were filed with the Supreme Court in May, and our legal team has since been focusing on the preparation of our oral submissions, working with Counsel and the wider depositor group. This work includes reviewing the appellants' written submissions in order to be able to address the issues they raise in our oral pleadings.

Appeal hearings on the cases of the Dutch National Bank and FSCS cases will take place on 8 and 9 September 2011, and on the Dutch Local authorities' case on 20 and 21 September 2011. Our legal team will be attending the DNB and FSCS hearings so that they can track the arguments made, as their cases are materially similar to ours. We will then be in a position to consider whether we need to modify our oral submissions to address any points raised by our opponents which the DNB/FSCS were not in a position to respond to.

Stephen Jones from the LGA and Nick Vickers from Kent County Council have agreed to represent the Steering Committee at both the Landsbanki and Glitnir hearings to provide advice and clarify any questions which might arise. We have arranged for translation and transcription facilities to ensure that they and our UK legal team are able to respond to points of law and fact in "real time", and can instruct our Icelandic legal advisers accordingly during the course of the hearing. This worked very well at the District Court level. The test case authorities have also provided details of at least one key contact to our legal team who will

be available by telephone to provide instructions during the trial period. Their responsiveness during the District Court trials was very helpful.

A panel of 7 judges has been appointed to hear our cases. The Icelandic Supreme Court is obliged under the Icelandic procedural rules to hand down its judgment within four weeks of an appeal hearing. It is likely that the judgments in respect of each of the appeal case will be delivered at the same time. The Supreme Court is the highest court in Iceland which means that once its decision is delivered there will be no further right of appeal in Iceland. If the Supreme Court upholds the District Court judgment in our favour, authorities can expect to recover up to 98 per cent of their deposits in Landsbanki and 100 per cent of their deposits in Glitnir, subject to a number of complex issues on foreign exchange movements. The LGA will continue to represent member authorities' interests in relation to these issues once the outcome of the Supreme Court hearing is known.

#### Non-test cases

We anticipate that the winding-up boards of both banks will apply any ruling made by the Icelandic Supreme Court in the test case Creditors' claims to the non-test case Creditors' claims. We are in ongoing discussions with both winding up boards as to how this should best be achieved to remove the risk that other creditors can raise any objections to them doing so and to ensure that any favourable decision in the Icelandic Supreme Court is applied to the non-test cases as soon as possible.

All Glitnir and Landsbanki non-test case submissions have now been filed at Court. We have not received notice from the Icelandic District Court as to when it will be listing the non-test case submissions for hearings but understand from our legal team and the winding up boards that the Icelandic District Court, of its own volition, has stayed the non-test cases until the Icelandic Supreme Court has decided the appeals.

#### **KSF**

The administration of KSF continues to progress as expected. Recoveries currently stand at 58p in the pound and the next dividend is expected to be paid in October 2011, although the amount has not yet been declared. The forecast for overall recoveries in the case of KSF has greatly improved over time and is now estimated to be between 78 to 86p in the pound, up from about 50p in the pound in May 2009.

#### **Heritable**

An eighth interim dividend in the amount of 4.1p in the pound was paid on 13 July 2011, bringing total recoveries to over 60p in the pound. The Administrators intend to declare a ninth dividend in October 2011, but have not yet declared the amount. The forecast for recoveries has also steadily risen in the case of Heritable. The administrators report that current projections are for overall recoveries to amount to between 86 and 90p in the pound, up from a forecast of 70 to 80p in the pound in April 2009.

## Support for local authorities

We expect heightened media interest in the Icelandic banks story as the Supreme Court hearings approach and are taking place. We would again remind all authorities that it is critical that no statements are made publicly or to the press which might prejudice your authority's position or that of other depositor creditors in the context of the appeal. Authorities are asked to use the press lines in the communications package that has been distributed to all authorities as these have been developed in agreement with our legal team. If at any time you are unsure about how to respond to a press query, please contact the LGA.

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

Yours sincerely



Sir Merrick Cockell  
Chairman



John Ransford  
Chief Executive

## FLINTSHIRE COUNTY COUNCIL

AGENDA ITEM NUMBER: 9

**REPORT TO:**      **AUDIT COMMITTEE**  
**DATE :**           **28 SEPTEMBER 2011**  
**REPORT BY:**   **HEAD OF LEGAL AND DEMOCRATIC SERVICES**  
**SUBJECT :**       **BRIBERY ACT 2010**

### **1.00 PURPOSE OF REPORT**

1.01 To advise Members of the implications of the new legislation and make recommendations appropriate to the Council.

### **2.00 BACKGROUND**

2.01 The Bribery Act came into force in April 2011 and makes significant changes to the law on bribery, bringing in a comprehensive scheme of bribery offences. The Act aims to:

