



## ***AUDIT COMMITTEE***

***10.00 AM - FRIDAY, 20 MARCH 2015***

***PORT TALBOT CIVIC CENTRE, COMMITTEE ROOMS 1/2***

### **PART 1**

1. To receive any declarations of interest from Members.
2. To receive the Minutes of the previous Audit Committee held on the 5th December 2014. (*Pages 1 - 2*)

#### **Report of the Wales Audit Office**

3. Audit Plan 2015 (*Pages 3 - 24*)

#### **Report of the Director of Finance and Corporate Services.**

4. Internal Audit Plan for the Period 1st April 2015 - 31st March 2016 (*Pages 25 - 40*)
5. Internal Audit Service - Progress Report to 28th February 2015 (*Pages 41 - 52*)
6. Treasury Management Monitoring 2014/15 (*Pages 53 - 58*)
7. Treasure Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy (*Pages 59 - 84*)
8. Any urgent items at the discretion of the Chairman pursuant to Section 100B(4)(b) of the Local Government Act 1972.
9. Access to Meetings - to resolve to exclude the public for the following items pursuant to Section 100A(4) & (5) of the Local Government Act 1972 and the relevant Exempt Paragraphs of Part 4 of Schedule 12A to the above Act.

## **PART 2**

### **Private Report of the Director of Finance and Corporate Services.**

10. Special Investigations (*Pages 85 - 88*)

**S.Phillips**  
**Chief Executive**

**Civic Centre**  
**Port Talbot**

**Saturday, 14 March 2015**

#### **Committee Membership:**

**Chairman:**           **Councillor Mrs.L.H.James**

**Vice Chairman:**   **Councillor J.D.Morgan**

**Members:**           Councillors Ms.C.Clement-Williams, D.W.Davies,  
Mrs.R.Davies, J.S.Evans, M.Harvey, I.B.James,  
D.Keogh, A.R.Lockyer, S.Rahaman and  
VACANT SEAT

**Voting Lay**           Mrs.J.Jenkins  
**Member:**

## AUDIT COMMITTEE

(Port Talbot Civic Centre, Committee Rooms 1/2)

**Members Present:**

**5 December 2014**

**Chairman:** Councillor Mrs.L.H.James

**Vice Chairman:** Councillor J.D.Morgan

**Councillors:** D.W.Davies, Mrs.R.Davies, I.B.James and  
S.Rahaman

**Officers In Attendance** D.Rees, Mrs.A.O'Donnell, Mrs.J.McNicholas and  
Miss.C.Davies

**Representing the  
Wales Audit Office:** Mrs.J.McNicholas

**Voting Lay Member:** Mrs.J.Jenkins

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1. **MEMBER'S DECLARATION OF INTEREST**

The following Member made a declaration of interest at the commencement of the meeting:

Councillor J.Jenkins	Audit Committee Presentation–Slide referred to monies being audited by CVS– J.Jenkins is a director of CVS.
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2. **MINUTES OF THE AUDIT COMMITTEE HELD ON 26TH  
SEPTEMBER 2014**

**RESOLVED:** that the Minutes of the meeting held on the 26<sup>th</sup> September 2014, be approved.

3. **INTERNAL AUDIT SERVICES - PROGRESS REPORT TO MID NOVEMBER 2014**

Members received work undertaken by Internal Audit for the Period 1<sup>st</sup> September to mid-November 2014 and an update on progress against the 2014/15 Internal Audit Plan.

Members referred to Page 6 paragraphs 4.2, it was noted that there were 6 special investigations, rather than the 5, as detailed in the circulated report. The further investigation came to light after the papers had been produced.

**RESOLVED:** that the Audit Charter, as detailed in Appendix 3 to the circulated report, be approved.

4. **TREASURY MANAGEMENT MONITORING 2014/15**

Members received information on items which included Bank Base Rates, Borrowing and Investment Income, as detailed within the circulated report.

**RESOLVED:** that the report be noted.

5. **AUDIT COMMITTEE PRESENTATION - (PRESENTATION)**

Members received a presentation on the work undertaken by Internal Audit.

**CHAIRMAN**



## 2015 Audit Plan

# Neath Port Talbot County Borough Council

**Issued:** March 2015

**Document reference:** 180A2015

# Status of document

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This document has been prepared for the internal use of Neath Port Talbot County Borough Council as part of work to be performed in accordance with statutory functions.

