

Public Document Pack

Gareth Owens LL.B Barrister/Bargyfreithiwr
Head of Legal and Democratic Services
Pennaeth Gwasanaethau Cyfreithiol a Democraataidd



To: Cllr Alison Halford (Chair)

CS/ST

Councillors: Glyn Banks, Haydn Bateman,
Alan Diskin, Tim Newhouse, Ian Roberts and
Arnold Woolley

21 January 2014

Paul Williams

Sharon Thomas 01352 702324
sharon.b.thomas@flintshire.gov.uk

Dear Sir / Madam

A meeting of the **AUDIT COMMITTEE** will be held in the **CLWYD COMMITTEE ROOM, COUNTY HALL, MOLD CH7 6NA** on **WEDNESDAY, 29TH JANUARY, 2014** at **10.00 AM** to consider the following items.

Yours faithfully

Democracy & Governance Manager

AGENDA

- 1 **APOLOGIES**
- 2 **DECLARATIONS OF INTEREST (INCLUDING WHIPPING DECLARATIONS)**
- 3 **MINUTES** (Pages 1 - 12)
To confirm as a correct record the minutes of the meeting held on 18 December 2013 (copy enclosed).
- 4 **IMPROVEMENT ASSESSMENT LETTER FROM THE AUDITOR GENERAL FOR WALES** (Pages 13 - 20)
Report of Chief Executive enclosed.

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

- 5 **RISK MANAGEMENT UPDATE** (Pages 21 - 32)
Report of Chief Executive enclosed.
- 6 **TREASURY MANAGEMENT STRATEGY 2014/15 AND TREASURY MANAGEMENT UPDATE 2013/14** (Pages 33 - 60)
Report of Head of Finance enclosed.
- 7 **COUNCIL BANKING ARRANGEMENTS** (Pages 61 - 64)
Report of Head of Finance enclosed.
- 8 **ANNUAL REPORT ON EXTERNAL INSPECTIONS** (Pages 65 - 74)
Report of Head of Legal and Democratic Services enclosed.
- 9 **PROTOCOL ON COLLABORATION** (Pages 75 - 78)
Report of Chief Executive enclosed.
- 10 **AUDIT CHARTER UPDATE** (Pages 79 - 90)
Report of Head of Finance enclosed.
- 11 **ACTION TRACKING** (Pages 91 - 100)
Report of Head of Finance enclosed.
- 12 **FORWARD WORK PROGRAMME** (Pages 101 - 104)
Report of Head of Finance enclosed.

Agenda Item 3

AUDIT COMMITTEE 18 DECEMBER 2013

Minutes of the meeting of the Audit Committee of Flintshire County Council held in the Clwyd Committee Room, County Hall, Mold on Wednesday, 18 December 2013

PRESENT: Councillor Alison Halford (Chair)

Councillors: Glyn Banks, Haydn Bateman, Tim Newhouse and Ian Roberts

LAY MEMBER: Mr Paul Williams

SUBSTITUTE: Councillor: Ron Hampson (for Alan Diskin)

IN ATTENDANCE:

Chief Executive, Head of Finance, Head of Legal & Democratic Services, Internal Audit Manager, Democracy & Governance Manager and Committee Officer

Head of Streetscene (for minute number 55)

Mr. John Herniman of Wales Audit Office (for minute numbers 56 and 57)

Finance Manager - Technical Accountancy (for minute numbers 57 and 58)

52. SUBSTITUTION

Prior to the start of the meeting, the Democracy & Governance Manager explained that Councillor Ron Hampson had received the requisite training and the constitutional requirement for the Committee to consider whether appropriate reasons had been provided for the proposed substitution.

RESOLVED:

That Councillor Hampson be permitted as a substitute for the meeting.

53. DECLARATIONS OF INTEREST (INCLUDING WHIPPING DECLARATIONS)

No declarations of interest were made.

54. MINUTES

The minutes of the meetings of the Committee held on 25 September and 7 October 2013 were submitted. The Chair thanked Councillor Arnold Woolley for chairing the first meeting in her absence.

RESOLVED:

That both sets of minutes be approved as a correct record and signed by the Chair.

55. FLEET MANAGEMENT

The Head of Streetscene introduced a report to update the Committee on the Council's current vehicle fleet tracking arrangements, in response to a request made at the meeting on 25 September 2013. He explained that the installation of tracking units was a key part of the ongoing fleet review which aimed to utilise vehicles in a more efficient manner.

In addition to tracking the movement of vehicles, the system also provided a range of information for monitoring, emergency assistance and insurance claim purposes and was being further developed to send information to vehicles from the Streetscene Contact Centre. Although the units were currently installed on 260 of the Council's vehicles, the intention was for all Council vehicles to have this provision following the implementation of the Fleet Review in the New Year. Information and costs on the installation and maintenance of the tracking system were included in the report.

In welcoming the report, the Chair congratulated the Head of Streetscene and his team for the progress made.

Following queries from Councillor Haydn Bateman, the Head of Streetscene explained that each unit was subject to an ongoing monthly maintenance cost and that the Contact Centre would receive notification if a vehicle was driven outside the defined areas such as on roads which were deemed unsuitable. A problem affecting vehicle batteries due to the tracker continuing to record after the vehicle was parked had been resolved at an early stage.

Councillor Ron Hampson said that despite some initial apprehension from the workforce, the benefits of the system had now been acknowledged.

In response to queries raised by Councillor Glyn Banks, the Head of Streetscene estimated that savings from the Fleet Review were in the region of £1.3m which included those from the tracker system. Data from the tracker units enabled the central Fleet team to produce reports by exception.

The Chief Executive was pleased that the report had been received positively and that the balance of concern on the use of trackers had changed which would benefit drivers in terms of economical fuel use, personal safety and behaviour. The scale of savings to be made from the Fleet Review, led by the Head of Streetscene, was recognised as a significant area of 'value for money' corporate workstream. Flintshire was a lead authority in Wales and the UK for fleet transformation.

Mr. Paul Williams asked if drivers who had undertaken training were required to sign a declaration to adhere to the protocol. The Head of Streetscene explained that the protocol was currently in the development stage and would be rolled out following the implementation of the Fleet Review. He gave assurances that individuals currently using the equipment had received specific training and were required to sign a disclaimer to take responsibility of their driver ID key fobs.

RESOLVED:

That the current coverage and developments of the Fleet Tracking System be noted.

56. ANNUAL AUDIT LETTER

Mr. John Herniman introduced the Annual Audit Letter from the Council's Appointed Auditor, Wales Audit Office (WAO), which summarised the work and key findings from 2012/13 in line with statutory requirements. As reported to the Committee in September at the conclusion of the audit of the financial statements, the letter indicated that the Council had complied with its responsibilities relating to financial reporting and use of resources but found that there was further scope to strengthen its financial controls in a number of areas and that the Council faced significant financial challenge which needed to be addressed.

Mr. Herniman acknowledged that considerable progress had been made on the Medium Term Financial Plan (MTFP) and said that clear plans were needed to address the projected budget gap of £16.5m for 2014/15. He emphasised that despite progress made, the risks and financial pressures remained and the projected longer term financial gap of £47.8m over the next few years would need to be addressed with plans put in place for the workforce, achievement of savings, monitoring of progress and implementation of backup plans, if required, to balance the budget. Mr. Herniman went on to say that he recognised the good progress that had been made towards finalising the Single Status agreement.

In response to comments made by the Chair on significant costs incurred following the liquidation of AD Waste, Mr. Herniman was unaware of any further costs and said that WAO had been satisfied that the adjustments made had been correctly treated in the accounts for 2012/13 on which an unqualified clean audit opinion had been granted.

Mr. Paul Williams sought clarification on the WAO view on the Council's MTFP and asked about the Committee's role in helping to keep this on track. Mr. Herniman replied that detailed plans were required to achieve savings and set a balanced budget and whilst it was accepted that this was being progressed, the risk needed to be flagged up. The WAO would assess this as part of the audit in the coming year and the Committee would need to focus on the development of the MTFP along with other reporting processes in the Council as part of its work.

The Chief Executive emphasised that the scale of financial change needed was due to national decisions on funding and that the recognition to develop a resilient MTFP had previously been accepted by the Council. Whilst Flintshire had benefited from early planning in achieving efficiencies over the past three years, in comparison to some other Councils, further efficiencies were now required to address the significant longer term challenges faced nationally by all Councils. Plans including value for money reviews were being shared in Member workshops in December and Overview & Scrutiny budget meetings being arranged for January 2014 with an overarching view on risks to be considered by

the Corporate Resources Overview & Scrutiny Committee at the end of the process for onward submission to Cabinet.

The Head of Finance reiterated that the Council recognised the challenges from the budget position which applied to all Councils in Wales over the next five years. She gave assurances that the Council was mindful of the risks and need for long-term planning, which would be shared with Members over the coming weeks and months.

In response to a question from the Chair on liability for pension contributions on equal pay liabilities, Mr. Herniman said that this was a long-standing issue affecting all Councils. Although legal advice obtained by the Council and other Councils differed to that of the Appointed Auditor, the WAO had agreed that litigation action (to resolve the issue) would not be beneficial and had therefore taken a pragmatic view that no further action was required. In noting the stance taken by WAO, the Head of Legal & Democratic Services spoke of the potential for variations in legal advice and said that the Council had followed the advice of Geldards and that a choice was available to individuals. In response to a further question, the Chief Executive said that the Council had retained Geldards as the expert solicitors engaged by a number of Welsh Councils with shared costs and that the advice had been followed successfully with no challenge from Trade Union colleagues. As part of an update on Single Status, he advised that following approval of the Agreement at County Council on 29 October 2013, the workforce reaction to receipt of results letters had been broadly well received with enquiries being dealt with by the temporarily dedicated HR Contact Centre. A date for the Trade Union ballot was awaited for the New Year, with implementation of the Agreement scheduled for 1 April 2014.

Mr. Williams sought assurance that there would be sufficient resources in the Finance section to carry out additional work on the budget. The Head of Finance said that there were no concerns at the present time as work on the MTFP and budget was part of the work of the Finance division to support the organisation, however any problems with capacity would be flagged up should they occur.

The Chief Executive recognised that resources would be stretched by the changes needed to address the budget position and the impacts of Single Status on staff, with difficult decisions to be made for the capacity of the whole organisation to enable the sustainability of the future budget.

The Chair thanked Mr. Herniman and Ms. Amanda Hughes from WAO (who was not able to be present at the meeting).

RESOLVED:

That the Annual Audit Letter to County Council Members be noted.

57. AUDIT OF FINANCIAL STATEMENTS 2012/13 - ISSUES RAISED

The Finance Manager - Technical Accountancy introduced the Council's response to the Wales Audit Office (WAO) report 'Audit of Financial Statements 2012/13' and action plan of how issues raised in the report would be addressed.

In thanking the teams involved for the significant amount of work which had been undertaken between September and December 2014, the Head of Finance drew attention to positive actions being taken by both Finance and Valuation & Estates colleagues to respond to issues raised by WAO, particularly those which were related to accounting for assets within the financial statements.

In response to a query from Councillor Haydn Bateman on the uncorrected misstatement on the Clwyd Pension Fund, Mr. John Herniman of WAO said that figures received from Fund Managers after year end allowed only a short period to make the adjustments in the accounts. The WAO had understood the view taken by the Council not to make the adjustment due to the amount concerned in the context of the Pension Fund and the accounts were subsequently given a clean opinion.

RESOLVED:

That the report and action plan be noted.

58. TREASURY MANAGEMENT MID YEAR REPORT 2013/14

The Finance Manager - Technical Accountancy introduced an update on matters relating to the Council's Treasury Management Policy, Strategy and Practices 2013/14 to the end of September 2013. In summarising the key points of the mid year report, she advised that performance during this period was generally on track with expectations made in the Treasury Management Strategy approved by the Committee earlier in the year. An update was also provided on preparations for the Treasury Management Strategy 2014/15 and current status of Landsbanki investments.

The Chair referred to the annual Treasury Management training session arranged for 27 January 2014 and urged members to contribute topics for discussion.

In response to a query from Councillor Haydn Bateman on the £83.3m maximum investments that the Council had on deposit at any one time, the Finance Manager explained that this was made up of a number of reserves which would be affected by cashflow timings and that the balance was higher during early months of the year before reducing. When asked about the average surplus, the Finance Manager would provide a separate response but added that this figure would vary at different times of the year and between one year to another. When the Single Status/Equal Pay reserve was utilised, the balance would reduce and the liquidity would have to be managed to ensure cash was available when needed. This would be included in the breakdown within the Treasury Management Strategy for 2014/15 to be submitted to the next meeting of the Committee.

Following explanation on the availability of a higher rate of interest applied to an investment with the Bank of Scotland taken out over a year ago, the Finance Manager agreed that this example could be included in the training session.

The Finance Manager agreed to follow up a request made by Councillor Glyn Banks for a breakdown of information on the Debt Maturity Profile graph in the report. When asked about the potential for borrowing at the present time, she explained that due to current rates, the advice would be to spend reserves within the system prior to any new borrowing. Once the Single Status/Equal Pay reserve was depleted, a view would be taken on an appropriate time to borrow in the most cost-effective way.

Following a question from Councillor Ron Hampson on the use of Single Status/Equal Pay reserve, the Chief Executive said that these were only used to meet one-off costs such as projected costs for settlement of equal pay liability, 'backpay' and pay protection, together with some contingency for risks over the next two years as part of the adopted Single Status Agreement. Any additional costs after this time would become a pressure for the Council in-year and had been included in the Medium Term Financial Plan. The Head of Finance added that this Reserve would deplete over time in accordance with the strategy agreed by Council in October and that adjustments would be made accordingly in cashflow projections.

Councillor Bateman asked if there were any restrictions on the number of investment counterparties. The Finance Manager replied that there were no such limits although criteria needed to be followed on the credit rating of counterparties, length and amount of investments which were set by the Council and approved by the Committee. She pointed out that a high number of counterparties resulted in greater competition and a better spread of risk to achieve a balance on portfolios and risk to a level that was comfortable.

Councillor Tim Newhouse suggested that the training session incorporate examples of where debt on outstanding loans attracted high rates of interest and why it was not economical to reschedule these.

In response to a question from Mr. Paul Williams on debt profiling, the Finance Manager said that the Treasury Management Strategy for 2014/15 would include a section on the movement and tracking of reserves through debt and that this would be covered in the training session.

RESOLVED:

That the draft Treasury Management Mid Year Report 2013/14 be noted.

59. CORPORATE GOVERNANCE

The Democracy & Governance Manager presented a report to agree the annual update of the Code of Corporate Governance and the preparation process for the Annual Governance Statement (AGS) 2013/14. Suggested tracked changes to the Code were appended to the report along with details of the Corporate Governance Officer Working Group membership on which Jonathan Davies had replaced Sue Ridings. On the AGS, information was provided on the process leading up to approval by County Council with the suggestion that the questionnaire be sent to Overview & Scrutiny Chairs, in addition to Heads of Service, for their input.

Following a query from Councillor Haydn Bateman on section 1.9 of the Code of Corporate Governance which remained unchanged, the Internal Audit Manager explained that 'a more focused approach to audit and inspections' applied to both internal and external audit inspections.

Councillor Tim Newhouse raised concerns over time allocated to the preparation process of the AGS. The Democracy & Governance Manager said that the Wales Audit Office (WAO) required the Council to gather evidence each year to support the contents of the AGS and that since the establishment of the Corporate Governance Officer Working Group, no major issues on the AGS had been highlighted by the WAO.

On the process for preparation of the AGS, the Head of Legal & Democratic Services highlighted the two key stages for Heads of Service to complete the self-assessment questionnaire within their respective areas and at a later stage to respond to any challenge from the officer group, where appropriate, to justify their self-assessment.

In response to a query from the Chair on delegated powers, the Chief Executive explained that the scheme of delegation was published as part of the Constitution of the Council and spoke of transparency on delegated work on different levels including some where statutory powers were included in job descriptions.

The Democracy & Governance Manager explained that the Constitution contained a section on the Officer Delegation Scheme which applied to the Chief Executive, Directors, Heads of Service and operational managers. This section was due for review as part of an overall programme of work on the Constitution being carried out by the Constitution Committee.