- provide a more effective legal framework to combat bribery in the public or private sectors
- replace the fragmented and complex offences at common law and in the Prevention of Corruption Acts 1889-1916
- create two general offences covering the offering, promising or giving of an advantage, and requesting, agreeing to receive or accepting of an advantage
- create an offence of bribery of a foreign public official
- create a new offence of failure by a commercial organisation to prevent a bribe being paid (it will be a defence if the organisation has adequate procedures in place to prevent bribery)
- require the Secretary of State to publish guidance about procedures that relevant commercial organisations can put in place to prevent bribery on their behalf
- help tackle the threat that bribery poses to economic progress and development around the world.

2.02 This report summarises the offences included in the Act and the main implications for local authorities.

#### **2.03 Summary of the Act's Offences**

There are four sections within the Act that detail the relevant offences. These are:

- Section 1 (Offences of Bribing Another Person): If a person offers, promises or gives a financial or other advantage to another, intending the advantage to induce or reward with the improper performance of a function or activity.

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Date: 20/09/2011

- Section 2 (Offences Relating to Being Bribed): If a person requests, agrees to receive or accepts a financial or other advantage from another, intending the advantage to be rewarded by the improper performance of a function or activity.
- Section 6 (Bribery of Foreign Public Officials): A specific offence of directly or indirectly offering, promising or giving a bribe to a foreign public official. To commit this offence a person must intend the bribe to influence the actions of the foreign public official.
- Section 7 (Failure of Commercial Organisations to Prevent Bribery): This offence is based on the failure by a commercial organisation to prevent bribery by people acting on its behalf (the corporate offence). A relevant commercial organisation is guilty of an offence if any person associated with it bribes another person, intending to obtain or retain business or an advantage in the conduct of business for the commercial organisation. A commercial organisation covers all organisations, including partnerships, which are formed under UK law, but also all organisations, wherever incorporated or formed which carry out business within the UK.

2.04 The Act includes a defence if the company can demonstrate (a reverse burden of proof), on the balance of probabilities, that there were adequate procedures in place to prevent the bribe.

### **3.00 CONSIDERATIONS**

3.01 The Bribery Act has a very broad reach and will have implications for public sector organisations, including local authorities. There are implications for the Council's corporate governance in several respects, including the Council's Codes of Conduct, (for Members and Officers), its procurement practices and its anti-fraud and corruption policies. The most relevant offences for local authorities are Section 2 (Receiving a Bribe) and Section 7 (Failure of the Organisation to Prevent a Bribe).

3.02 There is a strong emphasis on being proactive and avoiding the conditions of bribery. This raises issues of policy, awareness and compliance. Commercial organisations, rather than councils, must demonstrate that "adequate procedures" are in place to prevent bribery. However, whilst not strictly applying to the Council, the requirement highlights the importance placed by the Act on proactive action generally.

3.03 The Act's penalties are severe. Any individual found guilty of offences under Sections 1, 2, or 6 is liable to imprisonment for up to 12 months for a summary conviction and up to 10 years (if convicted on indictment), a fine or both. The Act introduces a corporate offence for an organisation which fails to prevent one of its employees bribing or receiving a bribe. The penalty is an unlimited fine.

3.04 Local authorities per se, are not included within Section 7 because of a 'relevant commercial organisation' means one which is incorporated (or a partnership) and which carries on a business. However, the Act has potential applicability to any incorporated business in which a local authority has an interest, whether it is wholly owned by the local authority or in partnership with private companies or within

Private Finance Initiative (PFI) arrangements. It is essential for these organisations and it would seem sensible for local authorities themselves, to implement the suggestions of the forthcoming guidance which the Act requires the Secretary of State to publish to assist organisations to implement adequate bribery prevention procedures. The guidance will include such requirements as adopting a clear and visible anti-bribery policy, training staff on that policy and adopting suitable compliance and disciplinary measures.

- 3.05 Implementing such measures will assist a local authority from preventing bribery and corruption within its organisation and any company in which it has an interest.

#### **4.00 RECOMMENDATIONS**

4.01 The Committee is recommended to:

- a. note the summary of the Bribery Act's offences;
- b. note the implications of the Act on local authorities; and
- c. agree that the relevant Council policies are reviewed to include the implications of the Act, with due consideration to the forthcoming Secretary of State guidance.

#### **5.00 FINANCIAL IMPLICATIONS**

5.01 None

#### **6.00 ANTI POVERTY IMPACT**

6.01 None

#### **7.00 ENVIRONMENTAL IMPACT**

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 None

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

As mentioned in the report.

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