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# Contents

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## 2015 Audit Plan

Summary	4
Financial audit	4
Certification of grant claims and returns	8
Other work undertaken	9
Performance audit	9
Fee, audit team and timetable	12

## Appendices

Respective responsibilities	15
Summary of grant claim certification work	18
National value-for-money studies	20

# 2015 Audit Plan

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## Summary

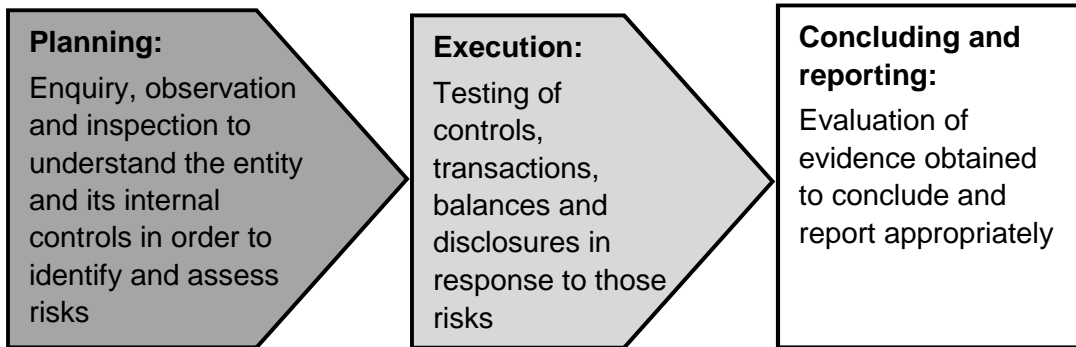
1. As your external auditor, my objective is to carry out an audit which discharges my statutory duties as Auditor General and fulfils my obligations under the Public Audit (Wales) Act 2004, the Local Government (Wales) Measure 2009 (the Measure), the Local Government Act 1999, and the Code of Audit Practice, namely to:
  - examine and certify whether your financial statements are ‘true and fair’;
  - assess whether you have made proper arrangements for securing economy, efficiency and effectiveness in the use of resources;
  - audit and assess whether you have discharged duties and met requirements of the Measure; and
  - undertake studies to enable me to make recommendations for improving economy, efficiency and effectiveness or for improving financial or other management arrangements.
2. The purpose of this plan is to set out my proposed work, when it will be undertaken, how much it will cost and who will undertake it.
3. There have been no limitations imposed on me in planning the scope of this audit.
4. My responsibilities, along with those of management and those charged with governance, are set out in [Appendix 1](#).

## Financial audit

5. It is my responsibility to issue a certificate and report on the financial statements which includes an opinion on their ‘truth and fairness’.
6. I also consider whether or not Neath Port Talbot County Borough Council (the Council) has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and report by exception if the Annual Governance Statement does not comply with requirements.
7. The audit work I undertake to fulfil my responsibilities responds to my assessment of risks. This understanding allows me to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the financial statements as a whole. My audit approach consists of three phases as set out in [Exhibit 1](#).



Exhibit 1: My audit approach



8. The risks of misstatement which I have identified through my initial audit planning work, are set out in [Exhibit 2](#) along with the work I intend to undertake to address them.

Exhibit 2: Financial audit risks

Financial audit risk	Proposed audit response
<p><b>Financial challenges</b></p> <p>The Council continues to face significant financial challenges in common with the rest of the public sector. These financial pressures increase the risk of manipulation of balances to achieve the projected year-end position.</p>	<p>My audit team will reflect the Council's financial position in planning the audit and will direct audit testing to the areas of greatest risk.</p>
<p><b>Voluntary severance scheme</b></p> <p>The need to make financial savings in recent years has resulted in significant reduction in staff numbers, with more scheduled to leave in 2014-15. There are risks that with a significant number of staff leaving, there will be insufficient focus on the operation of key financial and management controls and that the cost of the voluntary redundancy scheme will not be correctly reflected in the accounts.</p>	<p>My audit team will review key controls for material financial systems to ensure controls are still effective and ensure that all costs associated with the departures are captured accurately within the service expenditure areas and provisions.</p>