Mr. Paul Williams asked if the AGS questionnaires from Overview & Scrutiny Chairs to be returned in February 2014 could be shared with the Committee. The Head of Legal & Democratic Services pointed out that as the Committee was not due to meet around that time, information would be shared by email and that this would include where the officer group challenged the officer self-assessment.

On section 4.8 of the Code of Corporate Governance, Mr. Williams commented on the fourth bullet point relating to the Committee's role in assuring itself of the Council's budgetary control systems and said that the Committee should ascertain how to fulfil this requirement. Following discussion on this at the briefing meeting, the Head of Finance said it was intended to submit a report to the meeting in June 2014 to explain the budget setting process to aid the Committee in its work, leading up to the finalising of the Statement of Accounts.

Councillor Ian Roberts referred to discussion at a previous meeting on the Council's banking arrangements and asked when the tendering of bank services was due to commence. The Head of Finance would respond in the New Year as the team responsible were currently in the early stages of preparation. As previously agreed, it was the intention to share the draft information with the Committee and ensure that Councillor Roberts was kept informed of progress.

In relation to the previous agenda item, Councillor Bateman asked if information could be provided on the overdraft facility. The Head of Finance would ask the Finance Manager - Technical Accountancy to respond.

During discussion on whether to seek responses from Overview & Scrutiny Chairs on the AGS questionnaire, Councillor Glyn Banks suggested involvement from all Overview & Scrutiny Members to obtain a broader response. The Democracy & Governance Manager remarked on available resources to collate responses from the questionnaire and said that Chairs were able to involve their Committee Members if they wished. Councillor Newhouse spoke in favour of this.

RESOLVED:

- (a) That the updated Code of Corporate Governance shown in Appendix 2 to the report be agreed;
- (b) That the process for preparation of the Annual Governance Statement as shown in Appendix 3 to the report be endorsed; and
- (c) That the questionnaire to be sent to Overview & Scrutiny Chairs shown in Appendix 4 to the report be agreed.

60. INFORMAL MEETING BETWEEN AUDIT COMMITTEE MEMBERS AND OVERVIEW & SCRUTINY CHAIRS/VICE CHAIRS

The Democracy & Governance Manager introduced a report on the second informal briefing meeting between Audit Committee members and Overview & Scrutiny Chairs/Vice-Chairs held on 7 October 2013. Notes of both the first and second meetings were appended to the report showing actions arising. An action to consider changing the size of the Audit Committee membership was to be considered under the next item.

The Chair thanked Mr. Paul Williams for his involvement in promoting greater interaction between the Committee and Overview & Scrutiny.

The Chief Executive spoke of refinements to performance reporting to incorporate findings from Internal Audit reports. The Internal Audit Manager said that despite having sought views from Overview & Scrutiny Chairs on the content of this information, no responses had been forthcoming. Following similar consultation on a suggestion made by Mr. Williams on the non-implementation of recommendations, only Councillor Ellis had responded. He suggested that this could be raised at the next informal meeting.

Councillor Tim Newhouse referred to the consultation which had been carried out by email and spoke of a problem in receiving some emails. The Chief Executive agreed to liaise with the Head of ICT & Customer Services on this.

Councillor Ian Roberts referred to the rescheduling of one of the meetings due to the cancellation of another meeting. Whilst accepting the need for a degree of flexibility in the Council's diary of scheduled meetings, he raised

concerns about the movement of some dates, particularly for Members who were in employment.

The Chair suggested that Members raise any issues arising from the rescheduling of meetings with the Democracy & Governance Manager.

As a point of accuracy, Councillor Glyn Banks pointed out that Mr. Williams had been listed with the councillors on the minutes of one of the informal meetings.

RESOLVED:

That the report be noted and actions endorsed.

61. SIZE OF AUDIT COMMITTEE

The Head of Legal & Democratic Services presented a report to consider whether to increase the number of Audit Committee members, following discussion at informal meetings between Audit Committee and Overview & Scrutiny Chairs/Vice-Chairs. In giving an overview of the key considerations of the report, he explained that it might not be possible to achieve the aim of all groups being represented because their existence and membership could be subject to change and fluctuation. He added that the recommendation in the report should indicate that the Committee's view be recommended to the Constitution Committee before seeking approval at full Council.

Councillor Ian Roberts felt it was important that if it was agreed for another lay member to be appointed, that the advertisement seek applicants with substantial experience of audit in the private sector.

Councillor Tim Newhouse proposed that the membership be extended to eight councillors and one lay member, which was seconded by Councillor Roberts.

In response to a query by Councillor Glyn Banks on whether this would affect the political balance on other committees within the Council, the Head of Legal & Democratic Services confirmed that the proposal was acceptable and asked if anyone wished to table an amendment.

Councillor Roberts withdrew his support for the proposal and suggested that committee sizes be discussed fully at the Council's Annual Meeting in May 2014 after consideration by Group Leaders.

Councillor Newhouse proposed an amendment that the membership be changed to eight or nine councillors and one lay member to allow all political parties to be represented. As this was not formally seconded, he suggested that the matter be referred to the Constitution Committee rather than full Council.

The Chief Executive advised that the membership could be reviewed at any point in time to ensure that there was a sufficient range of expertise, whereas it was important for the Committee to consider what outcomes were required to

fulfil its function. He also advised that the AGM would be the most appropriate time for the Council to consider the size of the Committee.

The Chair's proposal for the matter to be referred to the Constitution Committee with the recommendation for one lay member was seconded by Councillor Roberts. On being put to the vote, this was carried.

Councillor Newhouse's further amendment for the Constitution Committee to explore options for the Audit Committee membership to comprise seven, eight or nine councillors was not supported.

RESOLVED:

That the size of the Audit Committee be referred to the Constitution Committee with the preference for one lay member to be included, for recommendations to be made to the AGM.

62. INTERNAL AUDIT PROGRESS REPORT

The Internal Audit Manager presented the update report on progress of the Internal Audit department. He advised that changes had been made to the Audit Plan, however the annual audit opinion could still be provided. Progress against the Plan would be monitored closely between now and the end of the financial year. Deferred audits would be considered for inclusion in the next year's Plan during consultation with Directors and corporate teams.

The Internal Audit Manager spoke of changes in the process of delivering audits to achieve greater efficiency, aided by the completion of pre-audit questionnaires used in scoping work and a debrief meeting at the draft audit report stage which should speed up production of final reports by 20+ days. Use of the new Audit Report Monitoring System used to issue draft reports and track recommendations had commenced and would enable monitoring by Directors and Corporate Heads. Members were reminded that final reports were available on request from the Internal Audit Manager who advised that the changes made to the tracking of recommendations had resulted in an improved level of responses. On performance indicators, he explained that the timing of issuing client satisfaction questionnaires near the end of the quarter meant that the target had not been achieved. Although there had been an improvement in the days for departments to return draft reports, the Chief Executive felt that the target of 20 days could be reduced.

The Head of Finance pointed out that details on recommendations awaiting implementation were appended to the report and was pleased to note a reduction in the number. The Chair agreed with her suggestion that this information could be cross-referenced in future reports. The Chief Executive said it should be noted that some recommendations may be in the process of implementation but not yet completed at the time of reporting.

In response to a comment from Mr. Paul Williams on the number of 'other' types of audit shown on the Plan, the Internal Audit Manager explained that this work was based on discussions with management during work carried out on the Audit Plan and that such requests were welcomed by the department. Following

a suggestion, he agreed that on future reports, audits which were deferred, deleted or added would be categorised with the appropriate definition.

In welcoming the improvement in the number of days taken to return draft reports, Councillor Tim Newhouse asked if reports would be finalised in the event of no response from the respective Head. The Internal Audit Manager stated that this has not yet occurred and that the procedure for a final memo to be issued 2-3 days after agreement on the intended response would serve as a reminder.

The Internal Audit Manager responded to a number of queries on investigations. In response to a query from Mr. Williams on a new referral which had arisen from a data-matching exercise 'sweep' carried out by the National Fraud Initiative, the Head of Finance explained that work was in progress to establish why this had not been identified earlier and that she would report back on the outcome.

RESOLVED:

That the report be noted.

63. FORWARD WORK PROGRAMME

The Forward Work Programme for the next year was appended to the report for consideration by the Committee.

Following earlier discussion, Councillor Tim Newhouse suggested that the report on the tendering of banking services be brought to the next meeting in January 2014. The Chair spoke in support of this.

RESOLVED:

That the Forward Work Programme be approved, with the inclusion of the report on tendering of banking services included for the meeting on 29 January 2014.

64. ATTENDANCE BY MEMBERS OF THE PRESS AND PUBLIC

There was one member of the press in attendance.

(The meeting started at 10.15 am and ended at 1.20 pm)

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Chair

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FLINTSHIRE COUNTY COUNCIL

REPORT TO: **AUDIT COMMITTEE**

DATE: **WEDNESDAY, 29 JANUARY 2014**

REPORT BY: **CHIEF EXECUTIVE**

SUBJECT: **IMPROVEMENT ASSESSMENT LETTER FROM THE**
 AUDIT GENERAL FOR WALES

1.00 PURPOSE OF REPORT

1.01 To advise Members of the Council's recent Improvement Assessment Letter from the Auditor General for Wales and to note the Executive response.

2.00 BACKGROUND

2.01 The Auditor General is required by the Local Government (Wales) Measure 2009 (the 'Measure') to report any audit and assessment work which informs judgement as to whether a Council has discharged its duties and met the requirements of the Measure.

2.02 This is the second letter that the Council has received; the first one reported October summarised the Auditor General's views on whether the Council had discharged its duties for improvement planning; complied with requirements to make arrangements to secure continuous improvement; updated to the Wales Audit Office work plan and timetable for Improvement Assessment work. There were no further recommendations or proposals for improvement.

2.03 This second complimentary letter covers an assessment of the Council's Annual Performance Report.

3.00 CONSIDERATIONS

3.01 The letter summarises the Auditor General's views on whether the Council has discharged its statutory duties for improvement reporting. The letter is attached at Appendix 1.

3.02 The Auditor General has made no new statutory recommendations or proposals for improvement.

3.03 As good practice the Council always makes a full response to issues raised within the letter. The response is attached at Appendix 2.

3.04 Both the letter and the Council's response have been received by the Corporate Resources Overview and Scrutiny Committee and Cabinet.

4.00 RECOMMENDATIONS

4.01 To advise Members of the Council's Improvement Assessment letter received from the Auditor General for Wales.

4.02 Members to note the report and the Council's Executive response.

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 required.

11.00 CONSULTATION UNDERTAKEN

11.01 Senior officers have had input into this report.

12.00 APPENDICES

12.01 Appendix 1: The Auditor General's Improvement Assessment Letter (December 2013)

Appendix 2: The Council's response to the Auditor General's Improvement Assessment Letter (January 2014)

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

None.

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Mr Colin Everett
Chief Executive
Flintshire County Council
County Hall
Mold
CH7 6NB

Reference 681A2013
Date 20 December 2013
Pages 1 of 3

Dear Colin

Improvement Assessment

In my letter of 16 September 2013, I gave my opinion on whether Flintshire County Council (the Council) had discharged its statutory duties in respect of improvement planning.

I am also required, under the Local Government (Wales) Measure 2009 (the Measure), to give an opinion on whether the Council has discharged its duties in respect of improvement reporting and met the requirements of the Measure.

In my opinion, and based on audit work undertaken to date, the Council has discharged its improvement reporting duties under the Measure, although there is potential to strengthen its arrangements further.

I have concluded that the Council has discharged its improvement reporting duties under the Measure because:

- the Council published its Annual Performance Report (the Report) by 31 October 2013;
- the Report provides an assessment of the Council's performance in the preceding financial year (2012-13) and sets out how the Council has sought to discharge its duties under the Measure;
- the Report includes a summary evaluation of whether or not the Council believes it has been successful in achieving its improvement objectives;
- the Report includes details of the Council's performance, and compares performance against the national statutory performance indicators;
- the Report includes a brief section inviting citizens to provide feedback or make comments on the Report; and
- the Report includes a short section on the ways in which the Council has sought to collaborate.

There are areas in which the Council could improve its self-evaluation of its annual performance. In summary, the Report:

- presents too much detailed information in a style that is not engaging for citizens;
- includes, for each improvement objective, information about work that has and has not gone well during 2012-13, but further clarity in summarising this information would help readers to understand how the Council has determined its evaluation of progress and outcomes;
- lacks information on the impact of the Council's collaborative activity; and
- does not promote as well as it might the opportunity for citizens to provide feedback by, for example, including a web link for comments.

We have provided more detailed feedback to relevant staff on a draft of this year's Report. Much of the complexity of this year's Report stems from the nature of the Council's Improvement Plan for 2012-13. I reported in my September letter that the presentation and content of the Council's Improvement Plan for 2013-14 enable public engagement with the Council's priorities far more effectively than in the past. This change has the potential to support the further development of the Council's public reporting of its performance.

Further proposals for improvement/recommendations

No new proposals for improvement are being suggested in this letter. We will continue to monitor and report on the progress made by the Council in implementing the proposals set out in my previous reports and letters. I will undertake more detailed work on the arrangements that support the Council's performance management and reporting over the following months and report this, as well as summarising all of my work and that of relevant regulators during 2013-14, in an Annual Improvement Report for the Council that I will aim to publish by the end of March 2014.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Huw Vaughan Thomas'.

HUW VAUGHAN THOMAS
Auditor General for Wales

CC: Lesley Griffiths, Minister for Local Government and Government Business

Huw Lloyd Jones – Manager

Karen Lees – Performance Audit Lead

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Wales Audit Office Improvement Assessment Letter

December 2013

Executive Response

The Wales Audit Office's Improvement Assessment Letter is, overall, a fair summary of the position of the Council. The letter is a positive endorsement of this transitional year for improvement reporting with recognition of the potential for improved public reporting following the introduction of this year's Improvement Plan.

There are no new statutory recommendations or proposals for improvement.

In our response we set out how we will make improvements to ensure full compliance with the spirit and detail of the national guidance.

Listed below are the principal topics within the letter along with our response.

Issue	Response
<i>In summary the report:</i>	
Presents too much detailed information in a style that is not engaging for citizens	The report needs to be sufficiently detailed to be useful as both an internal performance review 'tool' and a review of annual performance for public consumption. The report can be further improved. The Council has introduced a new reporting model following the publication of the new style Improvement Plan. This provides a basis for a more concise, graphic and readable annual plan with selected performance information in support of the outcomes set for achievement.
Includes, for each improvement objective, information about work that has and has not gone well during 2012-13, but further clarity in summarising this information would help readers to understand how the Council has determined its evaluation of progress and outcomes	The report does identify for each improvement objective the activity which has both succeeded and failed to achieve the targets set. The overall objective evaluation of the supporting evidence is represented in the RAG (red, amber, green) status. An explanatory paragraph will be added for each improvement objective in future reports to assist the reader to more fully understand the evaluation.
Lacks information on the impact of the Council's collaborative activity	Many of the Council's collaborative projects are in planning or implementation stages, so it is premature to assess outcomes. Where collaborative projects are in delivery, examples of improved service delivery have been summarised within the narrative for each relevant improvement objective. The expectations of WAO seem to have changed based on the reporting practices of some other councils which are held up as 'good practice'. The Council will develop its reporting style accordingly noting that this does not mean that its plan is deficient.
Does not promote as well as it might the opportunity for citizens to provide	Feedback opportunities were provided by telephone, post, email and by web. Further opportunities for

feedback by, for example, including a web link for comments.

citizen feedback including an enhanced use of social media are being explored for next year. Public interest in these types of plans is low so promotional activity should be kept in proportion.

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **AUDIT COMMITTEE**
DATE: **WEDNESDAY, 29 JANUARY 2014**
REPORT BY: **CHIEF EXECUTIVE**
SUBJECT: **RISK MANAGEMENT UPDATE**

1.00 PURPOSE OF REPORT

- 1.01 To provide members with an update on the improved risk management approach as part of streamlining and integrating the business planning arrangements.
- 1.02 To provide an overview of the key risks of the Improvement priorities of the Council.