Financial audit risk	Proposed audit response
<p><b>Fraud risks</b></p> <p>The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>• test the appropriateness of journal entries and other adjustments made in preparing the financial statements;</li> <li>• review accounting estimates for biases; and</li> <li>• evaluate the rationale for any significant transactions outside the normal course of business.</li> </ul>
<p>There is also a potential risk across all public sector entities of misstatement due to fraud in revenue recognition.</p>	<p>My audit team will evaluate if there is a risk, and, if so, which types of revenue give rise to such risks, obtain an understanding of the Council's related controls relevant to such risks and focus its testing on the timing and value of revenue where appropriate.</p>
<p><b>Financial systems risks</b></p>	
<p><b>E-procurement system</b></p> <p>The new e-procurement module of Oracle has been more widely rolled out in 2014-15. As it is a new system, there is a risk that it will not process transactions correctly which could result in a material misstatement in the accounts.</p>	<p>My audit team will review the implementation of the new system to ensure transactions are processed correctly.</p>
<p><b>Financial statement risks</b></p>	
<p><b>Accounting for schools</b></p> <p>In 2014-15, CIPFA provided updated guidance on the accounting arrangements for local authority maintained schools. There is a risk that the new guidance will not be fully adopted by the Council and that the accounts will therefore be misstated.</p>	<p>My audit team will review the work undertaken to ensure the guidance has been adopted and that the relevant accounting entries are correct.</p>
<p><b>Joint working</b></p> <p>The Council has entered into a number of joint working/collaboration arrangements eg, Western bay and Education through regional working. There is a risk that these arrangements will not be reviewed to establish how, if at all, they should be reflected in the Council's Statement of Accounts.</p>	<p>My audit team will review the work undertaken to identify and classify all such arrangements and to ensure that, if required, they are correctly reflected in the Statement of Accounts.</p>

Financial audit risk	Proposed audit response
<p><b>Potential holiday pay accruals</b></p> <p>Recent European and UK case law has changed the way employers must calculate holiday pay to include overtime, shift allowances etc, where applicable. There is a risk that the potential impact of this change has not been evaluated by the Council to consider whether a provision should be made for potential backdated claims.</p>	<p>My audit team will review what has been done by the Council to evaluate its potential exposure to backdated claims.</p>
<p><b>Sale of assets</b></p> <p>As part of its savings plans, the Council has identified a number of assets that it plans to dispose of. However, in 2014-15, the proposed sale of some works of art identified that the assets were not owned by the Council but were on loan from the National Library of Wales. There is a risk that the Council has not verified the ownership of assets it plans to dispose of.</p>	<p>My audit team will discuss with officers what work has been undertaken to verify the ownership of assets it proposes to dispose of.</p>
<p><b>Capital projects</b></p> <p>There are a number of large capital projects ongoing in 2014-15. There is a risk that the Statement of Accounts will not reflect all work done up to 31 March 2015 and that the financing of the expenditure will not be correctly accounted for.</p>	<p>My audit team will undertake tests to gain assurance that asset valuations, financing and capital commitments are correctly reflected in the Statement of Accounts.</p>

9. I do not seek to obtain absolute assurance on the truth and fairness of the financial statements and related notes, but adopt a concept of materiality. My aim is to identify material misstatements, that is, those that might result in a reader of the accounts being misled. In doing so, I consider both the quantitative and qualitative factors. Audit matters that I consider on a qualitative basis are those that I could determine are material by their nature and/or context.
10. The level at which I judge such misstatements to be material is £4.8 million which is currently based on one per cent of the Council's gross expenditure (for our planning purposes, we use the prior-year figure). I keep this level of materiality under review throughout the audit, and prior to the completion of the audit I will report my final materiality by value to the Audit Committee.
11. For reporting purposes, I will treat any misstatements below a 'trivial' level (the lower of five per cent of materiality or £100,000) as not requiring consideration by those charged with governance and therefore I will not report them.

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- 12.** My fees are based on the following assumptions:
- access will be provided to all information that management is aware of that is relevant to the preparation of the financial statements, together with any additional information we may request to support the audit;
  - information provided to support the financial statements is timely, to the quality expected and has been subject to quality assurance review;
  - all appropriate officials will be available during the audit and we will have unrestricted access to officers from whom it is necessary to obtain audit evidence;
  - you have all the necessary controls and checks in place to enable the Responsible Financial Officer to provide all the assurances that I require in the Letter of Representation addressed to me; and
  - Internal Audit's planned programme of work is complete and management has responded to issues that may have affected the financial statements.
- 13.** In addition to my responsibilities in respect of the audit of the Council's statutory financial statements set out above, I am also required to certify a return to the Welsh Government which provides information about the Council to support preparation of the Whole of Government Accounts.

## Certification of grant claims and returns

- 14.** I have been requested to undertake certification work on the Council's grant claims and returns as set out in [Appendix 2](#).
- 15.** My estimated audit fee for this work is set out in [Exhibit 6](#).

## Overall issues identified

- 16.** [Exhibit 3](#) summarises the more significant and/or recurring issues I identified when undertaking grant certification work in 2013-14.

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### Exhibit 3: Overall issues relating to grant claim and return certification

#### Qualified grant claims and returns qualified in 2013-14

Of the 2013-14 grant claims and returns that we certified, we qualified or amended 15, compared to 24 in 2012-13. This represents 25 per cent of the total. The main issue on which we qualified concerned the lack of or quality of supporting evidence and ineligible expenditure.

#### Effectiveness of grant co-ordination arrangements

I have been reporting for a number of years that grants management arrangements need to be improved and that the weaknesses with the current arrangements result in significantly more audit work (and ultimately audit fees) than should be required. I understand that the Council is now working to improve its arrangements which we will test and report on as part of our 2014-15 audit. We will report this back to the Audit Committee as the work is progressed.

## Other work undertaken

17. I am also responsible for the audits of Margam Joint Crematorium Committee, the Welsh Church Act Trust Fund and the Glamorgan Further Education Trust Fund – Lewis and Aldworth. My team will undertake the audit of these accounts on my behalf in accordance with the timescales agreed with the Council and the Charity Commission.
18. My audit fee for this work is set out in [Exhibit 6](#).

## Performance audit

19. I am required by the Measure to carry out an improvement assessment for each improvement authority every year, to determine whether the authority is likely to comply with requirements to make arrangements to secure continuous improvement. I must also carry out audits of whether the authority has discharged its duties under the Measure. My improvement assessment work, combined with my work on financial matters, also discharges my responsibility to satisfy myself that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
20. In November 2014, I published my corporate assessment of the Council; a key element of my 2015-16 performance audit programme will be to evaluate the progress the Council is making in addressing the proposals for improvement arising from the assessment.
21. In addition to my programme of audit and assessment work under the Measure, I undertake a programme of local government studies as required under sections 41 and 42 of the Public Audit (Wales) Act 2004. This work is not included within the local performance audit fee, but is included within the Wales Audit Office estimates for funding from the Welsh Consolidated Fund.

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- 22.** I set out in this section, the 12-month programme of performance audit work to be undertaken at the Council. The content of the programme has been determined by a consideration of the risks and challenges facing the Council, the extent of accumulated audit and inspection knowledge, including that of other external review bodies, as well as other available sources of information including the Council's own mechanisms for review and evaluation.
- 23.** The components of my performance audit work are shown in **Exhibit 4** and have been designed in order to help deliver the high-level objectives set out in our 2013-2016 corporate strategy ([www.wao.gov.uk/publication/wales-audit-office-corporate-strategy-2013-2016](http://www.wao.gov.uk/publication/wales-audit-office-corporate-strategy-2013-2016)).

**Exhibit 4: Components of my performance audit work**



- 24.** The performance work I propose to undertake is summarised in **Exhibit 5**.