2.00 BACKGROUND

- 2.01 Audit Committee received a report in September 2013 which outlined the changes in risk management approaches following the adoption of the Council's Improvement Plan.
- 2.02 The Council adopted the Improvement Plan for 2013/14 on 25 June 2013. The adoption of the plan and its priorities provided the Council with the opportunity to realign the strategic risks to these priorities and sub priorities.
- 2.03 A change in strategic planning provided an opportunity to align business processes. In particular, the alignment of two separate documents: i) the Improvement Plan and ii) the Strategic Assessment of Risks and Challenges (SARC), which although there was some symmetry, it was not transparent.
- 2.04 The September report also referred to the method by which strategic risk was being captured i.e. as SARC compared to the industry good practice which was being used for our operational risks. During the preparation of the 2013/14 Improvement Plan the relevant risks were considered and described for each sub priority. Subsequent to this the good practice 'operational risk' template was completed for each risk.

3.00 CONSIDERATIONS

- 3.01 All Overview and Scrutiny committees have received their first 'round' of quarterly reporting against the Improvement Plan. This has

included a template for each risk capturing:

- the nature of each risk
- the gross, nett and target RAG score for each risk
- current actions already in place to mitigate the risk
- further activity to mitigate the risk

An example of the best practice template as applied to one of our Improvement sub priorities is attached as Appendix 1. This is the template for the sub priority of Access to Council Services within the “Modern and Efficient Council” Improvement priority.

3.02 All risks are monitored regularly and will be reported to Overview and Scrutiny Committees quarterly as part of the Improvement Plan monitoring reports. Future reports will also capture the ‘trend’ of the risk i.e. whether it is increasing or decreasing.

3.03 A summary of all of the risks captured in the Improvement Plan is attached at Appendix 2. An analysis of the current ‘nett’ status of the 86 risks associated with our eight Improvement priorities shows:

- 25 risks assessed as Green
- 44 risks assessed as Amber
- 17 risks assessed as Red

3.04 Details of all risks are provided in the Improvement Plan monitoring reports presented to the Overview and Scrutiny Committees.

4.00 RECOMMENDATIONS

4.01 Audit Committee endorse the improved risk management approach as part of streamlining and integrating the business planning arrangements.

4.02 Audit Committee note the summary of strategic risks as related to the Improvement priorities of the Council.

5.00 FINANCIAL IMPLICATIONS

5.01 None directly arising from this report; although some specific risks may have financial implications.

6.00 ANTI POVERTY IMPACT

6.01 None directly arising from this report; although some specific risks may have poverty implications.

7.00 ENVIRONMENTAL IMPACT

7.01 None directly arising from this report; although some specific risks

may have environmental implications.

8.00 EQUALITIES IMPACT

8.01 None directly arising from this report; although some specific risks may have equalities implications.

9.00 PERSONNEL IMPLICATIONS

9.01 None directly arising from this report; although some specific risks may have personnel implications

10.00 CONSULTATION REQUIRED

10.01 Overview and Scrutiny Committees will be considering the risks and their mitigations as part of the quarterly monitoring of the Improvement Plan.

11.00 CONSULTATION UNDERTAKEN

11.01 Improvement Priority leads and CMT have considered the risks in relation to the improvement Plan.

12.00 APPENDICES

Appendix 1: Improvement sub priority: Access to Council Services

Appendix 2: Summary of Improvement Plan priority risks as at September 2013

LOCAL GOVERNMENT (ACCESS TO INFORMATION ACT) 1985 BACKGROUND DOCUMENTS

- i) Improvement Plan 2013/14
- ii) Monitoring reports of Improvement Plan as presented to Overview and Scrutiny Committees – November 2013

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Priority: Modern and Efficient Council
Sub-Priority: Access to Council Services
Impact: Improving customer services

What we said we would do in 2013/14: -

1. Complete Phase 1 of our Flintshire Connects programme and the design of Phase 2

Risk to be managed – Ensuring a positive public response to the changing ways our services can be accessed

Gross Score (as if there are no measures in place to control the risk)			Current Actions / Arrangements in place to control the risk	Net Score (as it is now)			Future Actions and / or Arrangement to control the risk	Manager Responsible	Risk Trend	Target Score (when all actions are completed / satisfactory arrangements in place)		
Likelihood	Impact	Gross Score		Likelihood	Impact	Gross Score				Likelihood	Impact	Gross Score
(L)	(I)	(LxI)		(L)	(I)	(LxI)			(L)	(I)	(LxI)	
H	H	R	<ul style="list-style-type: none"> Customer Satisfaction form available at Flintshire Connects - Holywell. Publishing news relating to new Flintshire Connects centres. Report on number of visitors to Flintshire Connects centres and trends. 	M	M	A	<ul style="list-style-type: none"> Encourage customers to provide feedback. Monitor and report on feedback. Engage with customers to improve service delivery. Learn from customer feedback. Publish successes relating to Flintshire Connects. 	Head of ICT & Customer Services		L	L	G

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IP	Risk	Nett Score & Trend			Target Score as at Sept '13	
		Sept 2013	Dec / Jan 2014	Mar / Apr 2014		
Housing	Extra Care Housing					
	How we can fund the building of new schemes with local partners and using local assets without national capital grant	R	N/A		R	
	How we can switch revenue resources from more traditional to new housing and care services	R	N/A		R	
	Keeping up with demand for alternative housing models from an ageing population	R	N/A		R	
	Keeping up with specialist demand such as meeting the specific needs of those with dementia	R	N/A		R	
	Modern, Efficient and Adapted Homes					
	Ensuring that we prevent delays in planning approvals for affordable housing developments	G	N/A		G	
	Ensure the availability of private finance for development of affordable homes	R	N/A		G	
	Encouraging developers to build a range of affordable housing in the current economic climate	R	N/A		G	
	Maximising our joint resources with our partners	R	N/A		A	
	Achieve the Welsh Housing Quality Standard					
	Outcomes of Stock Condition Survey	G	N/A		G	
	Securing additional funding such as ECO finance	G	N/A		G	
	Realising efficiencies and income generation targets identified in the business plan	G	N/A		G	
	Ensuring Contractors perform effectively	G	N/A		G	
	Meeting customer expectations	G	N/A		G	
	Ensuring that the Council finds the resources required to meet the Welsh Housing Quality Standard by 2020	G	N/A		G	
	Ability to address the impact and change in demand due to Welfare Reform	G	N/A		G	
	Living Well	Independent Living				
		Ensuring we have enough capital for disabled facilities grants	A	N/A		G
Keeping up with specialist demand such as the specific residential needs of those with dementia		A	N/A		G	
How we encourage service users and carers to embrace greater independence		A	N/A		G	
Integrated Community Social and Health Services						
Ensuring effective joint working with BCUHB to achieve common goals, in order to ensure that people can safely remain at home and be medically and socially supported		A	N/A		G	
The new model does not result in unexpected increased costs to the Council		A	N/A		G	
Public support for the changes to the services	A	N/A		G		

IP	Risk	Nett Score & Trend			Target Score as at Sept '13	
		Sept 2013	Dec / Jan 2014	Mar / Apr 2014		
Economy & Enterprise	Business Sector Growth in Deeside					
	Work with local employers and learning providers to meet their needs in recruiting skilled people ready for work	A	N/A			G
	How we can work with WG to ensure the infrastructure arrangements support the development of the DIP and DEZ	A	N/A			G
	Town and Rural Regeneration					
	Maximising funding opportunities through external programmes to invest in our urban and rural areas	G	N/A			G
	Ensuring sufficient project management capacity to successfully complete the programmes	G	N/A			G
	Social Enterprise					
	How we maintain the necessary capacity and investment to support the development of Social Enterprises	G	N/A			G
	Building the skills in the community to develop a social enterprise	A	N/A			A
	Local Social Enterprises need to compete effectively in the market	A	N/A			A
Skills & Learning	Modernised and High Performing Education					
	Ensuring that we wisely invest our resources to achieve the aspirations of our plans	A	N/A			G
	Ensuring that schools receive the support they need from the Council and those organisations commissioned to provide support services	A	N/A			G
	Ensuring that schools work together effectively to share and develop best practice	A	N/A			G
	Places of Modernised Learning					
	Changing demographics and impact on supply of school places	A	N/A			A
	Community attachment to current patterns of school provision	R	N/A			A
	Limited funding to address backlog of known repairs and maintenance works in educational assets	R	N/A			A
	Programme delivery capacity	R	N/A			A
	Approval of business cases to draw down 21st Century Schools Grant	R	N/A			G
	Apprenticeships and Training					
	Ensuring that employer places match current and future aspirations and needs	G	N/A			G
	Ensuring capacity to support paid work placements and other programmes	G	N/A			G
	Strengthening the links between schools, colleges and employers	G	N/A			G
	Ensuring that education providers participate fully	G	N/A			G

IP	Risk	Nett Score & Trend			Target Score as at Sept '13
		Sept 2013	Dec / Jan 2014	Mar / Apr 2014	
Safe Communities	Community Safety				
	How we can improve the public's perception of safety in the community	A	N/A		G
	Ensuring that new Community Safety Partnership arrangements work effectively	A	N/A		G
	How we can fund the provision of CCTV with local partners	A	N/A		G
	Traffic and Road Management				
	Gaining successful civil parking enforcement powers from Welsh Government	A	N/A		G
	Gaining public and local support for our road safety schemes	A	N/A		G
	Making best use of our resources to meet our priorities for road safety	A	N/A		G
	Poverty	Welfare Reform			
Meeting the growing costs of homeless prevention		R	N/A		R
Rent arrears rising if tenants are unable to afford to pay their rent		R	N/A		R
The Welfare Rights and Money Advise Service being able to meet demand		R	N/A		R
Local neighbourhood services may suffer as residents have less income to spend		R	N/A		R
Fuel Poverty					
We could be unsuccessful in establishing an ECO partnership		G	N/A		G
Residents may not take up the energy efficiency measures available as we hope		G	N/A		G
Available funding might fall short of public demand		G	N/A		G
Environment	Transport Infrastructure and Services				
	Ensuring that the County's infrastructure is adequate to support economic growth	A	N/A		G
	Securing funding to ensure our highways infrastructure is safe and capable of economic growth	A	N/A		G
	Ensuring sustainable transport options remain attractive to users	A	N/A		G
	Carbon Control and Reduction				
	Ensuring that recycling and energy efficiency programmes are supported by the public and employees	A	N/A		G
	Securing sufficient funding for renewable energy schemes	A	N/A		G
	Ensuring that recycling and energy efficiency programmes are supported by the public and employees	A	N/A		G
Ensuring that buildings are used effectively to match our priorities	A	N/A		G	

IP	Risk	Nett Score & Trend			Target Score as at Sept '13
		Sept 2013	Dec / Jan 2014	Mar / Apr 2014	
Modern & Efficient Council	Organisational Change				
	Gaining political agreement to the future operating model	A	N/A		G
	Gaining workforce and Trade Union agreement and acceptance of the organisational changes	A	N/A		G
	Keeping up workforce motivation and morale to prevent resistance to organisational change and minimise service disruption such as industrial action	A	N/A		G
	Ensuring organisational capability to make the changes happen and sustain the model	A	N/A		G
	How we can fund the necessary investment costs to create change	A	N/A		G
	Matching Resources to Priorities				
	Securing Council agreement to the priorities	A	N/A		G
	Ensuring sufficient capital & revenue resources to meet ambition of our priorities	G	N/A		A
	Funding the delivery of our priorities if the national financial position worsens	G	N/A		A
	Gaining political agreement to a business approach for fees and charges which may have public opposition	R	N/A		G
	Achieving Efficiency Targets				
	Delivery of priorities if the national financial position worsens	G	N/A		A
	Gaining Political Agreement of the Financial Plan	A	N/A		A
	Ensuring the organisation responds positively to the financial plan and has the capability and capacity to make it happen	A	N/A		A
	Procurement Strategy				
	Ensure the internal adoption of improved procurement practice and process	G	N/A		G
	Keep up the pace of collaboration to maximise procurement efficiencies through the use of the National Procurement Service and regional procurement frameworks	A	N/A		G
	Keep up the pace of collaboration to maximise procurement efficiencies through the use of the National Procurement Service and regional procurement frameworks	A	N/A		G
	Delays in agreeing and implementing new joint arrangements	A	N/A		A
	Having the creativity to apply community benefit clauses within contracts	A	N/A		G
	Asset Strategy				
	Gaining public acceptance to the rationalisation of assets	A	N/A		G
	How we can invest and ensure we have the capacity to implement the strategy	G	N/A		G
	Gaining workforce agreement and acceptance of agile working practices	G	N/A		G

IP	Risk	Nett Score & Trend			Target Score as at Sept '13
		Sept 2013	Dec / Jan 2014	Mar / Apr 2014	
Access to Council Services					
	How we can ensure the investment to further improve access to our services	G	N/A		G
	How the Council adjusts its processes and practices to support Flintshire Connects and the increased use of self-service	R	N/A		G
	Ensuring a positive public response to the changing ways our services can be accessed	A	N/A		G
	Ensuring our customers can access our digital services	G	N/A		G
Single Status					
	An Agreement being reached within agreed timescales and how the Single Status Agreement and modernised terms and conditions are paid for in the long term with reduced financial resources	A	N/A		G
	Employee / Trade Union and organisational drive and commitment to work more flexibly / to extend opening hours	A	N/A		G
	Negotiating an affordable settlement rate for issued claims and meeting all settlement costs within defined funding range	A	N/A		G

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FLINTSHIRE COUNTY COUNCIL

REPORT TO: **AUDIT COMMITTEE**

DATE: **29 JANUARY 2014**

REPORT BY: **HEAD OF FINANCE**

SUBJECT: **TREASURY MANAGEMENT STRATEGY 2014/15 AND
TREASURY MANAGEMENT UPDATE 2013/14.**

1.00 PURPOSE OF REPORT

- 1.01 To present the draft Treasury Management Strategy 2014/15 for review prior to the Committee recommending its approval to Cabinet.
- 1.02 To provide Members with a quarterly update on matters relating to the Council's 2013/14 Treasury Management Strategy up to the end of December 2013.
- 1.03 This report is supplemented by training available to all Members of the Council on treasury management on 27th January 2014.

2.00 BACKGROUND

- 2.01 The Local Government Act 2003 requires all local authorities to have due regard to both the Chartered Institute of Public Finance and Accountancy's Treasury Management in Public Services: Code of Practice (The CIPFA Code of Practice) and Welsh Government guidance on Local Authority Investments.
- 2.02 The Council has adopted The CIPFA Code of Practice which requires:-
- The Council to create and maintain a Treasury Management Policy Statement which states the Council's policies, objectives and approach to risk management of its treasury management activities.
 - The Council to create and maintain suitable Treasury Management Practices (TMPs) and accompanying schedules, stating how those policies and objectives will be achieved and prescribing how those activities will be managed and controlled.
 - The Council to receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

- Responsibility for Treasury Management to be clearly defined. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Cabinet, and for the execution and administration of treasury management decisions to Head of Finance, who will act in accordance with the organisation's policy statement and TMPs and, CIPFA's *Standard of Professional Practice on Treasury Management*.
- A body to be responsible for the scrutiny of Treasury Management Policy, Strategy and Practices. The Council has nominated the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management function. The Audit Committee has previously agreed to include treasury management as a standing item on each quarterly agenda to receive an update.

2.03 The Welsh Government guidance on Local Authority investments requires that the Council prepares an Investment strategy before the start of each financial year which sets out the Council's policies for the prudent management of its investments, giving priority, firstly to the security of those investments (protecting the capital sum from loss), and secondly liquidity (keeping money readily available for expenditure). The generation of investment income is distinct from these prudential objectives, however provided that proper levels of security and liquidity are achieved, it may (but only then) be reasonable to seek the highest yield consistent with those priorities.

The guidance stipulates that the investment strategy must also include the following:

- Specified Investments
- Non-specified Investments
- Credit Risk Assessment
- Investment Consultants
- Investment Training
- Investment of money borrowed in advance of need.

2.04 On 1st March 2013, the Council approved the Treasury Management Strategy 2013/14 in conjunction with the Treasury Management Policy 2013 – 2016 and Treasury Management Practices 2013 - 2016, following the recommendation of the Cabinet and consideration by Audit Committee.