Exhibit 5: Contents of my 2015-16 performance audit work programme

	Specific projects
<b>Improvement audit and assessment</b>	<p><b>‘Improvement Plan’ Audit</b> Audit of discharge of duty to publish an improvement plan.</p> <p><b>‘Assessment of Performance’ Audit</b> Audit of discharge of duty to publish an assessment of performance.</p> <p><b>Financial Management Review</b> Further work on financial management arrangements following up our 2014-15 review, and looking forward to 2016-17 budget setting and savings proposals. There will also be a focus on the reserves position, policy and use of reserves.</p> <p><b>Governance Review</b> To focus on the development of scrutiny arrangements to address the proposals for improvement in my corporate assessment published in November 2014.</p> <p><b>Performance Management Review</b> To focus on the development of performance evaluation arrangements to include assessment of progress in specific service areas.</p> <p><b>Locally determined review(s)</b> Assessment of the effectiveness of the arrangements for managing the local impact of welfare reform.</p>
<b>Follow-up work</b>	Progress in implementation of the proposals for improvement arising from my corporate assessment published in November 2014.
<b>Local government studies</b>	At the time of writing, the results of consultation are being considered before the studies programme is finalised.
<b>Good practice</b>	In line with my commitment to identify and share good practice, I will continue to host shared learning seminars, identify relevant case studies and focus my work on identifying and promoting effective practice.

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## Fee, audit team and timetable

### Fee

25. Your estimated fee for 2015 is set out in **Exhibit 6**. This figure is the same as last year's fee.

#### Exhibit 6: Audit fee

Audit area	Proposed fee (£) <sup>1</sup>	Actual fee last year (£)
Financial audit work	177,398	177,398
Performance audit work	99,198	99,198
Total fee	276,596	276,596
Estimated grant certification work <sup>1</sup>	76,000	69,000
Margam Joint Crematorium Committee	2,857	2,857
Welsh Church Act Trust Fund	1,657	1,657
Glamorgan Further Education Trust Fund – Lewis and Aldworth	2,047	2,047

Note:

<sup>1</sup> Reason for increase: two final EU convergence grant claims to be audited in 2014-15 as well as interims.

26. Planning will be ongoing, and changes to my programme of audit work and therefore my fee may be required if any key new risks emerge. I shall make no changes without first discussing them with the Council.
27. Further information on my fee scales and fee setting can be found on the Wales Audit Office website at: [www.wao.gov.uk/about-us/fee-scales-and-fee-setting](http://www.wao.gov.uk/about-us/fee-scales-and-fee-setting).

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<sup>1</sup> The fees shown in this document are exclusive of VAT, which is no longer charged to you.



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## Audit team

28. The main members of my team, together with their contact details, are summarised in [Exhibit 7](#).

### Exhibit 7: My team

Name	Role	Contact number	E-mail address
Richard Harries	Engagement Director/ Engagement Lead – Financial Audit	029 2032 0500	Richard.Harries@wao.gov.uk
Jane Holownia	Engagement Lead – Performance Audit	029 2032 0500	Jane.Holownia@wao.gov.uk
Janet McNicholas	Financial Audit Manager	016 3976 3347	Janet.Mcnicholas@wao.gov.uk
Melvyn Jones	Financial Audit Team Leader	016 3976 3591	Melvyn.Jones@wao.gov.uk
Steve Barry	Performance Audit Manager	029 2082 9323	Steve.Barry@wao.gov.uk
Sam Spruce	Performance Audit Lead	029 2032 0500	Samantha.Spruce@wao.gov.uk

29. I can confirm that my team members are all independent of the Council and your officers. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.

## Timetable

30. I will provide reports, or other outputs as agreed, to the Council covering the areas of work identified in this document. My key milestones are set out in [Exhibit 8](#).

Exhibit 8: Timetable

Planned output	Work undertaken	Report finalised
2015 Audit Plan	January 2015 to March 2015	March 2015
<b>Financial accounts work:</b> <ul style="list-style-type: none"> <li>• Audit of Financial Statements Report</li> <li>• Opinion on Financial Statements</li> <li>• Annual Audit Letter</li> <li>• Financial Accounts Memorandum</li> </ul>	February to September 2015	September 2015 September 2015 November 2015 November 2015
<b>Performance work:</b> <ul style="list-style-type: none"> <li>• Governance</li> <li>• Performance Management Review</li> <li>• Local Review</li> <li>• Improvement Plan Audit</li> <li>• Assessment of Performance Audit</li> <li>• Financial Management Review</li> </ul>	April to November 2015	September 2015 July 2015 July 2015 June 2015 November 2015 To be confirmed
Annual Improvement Report	April to November 2015	February 2016
2016 Audit Plan	January to March 2016	March 2016

\* Subject to timely clearance of draft findings with the Council

# Appendix 1

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## Respective responsibilities

### Financial audit

As amended by the Public Audit (Wales) Act 2013, the Public Audit (Wales) Act 2004 sets out my powers and duties to undertake your financial audit. It is my responsibility to issue a certificate and report on the financial statements which includes an opinion on:

- Their 'truth and fairness', providing assurance that they:
  - are free from material misstatement, whether caused by fraud or error;
  - comply with the statutory and other applicable requirements; and
  - comply with all relevant requirements for accounting presentation and disclosure.
- The consistency of information in the Annual Report with the financial statements.