3.00 CONSIDERATIONS

2014/15 Treasury Management Strategy

- 3.01 The 2014/15 Treasury Management Strategy is attached in Appendix 1 for review and discussion. The Strategy is updated and reported annually to Members in accordance with the CIPFA Code of Practice and the Welsh Government guidance.

The Treasury Management Strategy details the approach that the Council will take for investing and borrowing over the next year, including the budgetary implications of the planned investment and borrowing strategy and a number of treasury management indicators that the CIPFA Code requires.

The contents of the 2014/15 Strategy have not materially changed from that of the 2013/14 Strategy. Members will recall that changes were made to the presentation and layout of the 2013/14 Strategy.

The few minor changes that have been made and the rationale behind the changes made are listed below:-

- Section 3 – Local context.
This is a new section which brings together current levels of borrowing and investments, along with the Council's projections for capital expenditure and use of reserves in order to estimate either the level of borrowing required, or the level of investments the Council will have, over the medium term.
- Section 5 – Investment Strategy.
Additional organisations have been included in the table showing the Council's investment criteria and limits, such as Registered Providers of Social Housing. This is to increase the number of counterparties that the Council can invest with and to spread the Council's exposure to the risk of a Counterparty defaulting.
Changes have been made to the criteria and limits of investments with building societies for reasons outlined in paragraph 3.04 below.
- Section 6 – Borrowing Strategy.
Changes have been made to the planned borrowing strategy in 2014/15 from that of 2013/14 which can be seen in Section 6 – Borrowing Strategy. In 2013/14 the strategy was to create short term revenue savings by not undertaking any new borrowing and funding capital expenditure internally from reserves. In all probability the situation will remain the same in 2014/15 and possibly beyond, however this is not sustainable in the medium term. The strategy for 2014/15 will be to regularly review the level of internal borrowing against the

potential for incurring additional revenue costs by deferring borrowing into future years when long-term borrowing costs are forecast to rise.

- Minor presentational changes have been made to Section 5 – Investment Strategy and Section 6 – Borrowing Strategy to make the document easier to read.

3.02 A training session open to all Members on treasury management was run by Arlingclose, the Council's Treasury Management advisors on the morning of 27th January. The aim of the workshop was to aid Members' understanding of the Treasury Management Strategy.

3.03 On 1st March 2013 the Council approved the current Treasury Management Policy and Treasury Management Practices with both documents covering 3 financial years, 2013 to 2016. It was agreed that these documents would not require annual approval by Members, unless any significant changes was required. No changes need to be made to the Policy, and only minor changes need to be made to the Practices simply to bring them in line with changes approved to the Strategy.

Treasury Management 2013/14 Update

3.04 A statement setting out the Council's investments as at 31st December 2013 is attached as Appendix 2. The presentation and layout of this appendix has been amended from its usual format to make it easier to read and interpret the information being provided. Members are requested to note the following:-

- The investment balance was £59.7m across 17 counterparties.
- One long term investment was made - £2million with Glasgow City Council at an interest rate of 0.95%.
- The Council is gradually reducing the level of investments it has with the building society sector. This is being done 'naturally' as existing investments mature. There are two reasons for this approach:
 1. Currently the Council takes additional security from the building society regulatory framework which would result in the Council being given preferred creditor status in the unlikely event of a building society with whom it had invested, defaulting. The building society regulatory framework is being reformed, and will result in the Council no longer enjoying preferential creditor status in the unlikely event of a default.
 2. Due to the stricter regulatory framework, Arlingclose have undertaken a more rigorous analysis and review of the financial strength of individual societies to try and

avoid potential credit events. Their recommendation is that the Council review our exposure to building societies and make future investments with selected higher credit worthy institutions following their analysis.

- More use has been of the Local Authority sector with £9m invested at 31st December.

3.05 Member of the Committee will recall in previous update reports that Officers have spent time reviewing and considering an alternative Treasury Management system, Treasury Live. For the time the conclusion reached was to continue to use the existing system as the benefits in moving to a new system did not outweigh the costs and disruption to service provision that changing the system would incur.

3.06 At Members request a new appendix has been included in Appendix 3 analysing the Council's long-borrowing portfolio as at 31st December. Information provided includes;

- listing of all loans that the Council owes
- interest rate per loan
- annual interest paid on each loan
- the date each loan was taken out
- each loans maturity date (the date that the loan will be repaid or replaced by a new loan).

As reported in previous update reports total long-term borrowing stands at £172.1m with a weighted average interest rate of 5.4%.

4.00 RECOMMENDATIONS

4.01 Members review the draft Treasury Management Strategy 2014/15 and identify any matters to be drawn to the attention of Cabinet on 18th February 2014.

4.02 Members note the Treasury Management 2013/14 quarterly update.

5.00 FINANCIAL IMPLICATIONS

5.01 As set out in the report.

6.00 ANTI POVERTY IMPACT

6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None directly as a result of this report.

10.00 CONSULTATION REQUIRED

10.01 Arlingclose Ltd.

11.00 CONSULTATION UNDERTAKEN

11.01 Arlingclose Ltd.

12.00 APPENDICES

12.01 Appendix 1 – Draft Treasury Management Strategy 2014/15
Appendix 2 – Investment portfolio as at 31.12.13
Appendix 3 – Borrowing portfolio as at 31.12.13

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

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FLINTSHIRE COUNTY COUNCIL

**TREASURY MANAGEMENT
STRATEGY**

2014/15

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Treasury Management Strategy Report 2014/15

The Council is recommended to:

- **approve the Treasury Management Strategy for 2014/15**
- **approve the Treasury Management Indicators for 2014/15**

1.0 Introduction

In April 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.

In addition, the Welsh Government (WG) issued revised guidance on local authority investments in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.

This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the WG Guidance.

The successful identification, monitoring and control of risk are central to the Council's treasury management strategy as the Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates.

2.0 Economic Context (including Interest Rate Forecast – as provided by Arlingclose Ltd, November 2013.

Economic background: The Bank of England's Monetary Policy Committee (MPC) through its recent forward guidance is committed to keeping policy rates low for an extended period using the Labour Force Survey unemployment rate of 7% as a threshold for when it would consider whether or not to raise interest rates, subject to certain knock-outs. Unemployment was 7.7% in August 2013, but is not forecast to fall below the threshold until 2016, due to the UK's flexible workforce.

The flow of credit to households and businesses is slowly improving but is still below pre-crisis levels. The fall in consumer price inflation from the high of 5.2% in September 2011 to 2.7% in September 2013 will allow real wage increases (i.e. after inflation) to slowly turn positive and aid consumer spending.

Stronger growth data in 2013 (0.4% in Q1, 0.7% in Q2 and 0.8% in Q3) alongside a pick-up in property prices mainly stoked by government initiatives to boost mortgage lending have led markets to price in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop.

However, with jobs growth picking up slowly, many employees working shorter hours than they would like and benefit cuts set to gather pace, growth is likely to only be gradual. Arlingclose forecasts the MPC will maintain its resolve to keep interest rates low until the recovery is convincing and sustainable.

In the US expectations for the slowing in the pace of asset purchases ('tapering') by the Federal Reserve and the end of further asset purchases will remain predominant drivers of the financial markets. The Federal Reserve did not taper in September and has talked down potential tapering in the near term. It now looks more likely to occur in early 2014 which will be supportive of bond and equity markets in the interim.

Credit outlook: The likelihood of banking failures has diminished, but remains a significant risk. Regulatory changes in the UK, US and Europe are underway to move away from the bank bail-outs of previous years (e.g. Lloyds Banking Group and RBS in 2008) to bank resolution regimes in which shareholders, bond holders and unsecured creditors are the first port of call to re-capitalise an institution via bail-in. This is already apparent to holders of subordinated debt issued by the Co-operative Bank, which will suffer a haircut and conversion to alternative securities and/or equity in the bank's liability management exercise. There are also proposals for EU regulatory reforms to Money Market Funds which will, in all probability, result in these funds moving to a VNAV (variable net asset value) basis and losing their 'triple-A' credit rating wrapper. Diversification of investments between creditworthy counterparties to mitigate bail-in risk will become even more important in the light of these developments.

Interest rate forecast: Arlingclose's projected path for short term interest rates remains flat. Markets are still pricing in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop. The MPC will not raise rates until there is a sustained period of strong growth. However, upside risks weight more heavily at the end of our forecast horizon.

Arlingclose continue to project gilt yields on an upward path through the medium term. The recent climb in yields was overdone given the soft fundamental global outlook and risks surrounding the Eurozone, China and US.

Table 1: Interest rate forecast

	Bank Rate	3 month LIBID	12 month LIBID	25-year gilt yield
Q1 2014	0.50	0.45	0.90	3.35
Q2 2014	0.50	0.45	0.95	3.40
Q3 2014	0.50	0.50	0.95	3.45
Q4 2014	0.50	0.55	0.95	3.50
H1 2015	0.50	0.55	1.00	3.55
H2 2015	0.50	0.75	1.05	3.60
H1 2016	0.50	0.75	1.15	3.75
H2 2016	0.50	0.75	1.25	3.95

For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.5%, and that new long-term loans will be borrowed at an average rate of 4.3%.

3.0 Local Context

As at 31st December 2013 the Authority had £172.1m of long term borrowing and £59.7m of investments. This is set out in further detail in section 4. Forecast changes in these sums are shown in the balance sheet analysis in the table below.

Table 2: Balance Sheet Summary and Forecast

	31.3.13 Actual £m	31.3.14 Estimate £m	31.3.15 Estimate £m	31.3.16 Estimate £m	31.3.17 Estimate £m
* Non-HRA CFR	159	163	169	209	216
i HRA CFR	26	25	24	24	23
n Total CFR	185	188	193	233	239
a Less: Other long-term liabilities *	-8	-8	-8	-8	-8
f Borrowing CFR	177	180	185	225	231
c Less: External borrowing **	-172	-172	-172	-172	-172
Internal (over) borrowing	5	8	13	53	59
t Less: Usable reserves	-63	-60	-31	-24	-22
e Less: Working capital	3	3	3	3	3
a Investments (or New borrowing)	55	49	15	-32	-40

* finance leases and PFI liabilities that form part of the Authority's debt

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

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing below their underlying levels, sometimes known as internal borrowing.

The table shows the Authority's CFR increasing steadily until 2015/16, this is linked with the capital programme which increases sharply in 2015/16 due to the 21st century schools building programme. The level of reserves the Authority has is expected to fall in 2014/15 following the implementation of the Single Status Agreement. The combination of the increase in capital expenditure and a reduction in reserves, results in, an expected reduction in investments in 2014/15, and a projected new borrowing requirement in 2015/16.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2014/15.

4.0 Current and Expected Treasury Portfolios

Current portfolio

The Council's treasury portfolio as at 31st December 2013 was as follows:

Table 3: Current Treasury Portfolio

	Principal amount £m	Interest rate %
Investments:		
Call accounts	6.0	0.57
Money market funds	12.6	0.41
Short-term deposits	37.3	0.61
Long-term deposits	2.0	0.95
Landsbanki (Iceland)	1.8	
Total Investments	59.7	0.57
Borrowing:		
Short-term loans	-	-
Long-term PWLB loans (fixed)	143.16	5.86
Long-term PWLB loans (variable)	10.00	0.55
Long-term market loans (LOBOs)	18.95	4.53
Total Borrowing	172.11	5.42
Net Borrowing	114.21	7.85%

Expected changes in portfolio

Current cash flow forecasts show net borrowing increasing to £126m by 31st March 2014, as borrowing is expected to remain at this same level but investments reduce. Net borrowing will further increase during 2014/15, when the single status agreement is implemented and the reserve created specifically is used.

Budget implications

The budget for investment income in 2014/15 is £195k, based on an average investment portfolio of £39m at an average interest rate of 0.50%. The budget for loan interest paid in 2014/15 is £9.3m, based on an average debt portfolio of £172.11 million at a weighted average interest rate of 5.4%. If levels of investments borrowing, and interest rates differ from those forecast, performance against budget will be correspondingly different.

5.0 Investment Strategy

The Council holds surplus funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £57.9 and £83.3 million.

Both the CIPFA Code and the WG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Investment criteria and limits

The Council may invest its surplus funds with any of the counterparties in the table below, subject to the monetary and time limits shown.

Table 4: Investment criteria and limits

	Fitch	Moody's	S & P	Cash Limit	Time Limit
Banks, Building Societies, other organisations and securities whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:	AAA	Aaa	AAA	£7m each	5 years*
	AA+	Aa1	AA+		5 years*
	AA	Aa2	AA		4 years*
	AA-	Aa3	AA-		3 years*
	A+	A1	A+		2 years
	A	A2	A		1 year
	A-	A3	A-	£5m each	1 year
The council's current account bank (NatWest Bank plc) if rated below A-				£5m	next day
UK Building Societies without credit ratings				£1m each	1 year
Money Market Funds ¹ and similar pooled vehicles				£7m each	N/A
UK Central Government (irrespective of credit rating)				unlimited	5 years
UK Local Authorities ²				£7m each	5 years
UK Registered Providers of Social Housing whose lowest published long-term credit rating is:	A-	A3	A-	£7m each	5 years
UK Registered Providers of Social Housing without credit ratings or those whose lowest published long-term credit rating is:	BBB-	Baa-	BBB-	£1m each	1 year
Any other organisation, subject to an external credit assessment and specific advice from the Authority's treasury management adviser				£1m each	3 months
				£1m each	1 year
				£100k each	5 years

¹ as defined in the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003

² as defined in the Local Government Act 2003

- * but no longer than 2 years in fixed-term deposits and other illiquid instruments

To manage the risk of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £7 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes.

There is no intention to restrict investments to bank deposits, and investments may be made with any public or private sector organisations that meet the above credit rating criteria. This reflects a lower likelihood that the UK and other governments will support failing banks as the bail-in provisions in the *Banking Reform Act 2014* and the *EU Bank Recovery and Resolution Directive* are implemented.

In addition, the Authority may invest with organisations and pooled funds without credit ratings, following an external credit assessment and advice from the Authority's treasury management adviser.

Current account bank

The Council's current accounts are held with NatWest Bank plc, which currently meets the above credit rating criteria. During the year should its rating not meet the above criteria the Council will treat NatWest as "high credit quality" for the purpose of making investments that can be withdrawn on the next working day, subject to the bank maintaining a credit rating no lower than BBB-.

Building societies

The Council takes additional comfort from the building societies' regulatory framework and insolvency regime where, in the unlikely event of a building society liquidation, the Council's deposits would be paid out in preference to retail depositors. The Council will consider investing with unrated building societies where independent credit analysis shows them to be suitably creditworthy. The Government has announced plans to amend the building society insolvency regime alongside its plans for wide ranging banking reform, and investments in lower rated and unrated building societies will therefore be kept under continuous review.

Money market funds

Money market funds are pooled investment vehicles consisting of instruments similar to those used by the Council. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. Fees of between 0.10% and 0.20% per annum are deducted from the interest paid to the Council.

Investments in money market funds involve the acquisition of share capital, and are therefore counted as capital expenditure under WG regulations. However, since withdrawals from funds count as capital receipts, these will be used to fund the capital expenditure, leaving no overall impact on the Council's capital programme.

Registered Providers

Formerly known as Housing Associations, Registered Providers of Social Housing are tightly regulated by the Welsh Government or the Homes and Communities agency and retain a high likelihood of receiving government support if needed. The Council will consider investing with unrated Registered Providers with adequate credit safeguards, subject to receiving independent advice.

Other Organisations

The Authority may also invest cash with other organisations, for example by making loans to small businesses. Because of the higher perceived risk of unrated businesses, such investments may provide considerably higher rates of return. They will however only be made following a favourable external credit assessment and on the specific advice of the Authority's treasury management adviser.

Foreign countries

Investments in foreign countries will be limited to those that hold an AAA or AA+ / Aa1 sovereign credit rating from all three major credit rating agencies, and to a maximum of £10 million per foreign country. Investments in countries whose lowest sovereign rating is not AAA will be limited to one year's duration. No country limit will apply to investments in the UK, irrespective of the sovereign credit rating.

Overseas subsidiaries of foreign banking groups will normally be assessed according to the country of domicile of the parent organisation. However, Santander UK plc (a subsidiary of Spain's Banco Santander) and Clydesdale Bank plc (a subsidiary of National Australia bank) will be classed as UK banks due to their substantial UK franchises and the arms-length nature of the parent-subsidary relationships.