I must also state by exception if the Annual Governance Statement does not comply with requirements, if proper accounting records have not been kept, if disclosures required for remuneration and other transactions have not been made or if I have not received all the information and explanations I require.

The Public Audit (Wales) Act 2004 requires me to assess whether Neath Port Talbot County Borough Council (the Council) has made proper arrangements for securing economy, efficiency and effectiveness in the use of resources. To achieve this, I consider:

- the results of the audit work undertaken on the financial statements;
- the Council's system of internal control, as reported in the Annual Governance Statement and my report thereon;
- the results of other work carried out including work carried out under the Local Government (Wales) Measure 2009 (the Measure), certification of claims and returns, and data-matching exercises;
- the results of the work of other external review bodies where relevant to my responsibilities; and
- any other work that addresses matters not covered by the above, and which I consider necessary to discharge my responsibilities.

The Public Audit (Wales) Act 2004 sets out the rights of the public and electors to inspect the Council's financial statements and related documents, to ask me, as the Appointed Auditor questions about the accounts and, where appropriate, to challenge items in the accounts. I must also consider whether in the public interest, I should make a report on any matter which comes to my notice in the course of the audit.

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My audit work does not relieve management and those charged with governance of their responsibilities which include:

- the preparation of the financial statements and Annual Report in accordance with applicable accounting standards and guidance;
- the keeping of proper accounting records;
- ensuring the regularity of financial transactions; and
- securing value for money in the use of resources.

Management agrees to provide me with:

- access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- additional information that I may request from management for the purpose of the audit; and
- unrestricted access to persons within the Council from whom I determine it necessary to obtain audit evidence.

Management will need to provide me with written representations to confirm:

- that it has fulfilled its responsibilities for the preparation of the financial statements;
- that all transactions have been recorded and are reflected in the financial statements;
- the completeness of the information provided to me for the purposes of the audit; and
- to support other audit evidence relevant to the financial statements or specific assertions in the financial statements if I deem it necessary or if required by ISAs.

## Performance audit

The Measure places a general duty on improvement authorities to 'make arrangements to secure continuous improvement in the exercise of [their] functions'. It also places specific requirements on authorities to set improvement objectives, and to publish annual improvement plans and assessments of performance. Improvement authorities are defined as county and county borough councils, national park authorities, and fire and rescue authorities.

The Measure also requires me to carry out an improvement assessment for each improvement authority every year, to determine whether the authority is likely to comply with its general duty and requirements of the Measure. I must also carry out an audit of whether the authority has discharged its improvement planning and reporting duties.

To discharge the requirements of the Measure, I undertake periodic corporate assessments at each improvement authority. Since 2013-14, I have undertaken this programme of corporate assessments on a cyclical basis. Currently, I have agreed with the Welsh Government that I may use the grant that I receive from the Welsh Government to fund the corporate assessment. This means that, in addition to fee-funded improvement assessment and audit work, each authority will receive an in-depth corporate assessment once during a four-year period. In the intervening years, I will maintain a 'light-touch' overview of developments and of the progress made by the authority.

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In the event of emerging issues of concern or matters of priority, I do reserve the flexibility to undertake a more frequent corporate assessment.

I may also in some circumstances carry out special inspections (under section 21), in respect of which I will provide a report to the relevant authorities and Ministers, and which I may publish (under section 22). I will summarise audit and assessment reports in my published Annual Improvement Report (under section 24). This will also summarise any reports of special inspections.

In addition to my programme of audit and assessment work under the Measure, I undertake a programme of local government studies as required under sections 41 and 42 of the Public Audit (Wales) Act 2004. This work is not included within the local performance audit fee, but is included within the Wales Audit Office estimates for funding from the Welsh Consolidated Fund.