Sovereign credit rating criteria and foreign country limits will not apply to investments in multilateral development banks (e.g. the European Investment Bank and the World Bank) or other supranational organisations (e.g. the European Union).

Risk assessment and credit ratings

The Council uses long-term credit ratings from the three main rating agencies Fitch Ratings Ltd, Moody's Investors Service Inc and Standard & Poor's Financial Services LLC to assess the risk of investment default. The lowest available credit rating will be used to determine credit quality.

Long-term ratings are expressed on a scale from AAA (the highest quality) through to D (indicating default). Ratings of BBB- and above are described as investment grade, while ratings of BB+ and below are described as speculative grade. The Council's credit rating criteria are set to ensure that it is unlikely that the Council will hold speculative grade investments, despite the possibility of repeated downgrades.

Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it is likely to fall below the above criteria, then no further investments will be made in that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks.

The Council's investments are normally senior unsecured liabilities of the borrower, and the credit rating of the investment is therefore normally identical to the credit rating of the counterparty. However, where a credit rating agency awards a different rating to a particular class of investment instruments, the Council will base its investment decisions on the instrument credit rating rather than the counterparty credit rating.

Other information on the security of investments

The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions.

If these restrictions mean that insufficient commercial organisations of "high credit quality" are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Specified investments

The WG Guidance defines specified investments as those:

- denominated in pound sterling,

- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
 - the UK Government,
 - a UK local authority, parish council or community council, or
 - a body or investment scheme of “high credit quality”.

The Council defines ‘high credit quality’ organisations as those having a credit rating of A- or higher that are, domiciled in the UK, or a foreign country with a sovereign rating of AA+ or higher.

Non-Specified Investments

Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments in foreign currencies. Non-specified investments will therefore be limited to long term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement; those that are defined as capital expenditure, such as money market funds; and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 5 below.

Table 5: Non-Specified Investment Limits

	Cash Limit
Total long-term investments	£10m
Total shares in money market funds	£30m
Total investments without credit ratings or rated below A-	£10m
Total non-specified investments	£50m

Approved Instruments

The Authority may lend or invest money using any of the following instruments:

- interest-bearing bank accounts,
- fixed term deposits and loans,
- callable deposits and loans where the Authority may demand repayment at any time (with or without notice),
- callable deposits and loans where the borrower may repay before maturity
- certificates of deposit,
- bonds, notes, bills, commercial paper and other marketable instruments, and
- shares in money market funds

Investments may be made at either a fixed rate of interest, or at a variable rate linked to a market interest rate, such as LIBOR, subject to the limits on interest rate exposures below.

Liquidity management

The Council uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and

payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments.

Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.

Planned investment strategy for 2014/15

The economic climate improved slightly during 2013/14 and several longer term investments were made.

However, following discussions with the Council's treasury management advisors after their review of building society risk, the focus has turned away from building societies and returned to placing money "on call" with banks, depositing with other local authorities and extensive use of Money Market Funds.

Treasury management staff will continue to seek out investments that meet the criteria detailed within this strategy whilst having full regard for the Council's cash flow requirements, in particular the expectancy to meet single status and equal pay obligations during the 2014/15 financial year.

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

- Short-term – cash required to meet known cash outflows in the next month, plus a contingency to cover unexpected cash flows over the same period.
- Medium-term – cash required to manage the annual seasonal cash flow cycle, including amounts to cover forecast shortages, planned uses of reserves, and a longer-term contingency.
- Long-term – cash not required to meet cash flows, and used primarily to generate investment income.

Short-term funds are required to meet cash flows occurring in the next month or so, and the preservation of capital and liquidity is therefore of paramount importance. Generating investment returns is of limited concern here, although it should not be ignored. Instant access money market funds and bank deposit accounts will be the main methods used to manage short-term cash. It is estimated that about 35% of surplus monies will be short term for cash flow purposes, although this may vary depending on changes to the interest rate yield curve.

Medium-term funds which may be required in the next one to twelve months will be managed concentrating on security, with less importance attached to liquidity but a slightly higher emphasis on yield. The majority of investments in this period will be in the form of fixed term deposits with banks and building societies. A wide spread of counterparties and maturity dates will be maintained to maximise the diversification of credit and interest rate risks. It is

estimated that about 55% of surplus funds will be medium term. However, again this may vary depending on changes to the interest rate yield curve.

Cash that is not required to meet any liquidity need can be invested for the longer term with a greater emphasis on achieving returns that will support spending on local authority services. Security remains important, as any losses from defaults will impact on the total return, but fluctuations in price and even occasional losses can be managed over the long term within a diversified portfolio. Liquidity is of lesser concern, although it should still be possible to sell investments, with due notice, if large spending commitments arise unexpectedly. A wider range of instruments, including structured deposits, certificates of deposit, gilts and corporate bonds will be used to diversify the portfolio. The Council will consider employing external fund managers that have the skills and resources to manage the risks inherent in a portfolio of long-term investments. However, in the current economic and financial environment it is likely that only a small percentage, about 10% will be invested longer term, probably over two years in fixed term deposits or callable deposits.

With short-term interest rates currently much lower than long-term rates, due consideration will also be given to using surplus funds to make early repayments of long-term borrowing. In addition to the savings on the interest rate differential, this strategy will also reduce the Council's exposure to credit risk and interest rate risk.

6.0 Borrowing Strategy

The Council currently holds £172.11m of long-term loans, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in section 3 shows that the Council does not anticipate undertaking any long term borrowing during 2014/15.

The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which the funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term instead.

By doing so, the Council is able to reduce net borrowing costs (despite forgone investment income) and reduce overall treasury risk. Whilst such a strategy is most likely to be beneficial over the next 2-3 years as official interest rates remain low, it is unlikely to be sustained in the medium-term. The benefits of internal borrowing will be monitored regularly against the

potential for incurring additional costs by deferring borrowing into future years when long-term borrowing costs are forecast to rise. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2014/15 with a view to keeping future interest costs low, even if this causes additional cost in the short term

In addition, the Council may borrow for short periods of time (normally for up to one month) to cover unexpected cash flow shortages.

Sources of borrowing

The approved sources of long-term and short-term borrowing will be:

- Public Works Loan Board
- UK local authorities
- any institution approved for investments above
- any other bank or building society approved by the Prudential Regulation Authority to operate in the UK
- UK public and private sector pension funds (except the Clwyd Pension Fund)
- capital market bond investors
- special purpose companies created to enable joint local authority bond issues.

Planned borrowing strategy for 2014/15

The Head of Finance will:

- Manage the Council's debt maturity profile, i.e. to leave no one future year with a high level of repayments that could cause problems in re-borrowing with the limits stated in this Strategy Statement. Appendix A analyses the debt portfolio of the Council, as at 31st December, 2013.
- To effect any borrowing that maybe required in 2014/15 at the cheapest cost commensurate with future risk based on interest rate forecasts.
- To monitor and review the level of variable interest rate loans in order to take greater advantage of interest rate movements, within the limits stated in this Strategy.
- Continue to monitor options for debt-restructuring and debt re-payment.

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

The Council has previously raised the majority of its long-term borrowing from the Public Works Loan Board, but it continues to investigate other sources of finance, such as bond issues and bank loans, that may be available at more favourable rates.

Loans that present additional risk to the authority, such as lender's option borrower's option (LOBO) loans and variable rate loans will be restricted to the limit on the net exposure to variable interest rates in the treasury management indicators below.

7.0 Policy on Use of Financial Derivatives

In the absence of any legislative power, the Council's policy is not to enter into standalone financial derivatives transactions such as swaps, forwards, futures and options. Derivatives embedded into loans and investments may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

8.0 Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators. The Council is asked to approve the following indicators:

Interest rate exposures

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as an amount of net principal borrowed will be:

	2014/15	2015/16	2016/17
Upper limit on fixed interest rate exposures	£200m	£200m	£200m
Upper limit on variable interest rate exposures	£40m	£40m	£40m

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Maturity structure of borrowing

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Lower	Upper
Under 12 months	0%	10%
12 months and within 24 months	0%	10%
24 months and within five years	0%	30%
Five years and within 10 years	0%	50%
10 years and above	0%	100%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal sums invested for periods longer than 364 days

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2014/15	2015/16	2016/17
Limit on total principal invested beyond year end	£10m	£10m	£10m

Any long term investments carried forward from previous years will be included in each years limit.

Borrowing limits

The Council is being asked to approve these Prudential Indicators as part of the Capital Programme report. However they are repeated here for completeness.

	2014/15	2015/16	2016/17
Operational boundary – borrowing	£198m	£233m	£243m
Operational boundary – other long-term liabilities	<u>£17m</u> £215m	<u>£18m</u> £251m	<u>£19m</u> £262m
Operational boundary – TOTAL			
Authorised limit – borrowing	£218m	£253m	£263m
Authorised limit – other long-term liabilities	<u>£17m</u>	<u>£18m</u>	<u>£19m</u>
Authorised limit – TOTAL	£235m	£271m	£282m

9.0 Other Matters

The WG Investment Guidance requires the Council to note the following three matters each year as part of the investment strategy:

Treasury Management Advisers

The Council's treasury management adviser, Arlingclose continues to provide advice and information on the Council's investment and borrowing activities, although responsibility for final decision making remains with the Council and its officers. The services received include:

- advice and guidance on relevant policies, strategies and reports,
- advice on investment decisions,
- notification of credit ratings and changes,
- other information on credit quality,
- advice on debt management decisions,
- accounting advice,
- reports on treasury performance,
- forecasts of interest rates, and
- training courses.

The quality of this service is controlled by Financial Procedure Rules

Investment training

The needs of the Council's treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

Investment of Money Borrowed in Advance of Need

The Council will not borrow more than or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

The Head of Finance under delegated powers may borrow in advance of need if it is within forward approved Capital Financing Requirement estimates, and if there is a clear business case for doing so.

Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism. The Council would not look to borrow more than 12 months in advance of need.

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

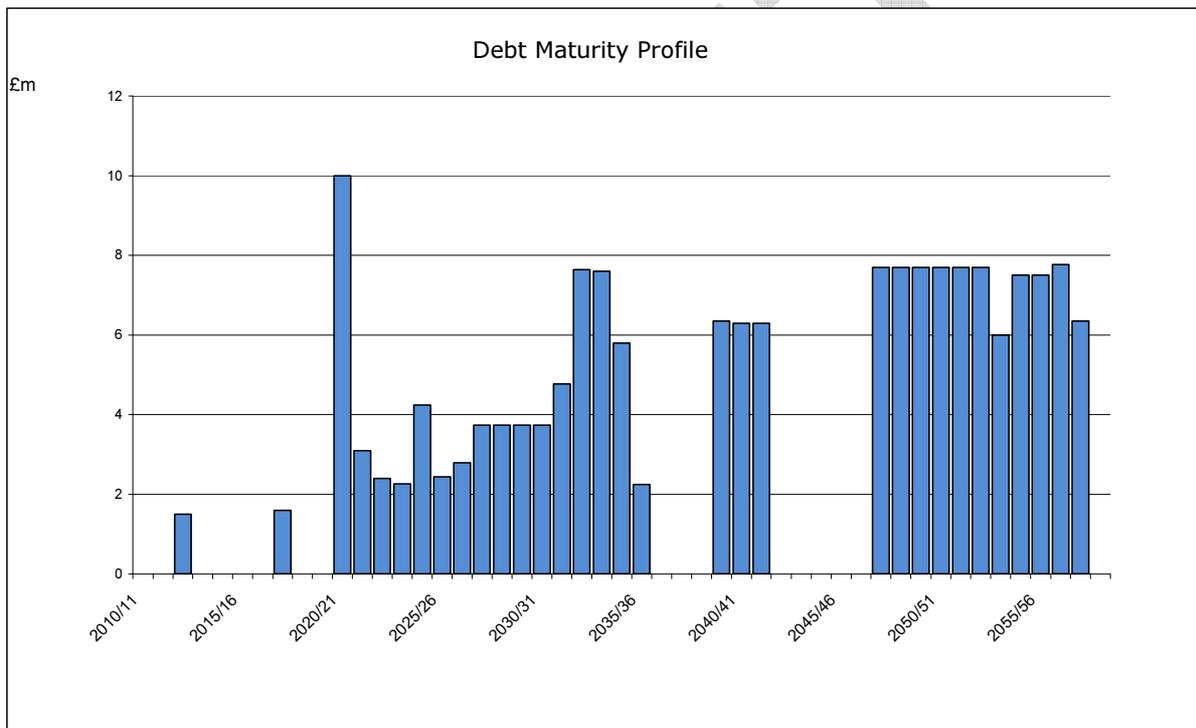
Other Options Considered

The WG Investment Guidance and the CIPFA Code of Practice do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted the Cabinet Member for Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter periods.	Interest income will be lower	Reduced risk of losses from credit related defaults
Invest in a wider range of counterparties and/or for longer periods.	Interest income will be higher	Increased risk of losses from credit related defaults
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest

		costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain
Reduce level of borrowing if debt rescheduling costs weren't prohibitive	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs will be less certain

APPENDIX A – DEBT MATURITY PROFILE



FLINTSHIRE COUNTY COUNCIL - INVESTMENT PORTFOLIO

31st DECEMBER 2013

APPENDIX 2

Counterparty Name	Amount Invested £m	Start Date	Maturity Date	Interest Rate	Investment Interest £	Type of Investment	Period to Maturity
ABERDEEN CITY COUNCIL	2.0	02/12/13	17/04/14	0.45%	3,353	Local Auth	3 months +
ABERDEEN CITY COUNCIL	2.0						
BANK OF SCOTLAND	4.0	04/10/13	04/04/14	0.75%	14,959	UK Bank	3 months +
BANK OF SCOTLAND	3.0	05/12/13	05/06/14	0.75%	11,219	UK Bank	3 months +
BANK OF SCOTLAND	7.0						
BARCLAYS	3.2	01/10/13	17/01/14	0.47%	4,441	UK Bank	1 month or less
BARCLAYS	1.7	24/09/13	28/07/14	0.76%	10,881	UK Bank	3 months +
BARCLAYS	1.0	01/10/13	18/09/14	0.82%	7,918	UK Bank	3 months +
BARCLAYS	5.9						
CLOSE BROTHERS LTD	2.5	18/11/13	18/02/14	0.50%	3,151	UK Bank	1 - 3 months
CLOSE BROTHERS LTD	2.5						
COVENTRY BUILDING SOCIETY	2.0	03/10/13	28/01/14	0.46%	2,949	UK BS	1 month or less
COVENTRY BUILDING SOCIETY	1.0	08/10/13	18/02/14	0.46%	1,676	UK BS	1 - 3 months
COVENTRY BUILDING SOCIETY	3.0						
GLASGOW CITY COUNCIL	1.0	16/12/13	16/06/14	0.50%	2,493	Local Auth	3 months +
GLASGOW CITY COUNCIL	2.0	02/12/13	01/12/14	0.60%	11,967	Local Auth	3 months +
GLASGOW CITY COUNCIL	2.0	08/11/13	09/11/15	0.95%	38,052	Local Auth	12 months +
GLASGOW CITY COUNCIL	5.0						
HANDELSBANKEN	4.0	03/07/13	31/01/14	0.60%	13,940	Overseas	1 month or less
HANDELSBANKEN	4.0						
IGNIS STERLING LIQUIDITY FUND	7.0	02/04/13	31/01/14	0.44%	25,876	MMF	1 month or less
IGNIS STERLING LIQUIDITY FUND	7.0						
INSIGHT LIQUIDITY FUNDS LLP	2.2	15/11/13	31/01/14	0.38%	1,743	MMF	1 month or less
INSIGHT LIQUIDITY FUNDS LLP	2.2						
LANDSBANKI ISLANDS	0.6	22/07/08	17/10/08		16,647	Iceland	Partially Returned
LANDSBANKI ISLANDS	0.7	01/09/08	14/11/08		17,334	Iceland	Partially Returned
LANDSBANKI ISLANDS	0.5	08/09/08	18/11/08		11,029	Iceland	Partially Returned
LANDSBANKI ISLANDS	1.8						
LEEDS BUILDING SOCIETY	1.5	03/10/13	28/01/14	0.42%	2,019	UK BS	1 month or less
LEEDS BUILDING SOCIETY	1.1	08/10/13	18/02/14	0.44%	1,764	UK BS	1 - 3 months
LEEDS BUILDING SOCIETY	2.6						
MORGAN STANLEY	3.4	06/11/13	31/01/14	0.35%	2,816	MMF	1 month or less
MORGAN STANLEY	3.4						
NATIONAL COUNTIES BUILDING SOCIETY	2.0	14/02/13	14/02/14	1.20%	24,000	UK BS	1 - 3 months
NATIONAL COUNTIES BUILDING SOCIETY	2.0						
NATIONAL WESTMINSTER BANK	2.0	03/04/13	31/01/14	0.50%	8,301	UK Bank	1 month or less
NATIONAL WESTMINSTER BANK	2.0						
NATIONWIDE BUILDING SOCIETY	2.1	04/09/13	17/01/14	0.48%	3,728	UK BS	1 month or less
NATIONWIDE BUILDING SOCIETY	1.2	09/10/13	18/02/14	0.47%	2,040	UK BS	1 - 3 months
NATIONWIDE BUILDING SOCIETY	1.0	03/07/13	17/04/14	0.58%	4,576	UK BS	3 months +
NATIONWIDE BUILDING SOCIETY	4.3						
PROGRESSIVE BUILDING SOCIETY	1.0	16/09/13	10/03/14	0.65%	3,116	UK BS	1 - 3 months
PROGRESSIVE BUILDING SOCIETY	2.0	03/10/13	03/04/14	0.65%	6,482	UK BS	3 months +
PROGRESSIVE BUILDING SOCIETY	3.0						
THE HIGHLAND COUNCIL	2.0	05/11/13	28/04/14	0.45%	4,290	Local Auth	3 months +
THE HIGHLAND COUNCIL	2.0						
TOTAL	59.7			0.57%	262,762		

FLINTSHIRE COUNTY COUNCIL - INVESTMENTS SUMMARISED BY TYPE & MATURITY

31st DECEMBER 2013

APPENDIX 2

Type of Investment	Total Amount Invested £m	% of Total Portfolio	Period to Investment Maturity				
			1 month or less £m	1 - 3 months £m	3 months + £m	12 months + £m	Iceland (Landsb.) £m
Debt Mangement Office (DMO)	0.0	0%					
UK Bank	17.4	29%	5.2	2.5	9.7		
UK Building Society (UK BS)	14.9	25%	5.6	6.3	3		
Overseas	4.0	7%	4				
Local Authorities	9.0	15%			7	2	
Iceland (Landsbanki)	1.8	3%					1.8
Money Market Funds (MMF)	12.6	21%	12.6				
Total (£)	59.7	100%	27.4	8.8	19.7	2.0	1.8
Total (%)			46%	15%	33%	3%	3%

FLINTSHIRE COUNTY COUNCIL - LONG TERM BORROWING ANALYSIS

31st DECEMBER 2013

APPENDIX 3

Type of Loan	Principal Loan Outstanding £	Interest Rate %	Annual Interest £	Loan Start Date	Loan Maturity Date
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PWLB Fixed Rate Maturity Loans					
	2,436,316	9.50	231,450	20/03/86	30/11/25
	1,392,181	9.13	127,036	01/04/86	30/11/23
	1,218,158	9.13	111,157	01/04/86	30/11/21
	696,090	9.13	63,518	24/03/88	30/11/27
	696,090	9.50	66,129	25/08/88	31/03/28
	870,113	9.25	80,485	26/10/88	30/09/23
	1,044,135	9.50	99,193	26/05/89	31/03/25
	1,044,135	9.50	99,193	26/05/89	31/03/29
	561,642	8.25	46,335	28/09/95	30/09/32
	181,120	8.63	15,622	28/09/95	30/09/32
	348,045	8.25	28,714	28/09/95	30/09/27
	696,090	8.25	57,427	28/09/95	30/09/28
	1,740,226	8.25	143,569	28/09/95	30/09/29
	1,740,226	8.25	143,569	28/09/95	30/09/30
	1,740,226	8.25	143,569	28/09/95	30/09/31
	522,068	8.25	43,071	28/09/95	30/09/21
	696,090	8.25	57,427	28/09/95	30/09/24
	1,740,226	8.25	143,569	28/09/95	30/09/26
	1,000,282	8.63	86,274	28/09/95	30/09/22
	2,000,000	7.75	155,000	18/04/97	18/10/27
	2,000,000	7.75	155,000	18/04/97	18/10/28
	2,000,000	7.75	155,000	18/04/97	18/10/29
	2,000,000	7.75	155,000	18/04/97	18/10/30
	1,600,000	7.38	118,000	22/05/97	22/11/17
	4,000,000	7.13	285,000	17/07/97	31/03/55
	4,000,000	7.13	285,000	17/07/97	31/03/56
	4,492,873	7.13	320,117	17/07/97	31/03/57
	3,500,000	7.00	245,000	17/07/97	31/03/55
	3,500,000	7.00	245,000	17/07/97	31/03/56
	3,278,252	7.00	229,478	17/07/97	31/03/57
	1,333,332	5.75	76,667	20/05/98	18/04/31
	1,050,000	6.00	63,000	20/05/98	18/04/26
	2,000,000	5.75	115,000	09/06/98	30/09/32
	3,000,000	5.75	172,500	09/06/98	30/09/33
	4,000,000	5.75	230,000	09/06/98	30/09/34
	3,850,000	5.25	202,125	17/09/98	31/03/58
	1,200,000	4.75	57,000	08/12/98	31/03/54
	2,500,000	4.75	118,750	08/12/98	31/03/58
	4,800,000	4.50	216,000	08/12/98	31/03/54
	6,000,000	4.63	277,500	01/04/99	31/03/53
	4,000,000	4.50	180,000	22/04/99	31/03/52
	1,700,000	4.50	76,500	10/08/99	31/03/53
	3,700,000	4.50	166,500	10/08/99	31/03/52
	7,700,000	4.50	346,500	10/08/99	31/03/51
	7,700,000	4.50	346,500	10/08/99	31/03/50
	7,700,000	4.50	346,500	10/08/99	31/03/49
	7,700,000	4.50	346,500	10/08/99	31/03/48
	2,500,000	4.75	118,750	05/04/01	31/03/25
	1,400,000	4.50	63,000	15/11/01	31/03/23
	1,350,000	4.50	60,750	15/11/01	31/03/22
	1,700,000	4.45	75,650	02/08/05	18/04/31
	4,900,000	4.45	218,050	02/08/05	18/04/32
	4,600,000	4.45	204,700	02/08/05	18/04/33
	1,800,000	4.45	80,100	02/08/05	18/04/34
	2,244,611	4.45	99,885	02/08/05	18/04/35
Total	143,162,527	5.86	8,393,328		

Market Fixed Rate Loans (LOBOS)					
	6,350,000	4.48	284,480	24/07/07	24/01/40
	6,300,000	4.53	285,075	24/07/07	24/01/41
	6,300,000	4.58	288,540	24/07/07	24/01/42
Total	18,950,000	4.53	858,095		

PWLB Variable Rate Maturity Loans					
	10,000,000	0.55	55,000	05/05/10	05/05/20
Total	10,000,000	0.55	55,000		

Totals					
Fixed Rate	162,112,527		9,251,423		
Variable Rate	10,000,000		55,000		
Grand Total	172,112,527	5.41	9,306,423		

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FLINTSHIRE COUNTY COUNCIL

REPORT TO: **AUDIT COMMITTEE**

DATE: **WEDNESDAY, 29 JANUARY 2014**

REPORT BY: **HEAD OF FINANCE**

SUBJECT: **COUNCIL BANKING ARRANGEMENTS**

1.00 PURPOSE OF REPORT

1.01 The provide Members with a progress report on preparations to tender the Council's banking arrangements.

2.00 BACKGROUND

2.01 Following the Audit Committee meeting of 17th July 2013, it was resolved that members of the committee would be informally updated of any progress on the provision of the Council's banking services.

2.02 The Council currently banks with Nat West – a long standing arrangement that has been in place since 1996, with the current contract due to expire in May 2014.

3.00 CONSIDERATIONS

3.01 Officers from the Technical Accounting team met with Procurement colleagues in early October 2013 to discuss the banking tender process and clarify requirements.

3.02 The advice was that a 'mini tender' exercise be completed using a framework agreement that the Eastern Shires Purchasing Organisation (ESPO) were in the process of completing for banking services for public sector bodies to utilise.

3.03 The Council has made extensive use of tendering through ESPO previously. Utilising existing framework agreements is considered a far more efficient and cost effective process than the Council completing its own full tender exercise which is likely to result in the same organisations bidding in any case.

3.04 Unfortunately there have been a number of delays in ESPO completing their tender exercise. In December a progress update was received from ESPO advising that they are finalising the terms of the banking services framework with the aim being to have it up and running in January 2014.

- 3.05 Further discussions were held with Procurement colleagues to establish the potential impact of any delay in the commencement of the ESPO framework. Their advice was to wait for the ESPO framework to be completed.
- 3.06 These delays already experienced, and any further delays, may result in our current banking contract expiring. Contact has been made with Nat West who confirmed that should our contract overrun, the existing contract would continue 'as is' until a new agreement was put in place and that the Council's banking function would not be placed at risk.
- 3.07 Initial local research indicates that there are now only three active participants in the local government banking services market likely to submit a tender – Nat West, Lloyds and Barclays.
- 3.08 Of the other main banks with a high street presence; Santander retain some local government business but the research indicated that the bank hasn't tendered for any new local contracts in the last 5 years, whilst research showed that HSBC do not currently have any local government business and hasn't tendered for any new contracts. The Co Op (the only other bank to submit a tender in 2008) has recently withdrawn from the sector and existing customers have had to make alternative banking arrangements at very short notice.
- 3.09 Meanwhile a cross-directorate group has been set up to discuss the Council's future banking requirements for all Council establishments. The group consists of senior officers from Corporate Finance, IT, Revenues & Benefits, Clwyd Pension Fund and Procurement.
- 3.10 Whilst the Finance Department is responsible for managing the banking function and the contractual and day-to-day relationship with the bank, however the future banking requirements of key stakeholders across the Council must be sought out and given due consideration.
- 3.11 Council establishments' use of petty cash will be considered as part of establishing our future banking requirements. Work commenced in November to review petty cash. The first part of the review addressed minor issues raised by Wales Audit Office following the 2012/13 Statement of Accounts audit. The second part of the review will focus on establishing the different reasons for the use of petty cash across all Council establishments and finding alternative, more modern options to petty cash that are more cost effective.

4.00 RECOMMENDATIONS

- 4.01 Members are asked to note the report.

5.00 FINANCIAL IMPLICATIONS

5.01 None directly as a result of this report.

6.00 ANTI POVERTY IMPACT

6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None directly as a result of this report.

10.00 CONSULTATION REQUIRED

10.01 None directly as a result of this report.

11.00 CONSULTATION UNDERTAKEN

11.01 None directly as a result of this report.

12.00 APPENDICES

12.01 None.

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

**Contact Officer: Kerry Feather, Head of Finance
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Email: kerry.feather@flintshire.gov.uk**

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FLINTSHIRE COUNTY COUNCIL

REPORT TO: **AUDIT COMMITTEE**

DATE: **WEDNESDAY, 29 JANUARY 2014**

REPORT BY: **HEAD OF LEGAL AND DEMOCRATIC SERVICES**

SUBJECT: **ANNUAL REPORT ON EXTERNAL INSPECTIONS**

1.00 PURPOSE OF REPORT

1.00 To receive the first Annual Report detailing reports by external auditors, other regulators and inspectors.

2.00 BACKGROUND

2.01 The Local Government (Wales) Measure 2011 contains various provisions relating to the work of audit committees. Statutory guidance made under Section 85 of the Measure was issued in June 2012. That guidance advised that audit committees should receive and consider reports from external auditors, other regulators and inspectors.

2.02 At the first informal meeting between members of the Audit Committee and Chairs and Vice-chairs of Overview and Scrutiny held on the 22 February 2013, it was agreed that officers should put in place a process to monitor all reports issued by external auditors, regulators and inspectors. This to include details of which committees or other member fora such reports have been reported to.

2.03 Following that meeting officers put in place arrangements for such records to be maintained by the Policy & Performance Team within the Chief Executive's Department. Attached as Appendix 1 is a table detailing the reports issued during 2013 by various external regulators and inspectors, a short summary of the findings and the member bodies to which those reports have been reported and when.

3.00 CONSIDERATIONS

3.01 Where a report by an external auditor, other regulator or inspector contains recommendations, it is important that those recommendations receive proper consideration by both officers and members and are responded to. The responses will, on occasions, require an action plan to implement changes and appropriate procedures need to be in place to oversee the implementation of such action plans.

3.02 It is part of the Terms of Reference of the Audit Committee to ensure that effective processes are in place for setting and monitoring such action plans. Whilst the Audit Committee has the responsibility for ensuring all audit reports issued by the external auditor are implemented, for other reports the Committee's Terms of Reference make clear it is sufficient that it is satisfied that there are effective processes in place. These processes may, for example, include the work of Overview and Scrutiny Committees.

3.03 Appendix 1 shows that all reports issued by the Wales Audit Office during 2013 have been reported to the Audit Committee. It also shows that all reports raising issues of non compliance issued in the first 10 months of the year have been reported to at least one member body. Arrangements are currently being made for the Estyn Report received in November to be considered by appropriate member fora.

4.00 RECOMMENDATIONS

4.01 To note how reports by external audits, other regulators and inspectors have been dealt with in 2013.

5.00 FINANCIAL IMPLICATIONS

5.01 None as a result of this report.

6.00 ANTI POVERTY IMPACT

6.01 None as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None as a result of this report.

8.00 EQUALITIES IMPACT

8.01 None as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None as a result of this report.

10.00 CONSULTATION REQUIRED

10.01 With officers in Policy and Performance team.

11.00 CONSULTATION UNDERTAKEN

11.01 With officers in Policy and Performance team.

12.00 APPENDICES

12.01 Appendix 1 - table detailing reports issued during 2013.

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

Table of external regulators and inspectors maintained by Policy & Performance Team

Contact Officer: Peter Evans
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Email: peter.j.evans@flintshire.gov.uk

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Regulatory Body	Name of Report	Date Issued	Summary of Findings	Response Sent	Where reported	When (MM/YY)
Wales Audit Office	Improvement Assessment Letter (2)	Jan-13	<p>Proposals for Improvement</p> <p>Improvement Planning P1: Within the context of its medium-term corporate planning, the Council should define a set of annual Improvement Objectives that encapsulates its ambitions for the year and communicate them in a form that enables the public to hold the Council to account for its performance.</p>	Yes	Cabinet Corporate Resources Overview & Scrutiny Audit Committee	Feb '13
			<p>P2: Ensure that the Improvement Plan available to the public on the Council's website reflects any changes resulting from reviews during the year, and that any revised Plan includes a record of any such changes.</p>			Mar '13
			<p>Improvement Reporting P3: Increase the use of relevant data to support the Council's evaluation of outcomes in relation to its Improvement Objectives.</p>			Mar '13
			<p>P4: Improve the balance of the narrative supporting each assessment, drawing out the lessons learned from particularly successful work and from work that has not gone as well as intended.</p>			

Wales Audit Office	Annual Improvement Report	May-13	There were no statutory recommendations or proposals for improvement.	Yes	Cabinet Corporate Resources Overview & Scrutiny Audit Committee	May '13 June '13 June '13
Wales Audit Office	Improvement Assessment (Letter 1)	Sep-13	There were no statutory recommendations or proposals for improvement.	Yes	Cabinet Corporate Resources Overview & Scrutiny Audit Committee	Oct '13 Nov '13 TBC
Wales Audit Office	Annual Audit Letter	Oct-13	The Council complied with its responsibilities relating to financial reporting and use of resources but there is further scope to strengthen its financial controls in a number of areas and the Council faces significant financial challenge which needs to be addressed	TBC	Audit Committee	Dec '13
Wales Audit Office	Improvement Assessment (Letter 2)	Dec-13	No statutory recommendations or proposals for improvement.		Audit Committee	Jan '14