# Appendix 2

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## Summary of grant claim certification work

Name of scheme	Period of scheme	Value of claim 2013-14 (£)
Housing Benefits Subsidy	2014-15	51,150,881
Schools Effectiveness and Pupil Deprivation Grant	2014-15	3,310,074
Transitional SBIG (21st Century Schools)	2014-15	777,600
Learning Pathways	2014-15	676,603
Welsh in Education	2014-15	386,727
Flying Start	2014-15	3,009,465
Flying Start Capital	2014-15	121,139
Families First	2014-15	2,223,844
Substance Misuse Action Fund	2014-15	3,624,414
National Domestic Rates Return	2014-15	35,210,724
Sustainable Waste Management	2014-15	2,889,679
Teachers' Pension Return	2014-15	10,660,338
Communities First – New Programme	2014-15	1,585,744
Social Care Workforce Development Programme	2014-15	579,326
Motorway and Trunk Road Maintenance and Improvement (41 claims)	2014-15	51,896,578

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<b>Name of scheme</b>	<b>Period of scheme</b>	<b>Value of claim 2013-14 (£)</b>
Free Concessionary Fares	2014-15	3,215,767
European Convergence Grant – Regeneration	2007-2013	14,924,812
European Convergence Grant – Harbour Way	2007-2013	No claim

# Appendix 3

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## National value-for-money studies

The Council may also be interested in the national value-for-money examinations which I undertake, some of which will be of particular relevance to, and may involve evidence gathering across, local government. These studies are funded by the National Assembly and are presented to the National Assembly's Public Accounts Committee to support its scrutiny of public expenditure.

The table below covers all of the value-for-money studies work currently programmed, although some of this work is still at an early stage of development. The programme includes all-Wales summaries of audit work undertaken locally in the NHS and reactive examinations into specific issues of public concern that have been raised with me. I will shortly be considering and consulting on potential topic areas for future value-for-money studies to start, and potentially in some cases to be reported, in 2015-16.

Further updates on my programme of value-for-money studies will be provided to you within the regular progress reports prepared by my team.

Topic	Anticipated publication timeframe
GP prescribing	April to June 2015
Welsh Government investment in next generation broadband infrastructure	April to June 2015
Regional education consortia	April to June 2015
Welsh Government acquisition of Cardiff Airport	April to June 2015
Rail services	April to June 2015
Orthopaedic services	April to June 2015
NHS clinical coding	Summer 2015
NHS waiting lists and private practice	Summer 2015
Picture of public services	Autumn 2015
Development of Natural Resources Wales	Autumn 2015
Regeneration Investment Fund for Wales <sup>2</sup>	To be confirmed
Wales Life Sciences Investment Fund <sup>3</sup>	To be confirmed
Flood and erosion risk management (likely to focus on coastal flooding)	To be confirmed

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<sup>2</sup> While in clearance, the timescale for publication is uncertain for reasons specific to the project.

<sup>3</sup> While in clearance, the timescale for publication is uncertain for reasons specific to the project.



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Topic	Anticipated publication timeframe
Early intervention and public behaviour change <sup>4</sup>	To be confirmed
Welsh Government interventions in local government <sup>5</sup>	To be confirmed
Welsh Government responses to audit recommendations	To be confirmed
Public procurement and the National Procurement Service	To be confirmed

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<sup>4</sup> In the short term, development of a new picture of public services report will take priority over this work. However, the picture of public services report is likely to reflect on these themes in some way. Wales Audit Office staff will also be exploring opportunities to take forward work in this area as part of our Good Practice Exchange programme.

<sup>5</sup> Plans for this work are being revisited in light of the Welsh Government commissioned review of the Anglesey intervention by the Public Policy Institute for Wales and to take into account any wider implications arising from the local government reform programme.

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## AUDIT COMMITTEE

20 MARCH 2015

### REPORT OF THE DIRECTOR OF FINANCE & CORPORATE SERVICES – H. JENKINS

#### SECTION A – MATTERS FOR DECISION WARDS AFFECTED – ALL

#### INTERNAL AUDIT PLAN FOR THE PERIOD 1 APRIL 2015 – 31 MARCH 2016

##### 1. Purpose of Report

The purpose of this report is to agree the Internal Audit Plan for 2015/16.