Information Commissioner's Office	Data Protection Audit	Jun-13	There is a reasonable level of assurance that processes and procedures are in place and delivering data protection compliance. The audit has identified some scope for improvement in existing arrangements to reduce the risk of non-compliance with the Data Protection Act.	Yes	Corporate Resources Overview & Scrutiny Audit Committee	Sept '13 Oct '13
CSSIW	Flintshire County Council Performance Report 2013	Oct-13	Summary The council benefits from strong leadership and clear vision. Overall it has continued to make progress in a number of key areas. It is able to evidence a range of positive outcomes which have been delivered through its strategic transformation of services. It has signalled its intention to put people in control of the services they receive and to support more people to live independent lives. It is seeking to reduce dependency on its services by strengthening support in communities and the use of new technology. The council is forward looking and is innovative. This has been recognised in the number of awards it has been given.	Yes	Informal Cabinet Social Care and health Overview Scrutiny	Nov '13 Nov '13
CSSIW	Flintshire Fostering Services	Feb-13	No service improvements were identified		Social Care and Health Overview Scrutiny	June '13

CSSIW	Residential Home Marleyfield, Buckley	Nov-13	There were no issues of non compliance to report.		Social Care and Health Overview Scrutiny (HoS Performance Report)	Programmed for Jul '14
CSSIW	Residential Home Llys Gwenffrwd, Holywell	Nov-13	There were no issues of non compliance to report.		Social Care and Health Overview Scrutiny (HoS Performance Report)	Programmed for Jul '14
CSSIW	Residential Home Croes Atti, Flint	Apr-13	A positive report with no issues of non compliance.		Social Care and Health Overview Scrutiny	Nov '13
CSSIW	Supported Living Service	Feb-13	There were no issues of non compliance to report		Social Care and Health Overview Scrutiny	June '13
CSSIW	Community Support Service	Apr-13	A positive report with no issues of non compliance although two recommendations were made with regard to cover arrangements for the long term absence of the registered manager, and the need for a more up to date management structure.		Social Care and Health Overview Scrutiny	Nov '13

CSSIW	Supported Living Services	Sep-13	One issue of non compliance in relation to Quality of Life, and the administration of medication, which has since been actioned.		Social Care and Health Overview Scrutiny (HoS Performance Report)	Programmed for Jul '14
ESTYN	ESTYN Monitoring Visit	Feb-13	Authority removed from the follow-up category of Estyn monitoring		Cabinet Audit Committee	Mar 13 June 13
	Schools Monitoring Report	Nov-13	As per report		TBC	TBC

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FLINTSHIRE COUNTY COUNCIL

REPORT TO: **AUDIT COMMITTEE**
DATE: **WEDNESDAY, 29 JANUARY 2014**
REPORT BY: **CHIEF EXECUTIVE**
SUBJECT: **PROTOCOL ON COLLABORATION**

1.00 **PURPOSE OF REPORT**

1.01 To approve the updated protocol on collaboration.

2.00 **BACKGROUND**

2.01 At the Audit Committee meeting on the 12 June 2013 it received a report on collaborative project arrangements. That report set out details of the arrangements in place in Flintshire to address the governance of collaboration and performance monitoring. The committee resolved to note and monitor the arrangements in place and also that the protocol be developed to include the role of the Audit Committee.

3.00 **CONSIDERATIONS**

3.01 The protocol referred to at the Audit Committee meeting existed in the minutes of the Council and the then Executive where arrangements had been agreed. The four parts of those arrangements have now been embodied in paragraphs 2 to 5 of the protocol which is attached as Appendix 1.

3.02 At the Audit Committee meeting of the 12 June the resolution was confined to adding to the protocol reference to the role of the Audit Committee and this is set out in paragraph 7 of Appendix 1. In preparing the amendment pursuant to the resolution it became clear that there is a need for the protocol to also refer to the roles of Overview & Scrutiny Committees and this is included as paragraph 6 in Appendix 1.

4.00 **RECOMMENDATIONS**

4.01 For the committee to approve the protocol set out in Appendix 1.

5.00 **FINANCIAL IMPLICATIONS**

5.01 None as a result of this report.

6.00 ANTI POVERTY IMPACT

6.01 None as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None as a result of this report.

8.00 EQUALITIES IMPACT

8.01 None as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None as a result of this report.

10.00 CONSULTATION REQUIRED

10.01 None as a result of this report.

11.00 CONSULTATION UNDERTAKEN

11.01 With relevant officers.

12.00 APPENDICES

12.01 Appendix 1 – Protocol on Arrangements for Collaborative Projects

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

Report and minute of the Audit Committee meeting of the
12 June 2013.

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Flintshire Protocol on Arrangements for Collaborative Projects

1. This protocol records the arrangements that have been agreed to address the governance and performance monitoring of collaborative projects.
2. **For new collaborations** – the appropriate Overview & Scrutiny Committee will have a full report at the three stages of inception, Outline Business Case (OBC) and Final Business Case (FBC) for major projects and that committee's full input will be presented to Cabinet as part of the formal decision making process.
3. **Post-implementation of a new collaboration** – the appropriate Overview & Scrutiny Committee will receive regular post-implementation performance reports (at intervals to be agreed, for example, quarterly) for the first 12 months following implementation and thereafter main-streamed reporting in accordance with Flintshire's performance reporting arrangements.
4. **Members information on service changes** - prior detailed notice to all Members over operational changes (for example, contracts, performance standards, service failure remedy routes, etc).
5. **Regional scrutiny post implementation** - arrangements will be considered over and above the local arrangements on key collaborations, for example, school improvement. This could have the shape, for example and using the same example, of the six local respective scrutiny chairs meeting to oversee implementation and to ensure thorough and timely reporting to their constituent authorities.
6. **Overview & Scrutiny Committee roles**
 - Review and evaluative comment (to Cabinet) on all significant proposed collaborations at the inception, outline business case and final business case steps as set out – specifically on the risks and benefits of the proposals.
 - Scrutiny of performance during the transition stage from the current to the new governance and service planning and delivery arrangements.
 - Recommendation (to Cabinet) on the type and frequency of post transition performance management reporting.
 - Full participation in those performance management reporting arrangements.
7. **Audit Committee Roles**
 - Review and evaluative comment (to Cabinet and Scrutiny) on the proposed governance and assurance arrangements for any significant proposed collaboration at the final business case stage.

- Review of and evaluative comment on the analysis and recommendations of the internal audit report provided by the respective lead authority on any such collaboration at the final business case stage.
- Review of and evaluative comment on the risk and performance management proposals for the recommended new collaborative service at the final business case stage.
- Retrospective review of governance integrity, risk management and performance management of the new service as required/ requested/ advised.

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **AUDIT COMMITTEE**
DATE: **WEDNESDAY, 29 JANUARY 2014**
REPORT BY: **HEAD OF FINANCE**
SUBJECT: **AUDIT CHARTER UPDATE**

1.00 PURPOSE OF REPORT

1.01 At the request of the Constitution Committee, to bring a sentence in the Internal Audit Charter to the attention of the Audit Committee for their consideration.

2.00 BACKGROUND

2.01 The Internal Audit department has had a charter since 2002. The charter formalises the status, independence and responsibility of the department and is part of the Constitution and was last updated in 2011.

2.02 New Public Sector Internal Audit Standards (PSIAS) were published in April 2013 and included new requirements for the content of the charter. The Flintshire charter was therefore updated to include these requirements, most of which reflected current practice but had not previously been written into the charter.

2.03 The updated charter was presented to the Audit Committee on 30th July 2013, when it was approved with some minor changes. It was then presented to the Constitution Committee on 16th October where it was endorsed. However, the committee requested that the Audit Committee consider the sentence in the charter concerning the use of audit staff on non-audit work in emergency situations.

3.00 CONSIDERATIONS

3.01 The charter includes the following in the section on Independence and Authority:

'Every effort is made to preserve objectivity by ensuring that all members of internal audit staff are free from any conflicts of interest and do not undertake any non-audit duties. Internal Audit has complete segregation from Council operations and is not responsible for the management of areas that are audited. The Internal Audit Manager and internal audit staff are not authorised to:

- *Perform any operational duties associated with the Authority*
- *Initiate or approve accounting transactions on behalf of the Authority*
- *Direct the activities of any employee unless specifically seconded to Internal Audit'*

Under the Audit Resources section it includes the following:

*Internal Audit will not participate in the day-to-day operation of any systems of internal financial control. **However, in strict emergency situations only, audit personnel may be called upon to carry out non-audit work on a temporary basis.***

It is the last sentence that the Constitution Committee asked for the Audit Committee to consider. Their concern was about it being misused by management to divert audit staff away from sensitive areas.

- 3.02 This sentence has not been added to the charter during this update or the previous one. As far as I can see it has been there since 2002.
- 3.03 As far as I am aware it has never been used, certainly not since I first came to Flintshire in 2005.
- 3.04 I have researched the standards, any suggested charter contents from official bodies, and the charters of neighbouring authorities. None include this provision.

4.00 RECOMMENDATIONS

- 4.01 That the committee consider the inclusion of this sentence within the charter and recommend one of the following.
1. The sentence should be deleted from the charter (as it should not be there, audit staff should never be called upon in this way, and it has never been used), or
 2. The sentence should remain (as the other parts of the charter give enough protection, the sentence stresses strict emergency situations only, and it has never been used), or
 3. The sentence should remain but with an additional sentence inserted such as "If such a call is made the decision to allocate resources will be the Internal Audit Manager's alone" (to stress the independence of audit but still give the option of providing resource).

5.00 FINANCIAL IMPLICATIONS

5.01 None as a result of this report.

6.00 ANTI POVERTY IMPACT

6.01 None as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None as a result of this report.

8.00 EQUALITIES IMPACT

8.01 None as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None as a result of this report.

10.00 CONSULTATION REQUIRED

10.01 None as a result of this report.

11.00 CONSULTATION UNDERTAKEN

11.01 None as a result of this report.

12.00 APPENDICES

12.01 Updated Internal Audit charter.

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

None

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INTERNAL AUDIT CHARTER

Introduction

Internal Audit is a statutory independent review function, covered by the Accounts and Audit Regulations 2005 (Wales). It is set up within the Finance Division as a service to the Council and all levels of management. It supports the Head of Finance, the “responsible officer” (Section 151 officer under the Local Government Act 1972), in meeting her statutory responsibilities for the proper administration of financial affairs.

Public Sector Internal Audit Standards (PSIAS) published in 2013 define the activity and standards that must be met. They are mandatory for all internal audit departments in the UK public sector.

They include a Code of Ethics which Internal Auditors must conform to, covering integrity, objectivity, confidentiality and competency.

The existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.

Definition of Internal Audit

The PSIAS state that ‘Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.’

It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

It may also undertake consulting services at the request of the organisation, subject to there being no impact on the core assurance work and the availability of skills and resources.

Role and Scope of Internal Audit

The role of Internal Audit is to provide the Authority, through the Audit Committee with an independent and objective opinion on the adequacy and effectiveness of internal control, risk management and governance arrangements. The department

reviews, appraises and reports on:

- The adequacy and effectiveness of the systems of financial, operational and management control and their operation in practice in relation to the business risks to be addressed;
- The extent of compliance with and relevance of, policies, standards, plans and procedures established by the County Council and the extent of compliance with external laws and regulations, including reporting requirements of regulatory bodies;
- The extent to which the assets and interests are acquired economically, used efficiently, accounted for and safeguarded from losses of all kinds arising from waste, extravagance, inefficient administration, poor value for money, fraud or other cause, and that adequate business continuity plans exist;
- The suitability, accuracy, reliability and integrity of financial and other management information and the means used to identify, measure, clarify and report such information;
- The integrity of processes and systems, including those under development, to ensure that controls offer adequate protection against error, fraud and loss of all kinds; and that the process aligns with the Council's strategic goals;
- The follow-up action taken to remedy weaknesses identified by Internal Audit review, ensuring that good practice is identified and communicated widely;
- The operation of the Council's corporate governance arrangements;
- The potential within the Council for fraud and other violations through the analysis of systems of control in high-risk operations.

The Internal Audit department completes advisory / consultancy work in agreement with Directors, Heads of Service and Senior Managers by responding to requests for audit reviews and by contributing to projects and working groups throughout the Authority.

Where the Authority has entered into a partnership with other organisations the partnership arrangement will be subject to review. In addition, where Flintshire County Council is the lead authority of a partnership or collaboration, the work undertaken will be subject to review by Flintshire Internal Audit.

All managers are responsible for applying controls to reasonably prevent and detect fraud. Furthermore, internal audit is not responsible for identifying fraud, however it will assess the risk of fraud and be aware of the risk of fraud when planning and undertaking any internal audit work. All actual or suspected incidents of fraud,

corruption or impropriety should be reported without delay to Internal Audit in accordance with Financial Procedure Rules (ref 11.17e). The internal audit department investigates fraud and irregularity in terms of:

- The undertaking of investigations into reports of violations of the Council's regulations or criminal activities i.e. fraud against the Council
- The undertaking of investigations of reports from staff, other persons engaged in activities on behalf of the Council and members of the public, reporting perceived cases of possible violations of rules or regulations, mismanagement, misconduct, or fraudulent abuse of authority.

Referrals to the police are made if there is suspected criminal activity, in accordance with the Corporate Anti-Fraud and Corruption Strategy and the Fraud and Irregularity Response Plan, following consultation with the Monitoring Officer or Human Resources where appropriate.

The investigation of Housing and Council Tax Benefit fraud is undertaken by the Benefits Fraud Team, however Internal Audit will overview these procedures.

Where it is thought necessary, External Audit may conduct investigations, either in liaison with Internal Audit or independently.

Independence and Authority

Internal Audit is independent of the activities that it audits to ensure the unbiased judgements essential to its proper conduct and impartial advice to management.

To ensure independence, Internal Audit operates within a framework that gives it the authority to:

- have unrestricted access to all activities undertaken in the Council.
- have unrestricted access to all functions, records and property, including those of partner organisations. In very exceptional circumstances if the "responsible officer" (Section 151 Officer) and Monitoring Officer believe this would constitute a breach of the laws of confidentiality, or the provisions of the Human Rights Act or the Data Protection Act the matter will be referred to the Audit Committee for consideration.
- have full and free access to the Audit Committee via the Internal Audit Manager, and an annual private meeting with the committee;
- have full and free access to the Chief Executive, Head of Finance, Monitoring Officer, Chair and Vice Chair of the Audit Committee and External Auditors via the Internal Audit Manager;
- have unrestricted access to senior management, members and all employees;

- receive any information and explanation considered necessary concerning any matter under consideration from all Members and Officers;
- require any employee of the Council to produce or account for cash, stores or any other Council asset or asset of a third party under his or her control;
- allocate resources, set timeframes, define review areas, develop ,scopes of work and apply techniques to accomplish the overall audit objectives;
- issue audit reports in its own name.

The Internal Audit department is part of the Finance Division within Corporate Services. The Internal Audit Manager reports to the Head of Finance and through her to the Corporate Management Team.

He also reports to the Audit Committee, which is responsible for

- approving the internal audit charter
- approving the internal audit Strategic and Operational plans
- receiving reports from the Internal Audit Manager on the departments performance relative to its plan and other matters
- making appropriate enquiries of management and the Internal Audit Manager to determine whether there are inappropriate scope or resource limitations

The department's budget is approved annually as part of the Council's overall budget. Remuneration and arrangements for the appointment and removal of the Internal Audit Manager are managed in accordance with the Council's adopted HR policies.

Every effort is made to preserve objectivity by ensuring that all members of internal audit staff are free from any conflicts of interest and do not undertake any non-audit duties. Internal Audit has complete segregation from Council operations and is not responsible for the management of areas that are audited. The Internal Audit Manager and internal audit staff are not authorised to:

- perform any operational duties associated with the Authority;
- initiate or approve accounting transactions on behalf of the Authority
- direct the activities of any employee unless specifically seconded to Internal Audit

Audit Responsibility

The primary task of Internal Audit is to review the systems of internal control operating throughout the authority, and in doing this it will adopt a predominantly risk-based approach to audit.

The Internal Audit Manager is required to manage the provision of a complete audit service to the Council that will include systems, regularity, computer and advisory audit in addition to the investigation of potential fraud and irregularity. In discharge of this duty, the Internal Audit Manager has a responsibility to:

- prepare a rolling strategic risk-based audit plan in consultation with Directorate senior management and the Corporate Management Team, for formal approval by the Audit Committee. This strategic plan is regarded as flexible rather than as an immutable expression of audit policy;
- translate the strategic plan into annual plans for formal agreement with the Head of Finance, Corporate Management Team and Audit Committee;
- implement the audit plan as approved, including any additional work requested by management and the Audit Committee;
- ensure that the scopes of individual audit assignments are agreed with departmental management;
- prepare and maintain an Audit Manual detailing departmental procedures and standards;
- ensure a system of close supervision of audit work, and maintain a Quality Assurance and Improvement Programme of internal and external assessments;
- maintain knowledge, skills and expertise within the section specifically for the investigation of fraud and irregularity;
- bring a systematic disciplined approach to evaluate and report on the effectiveness of risk management, internal control and governance processes;
- highlight control weaknesses and required associated improvements together with corrective action recommended to management based on an acceptable and practicable timeframe;
- undertake follow up reviews and recommendation tracking to ensure management has implemented agreed internal control improvements within specified and agreed timeframes;
- liaise with the external auditor for the purpose of providing optimal audit coverage to the Authority;
- work with the external auditor to provide consistent advice to management and the Audit Committee;

- prepare, for agreement with the Head of Finance, annual reports on audit and special investigation activities for presentation to the Audit Committee, and such other reports on audit issues as may be required by the Head of Finance or the Audit Committee.

All audit work contributes to the overall review of effectiveness of the control environment. The Internal Audit Manager is also a member of the Corporate Governance Working Group which undertakes this review and prepares the draft Annual Governance Statement for consideration by the Audit Committee and Council.

All Internal Audit activity is carried out in accordance with Financial Procedure Rules and PSIAS requirements. In order to maintain an audit presence and sound, informal lines of communication, as much audit work as possible will be done on location. Internal Audit testing may go beyond the records and involve observations and interviews.

Audit Resources

The staffing structure of the section will comprise qualified Internal Auditors, Accountants and Accounting Technicians with a mix of professional specialisms to reflect the varied functions of the section.

Internal Audit will not participate in the day-to-day operation of any systems of internal financial control. However, in strict emergency situations only, audit personnel may be called upon to carry out non-audit work on a temporary basis.

Upon request from the Head of Finance, appropriate specialists from other Directorates and departments should be made available to take part in any audit review requiring specialist knowledge.

Audit Training

The Internal Audit Manager carries out a continuous review of the development and training needs of all audit personnel through the Authority's appraisal system and will arrange, within budget provision, in-service training covering both internal and external courses.

Specific resources are devoted to specialised training in relation to computer audit, contract audit and fraud investigation to keep abreast of developments.

Audit Reporting

All audit assignments are the subject of formal reports. Debrief meetings are held with the managers responsible for the area under review for agreement to the factual accuracy of findings. After agreement, draft reports are issued to the manager and director of the department under review. Once the recommendations and action points have been agreed, final reports are issued. The Internal Audit Manager considers the release of special investigations audit reports for disciplinary purposes on a case-by-case basis. Access to audit files is restricted to the Head of Finance and External Auditor, and the Monitoring Officer where it is within his remit.

The Internal Audit Manager issues progress reports to the Audit Committee and management summarising outcomes of audit activities, including follow up reviews and the tracking of audit recommendations. These are presented at every Audit Committee meeting.

He reports to the Committee on the progress of investigations into possible fraud and irregularity and also briefs the Audit Chair on any high profile investigations.

The assignment opinions that audit provides during the year are part of the framework of assurances that assist the Authority to prepare an informed Annual Governance Statement.

Internal Audit provides the Head of Finance with an opinion on the adequacy and effectiveness of the Authority's governance, risk management and control arrangements. In giving the opinion it should be noted that assurance can never be absolute, the most that can be provided is a reasonable assurance that there are no major weaknesses in governance, risk management and control processes. The annual opinion is provided in the Annual Report after the year end.

Performance Reporting

Performance Indicators for Internal Audit are reported to each Audit Committee meeting and to the Head of Finance.

The department participates in benchmarking within the Wales Chief Auditors Group. Results are reported to the Audit Committee.

Related Documents

This document is one of a series that, together, constitute the policies of the Council in relation to anti-fraud and corruption measures. The other documents are:

- Financial Procedure Rules and Contract Procedure Rules;
- Anti Fraud and Corruption Strategy;
- Fraud and Irregularity Response Plan;
- Whistle-blowing Policy;
- Disciplinary Procedure

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **AUDIT COMMITTEE**
DATE: **WEDNESDAY, 29 JANUARY 2014**
REPORT BY: **HEAD OF FINANCE**
SUBJECT: **ACTION TRACKING**

1.00 PURPOSE OF REPORT

1.01 To inform the committee of the actions resulting from points raised at previous Audit Committee meetings.

2.00 BACKGROUND

2.01 At previous meetings requests for information or reports have been made. These have been summarised as action points. This paper summarises those points and provides an update on the actions resulting from them.

3.00 CONSIDERATIONS

3.01 A summary of the points and the actions taken is provided at Appendix A. The majority of the requested actions have been completed, with some still outstanding. They will be reported back to a future meeting.

4.00 RECOMMENDATIONS

4.01 The committee is requested to accept the report.

5.00 FINANCIAL IMPLICATIONS

5.01 None as a direct result of this report.

6.00 ANTI POVERTY IMPACT

6.01 None as a direct result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None as a direct result of this report.

8.00 EQUALITIES IMPACT

8.01 None as a direct result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None as a direct result of this report.

10.00 CONSULTATION REQUIRED

10.01 None as a direct result of this report.

11.00 CONSULTATION UNDERTAKEN

11.01 None as a direct result of this report.

12.00 APPENDICES

12.01 Appendix A – Summary of Action Points.

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

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AUDIT COMMITTEE ACTION SHEET

12TH JUNE 2013				
Agenda Item No.	Report	Action Required	Responsible Officer	Action Taken
6	Collaborative Projects Arrangements	The protocol for collaborative projects should be developed to include the role of the Audit Committee	Chief Executive	Paper to this meeting.
7	Briefing meeting held on 22 nd February 2013	A further joint meeting to be arranged	Democracy and Governance Manager	Meeting took place on 7 th October. Paper prepared for the committee.
11	Internal Audit Progress Report	The Head of Finance to be invited to respond to outstanding recommendations for her section at a future meeting	Head of Finance	Completed at October meeting.

30th JULY 2013

Agenda Item No.	Report	Action Required	Responsible Officer	Action Taken
28	Certification of Grant Claims and Returns 2011/12	Outcomes from the WAO report for 2011/12 to be included in the 2012/13 report to show comparison	WAO	Not yet due.
29	Audit Committee Terms of Reference	Reinstate wording on information security in relation to computer systems.	Internal Audit Manager	Wording reinstated. Paper taken to Constitution Committee and Council 12 th November 2013.
30	Internal Audit Charter	Include more detail on police involvement in the undertaking of investigations into fraud and irregularities in consultation with appropriate Council officers	Internal Audit Manager	Completed. Paper taken to the Constitution Committee 16 th October 2013.
30	Internal Audit Charter	Include reference to the provision of advice from WAO in working alongside IA and AC	Internal Audit Manager	Completed. Paper taken to the Constitution Committee 16 th October 2013.
30	Internal Audit Charter	Reinstate text on efficient and effective use of resources	Internal Audit Manager	Completed. Paper taken to the Constitution Committee 16 th October 2013.

25TH SEPTEMBER 2013

Agenda Item No.	Report	Action Required	Responsible Officer	Action Taken
40	Risk Management	That the changes to the SARC process be reflected in the Annual Governance Statement for the year ending 31 March 2014.	Democracy and Governance Manager	Not yet due.
42	Internal Audit Progress Report	That future recommendation implementation reports indicate the original and new dates, together with a yes/no column to indicate whether the risk is acceptable to Internal Audit	Internal Audit Manager	Implemented for this meeting.
42	Internal Audit Progress Report	That the Head of Streetscene be invited to attend a future meeting to report on the fleet services review including the extent of use and cost of tracker systems	Internal Audit Manager	Head of Streetscene attended December meeting.
44	Forward Work Programme	Treasury Management Mid Year Update and the Corporate Assessment be moved to the December 2013 meeting	Internal Audit Manager	Papers presented to the December meeting.

7TH OCTOBER 2013

Agenda Item No.	Report	Action Required	Responsible Officer	Action Taken
49	Data Protection Audit by ICO	That progress reports on recommendation implementation and response to ICO be included on the FWP for March 2014	Internal Audit Manager	Implemented.
50	Implementation of Finance Audit Recommendations	That the Chief Executive liaise with the Internal Audit Manager on further work to the recommendations on the MTFP/MTFS	Chief Executive / Internal Audit Manager	Follow up review to take place, with updates to the current situation and to the recommendations.

18TH DECEMBER 2013

Agenda Item No.	Report	Action Required	Responsible Officer	Action Taken
58	Treasury Management – Mid Year Update	To circulate a written response to the Committee on the average reserve surplus (Cllr Bateman’s query)	Finance Manager Technical Accounting	Cllr Bateman has been invited to a meeting to discuss average investments as a result of reserves and cashflow surpluses.
58	Treasury Management – Mid Year Update	To include in the training session an explanation on the timing and availability of higher interest rates (Cllr Bateman’s query).	Finance Manager Technical Accounting	Training Session 27 th January 2014.
58	Treasury Management – Mid Year Update	To provide the committee with a breakdown of the Debt Maturity Profile graph (Cllr Banks’ request)	Finance Manager Technical Accounting	An additional appendix has been included in the January update report showing the data from which the graph is produced.
58	Treasury Management – Mid Year Update	To include in the training session examples of where debt on outstanding loans attracted high rates of interest and why it is not economical to reschedule these (Cllr Newhouse’s request)	Finance Manager Technical Accounting	Training Session 27 th January 2014.
58	Treasury Management – Mid Year Update	To include in the training session discussion on utilising a proportion of reserves for debt profiling	Finance Manager Technical Accounting	Training Session 27 th January 2014.

18TH DECEMBER 2013

Agenda Item No.	Report	Action Required	Responsible Officer	Action Taken
59	Corporate Governance	To report to the meeting on 25 th June 2014 on the budget setting process to aid the Committee in their role	Head of Finance	Added to the Forward Work Programme.
59	Corporate Governance	To e mail the Committee with results from the challenge stage of the returned AGS questionnaires in February 2014 and responses from O&S Chairs	Democracy and Governance Manager	Not yet due.
59	Corporate Governance	To respond to Cllr Bateman's query on the £7m overdraft facility	Finance Manager Technical Accounting	Cllr Bateman has been invited to a meeting to discuss the Council's overdraft facilities.
60	Informal Meeting between Audit Committee members and O&S Chairs / Vice Chairs	To raise at the next informal meeting the suggestion made by Mr Williams.	Internal Audit Manager.	Informal meeting proposed for 8 th April 2014.
60	Informal Meeting between Audit Committee members and O&S Chairs / Vice Chairs	To liaise with the Head of ICT and Customer Services on the 'spam' e mail problem experienced by Cllr Newhouse	Chief Executive	Cllr Newhouse contacted by ICT.

18TH DECEMBER 2013

Agenda Item No.	Report	Action Required	Responsible Officer	Action Taken
61	Size of Audit Committee	That the size of the Audit Committee be referred to the Constitution Committee with the preference for one lay member to be included, for recommendations to be made to the AGM.	Democracy and Governance Manager	Report to Group Leaders and Constitution Committee in March.
62	Internal Audit Progress Report	For future reports Appendix B to indicate whether these are regulatory, risk-based, other or advisory	Internal Audit Manager	To be actioned in March report.
62	Internal Audit Progress Report	For future reports Appendix D to cross reference recommendations awaiting implementation.	Internal Audit Manager	To be actioned in March report.
62	Internal Audit Progress Report	Appendix F – to report back on the outcome of work and to establish why this had not been identified earlier.	Head of Finance	Report back to this meeting.
63	Forward Work Programme	Report on the tendering of banking services to be brought to the January meeting.	Head of Finance	Paper presented to this meeting.

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FLINTSHIRE COUNTY COUNCIL

REPORT TO: **AUDIT COMMITTEE**
DATE: **WEDNESDAY, 29 JANUARY 2014**
REPORT BY: **HEAD OF FINANCE**
SUBJECT: **FORWARD WORK PROGRAMME**

1.00 PURPOSE OF REPORT

To consider the Forward Work Programme for the Audit Committee for the next year.

2.00 BACKGROUND

2.01 Items feed into the Committee's Forward Work Programme from a number of sources. In order to better manage the workflow for the Audit Committee, the draft programme needs to be kept under review.

3.00 CONSIDERATIONS

3.01 The programme is attached as Appendix A. It has been compiled based on the work that has been done in previous years and from information received from the various contributors to the Committee.

3.02 Although the programme gives the basis of the work of the Committee, it will be subject to change as necessary during the year. Changes will be notified to the Committee when they become known. Members may also wish to propose subjects for future reports or discussion.

4.00 RECOMMENDATIONS

4.01 That the Committee considers the draft Forward Work Programme and approves/amends as necessary.

5.00 FINANCIAL IMPLICATIONS

5.01 None as a result of this report.

6.00 ANTI POVERTY IMPACT

6.01 None as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None arising directly from this report.

8.00 EQUALITIES IMPACT

8.01 None as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.00 None as a result of this report.

10.00 CONSULTATION REQUIRED

10.01 Publication of this report constitutes consultation.

11.00 CONSULTATION UNDERTAKEN

11.01 Publication of this report constitutes consultation.

12.00 APPENDICES

12.01 Appendix A – Forward Work Programme.

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

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AUDIT COMMITTEE
FORWARD WORK PROGRAMME 2013/14 and 2014/15

MEETING DATE	AGENDA ITEM	AUTHOR
26 March 2014	<ul style="list-style-type: none"> • Improvement Assessment Letter (WAO) • Annual Financial Audit Outline (WAO) • Treasury Management Update • Internal Audit Strategic Plan • PSIAS compliance • Audit Committee Self Assessment • Internal Audit Progress Report • Action Tracking • Forward Work Programme • Recommendation implementation and response to ICO • Private Meeting (WAO and IA) 	<p>Liz Thomas David Webster David Webster David Webster David Webster David Webster David Webster David Webster / Peter Evans</p>
25 June 2014	<ul style="list-style-type: none"> • Assessment of Internal Audit Report (WAO) • Regulatory Programme (WAO) • Annual Improvement Report (WAO) • Certification of Grants and Returns Report (WAO) • Internal Audit Progress Report • Internal Audit Annual Report • Action Tracking • Forward Work Programme • Risk Management Update • Budgetary Control Systems 	<p>David Webster David Webster David Webster David Webster Vicki Woolf Kerry Feather</p>

MEETING DATE	AGENDA ITEM	AUTHOR
16 July 2014	<ul style="list-style-type: none"> • WAO Certification of Grants report • Draft Statement of Accounts • Draft Annual Governance Statement • Treasury Management Update and Annual Report 2012/13 • Financial Procedure Rules 	Liz Thomas Liz Thomas Gareth Owens Liz Thomas Liz Thomas
September 2014	<ul style="list-style-type: none"> • Statement of Accounts 2012-13 • Audit of Financial Statements (WAO) • Internal Audit Progress Report • Action Tracking • Forward Work Programme 	Liz Thomas David Webster David Webster David Webster
December 2014	<ul style="list-style-type: none"> • Internal Audit Progress Report • Action Tracking • Forward Work Programme • Risk Management update • Code of Corporate Governance • Treasury Management Mid Year Update • Risk Management 	David Webster David Webster David Webster Vicki Woolf Peter Evans Liz Thomas Karen Armstrong
January 2015	<ul style="list-style-type: none"> • Treasury Management Update and Strategy • Annual Report on external inspections • Action Tracking • Forward Work Programme 	Liz Thomas Peter Evans David Webster David Webster