##### 2. Audit Plan 2015/16

The Audit Plan has been prepared following consultation with Directors and Heads of Service. The items included in the plan are a combination of audits that are carried out annually, audits that are the subject of service level agreements and some that have been requested by service managers, Heads of Service and Directors. There are also some audits that have arisen from findings of previous audit work.

In addition to the specific audits there are allowances put in place for such items as special investigations that arise during the year, contingencies and for advice and guidance. The plan has to be flexible in order to allow for unexpected items during the years that require audit input.

##### 3. Recommendation

It is recommended that Members approve the Internal Audit Plan for 2015/16 as set out in Appendix 1.

##### 4. Reason for Proposed Decision

To ensure compliance with the terms of reference of the Audit Committee.

## **List of Background Papers**

Audit Files

## **Appendix**

Appendix 1 –Internal Audit Plan for the period 1 April 2015 – 31 March 2016.

## **Officer Contact**

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## COMPLIANCE STATEMENT

### **INTERNAL AUDIT PLAN FOR THE PERIOD 1 APRIL 2015 – 31 MARCH 2016**

(a) **Implementation of Decision**

The decision is proposed for implementation after the 3 day call-in period.

(b) **Sustainability Appraisal**

Community Plan Impacts:

Economic Prosperity	Positive
Education and Lifelong Learning	Positive
Better Health and Well Being	Positive
Environment and Transport	Positive
Crime and Disorder	Positive

Other Impacts:

Welsh Language	Neutral
Sustainable Development	Neutral
Equalities	Positive
Social Inclusion	Positive

(c) **Consultation**

There has been no requirement under the Constitution for external consultation on this item.

**NEATH PORT TALBOT COUNTY BOROUGH**  
**COUNCIL**

**Finance & Corporate Services Directorate**

**Internal Audit Service**

**INTERNAL AUDIT PLAN  
FOR THE PERIOD  
1<sup>ST</sup> April 2015 – 31<sup>st</sup> March 2016**

Issue Date March 2015

# **CONTENTS**

## **Heading**

Foreword to Plan

## **Section 1**

Legislative requirements

## **Section 2**

Calculation of available days

## **Section 3**

Detailed Audit Plan in respect of 2015/16

**AUDIT PLAN IN RESPECT OF THE PERIOD  
1 April 2015 TO 31 March 2016**

**1. INTRODUCTION**

- 1.1 I outline in this plan details of the Internal Audit Service involvement in Council services/functions for the period 1<sup>st</sup> April 2015 to 31<sup>st</sup> March 2016.
- 1.2 The plan has been prepared using the following assumptions and methodology.
- 1.3 As a result of budget savings which had to be made a staffing complement of 7.31 (FTE) has been used which is reduced from 7.81 (FTE) in the previous financial year. One part time Auditor post has been lost due to the post holder opting to take voluntary redundancy.
- 1.4 An allowance has been made for special investigation type work i.e. fraud, theft, general malpractice issues in relation to employees and clients of Council services, along with requests for advice and guidance from service managers.
- 1.5 The risk factors noted against each audit heading are based on a formula that calculates the scores using 12 different variables. The scores against each variable are provided by Internal Audit staff based on their experience on each of the audit areas.
- 1.6 Other items of note included in the plan are:
- Ongoing review of non-financial Corporate Governance issues, along with issues such as risk management and data protection.
  - Despite the fact that the service has lost 0.5 of an Auditor post the number of days available in this year's plan for planned work remains the same as those available last year. This has been achieved by a reduction in the allowance made for vacancies and staff training, and a reduction in overhead type areas.
- 1.7 The plan details the areas that are due to be audited during 2015/16. However, the audit plan is almost invariably subject to change as issues arise during the year. This flexibility is vital to ensure that new or increased risks are assessed and reported upon in order that assurance can be provided to Members. Any changes to the plan will be reported to Audit Committee throughout the year.



## **2. INTERNAL AUDIT SERVICE PERFORMANCE MONITORING**

Updates in line with corporate guidelines will continue to be given to the Council's Audit Committee and where required to the relevant Scrutiny Committee. Information will also be outlined in our performance indicator results. The section's work will also follow the requirements of the Public Sector Internal Audit Standards.

## **3. AUDIT COMMITTEE**

Since this Committee was established as a 'stand-alone' entity in May 2002, numerous reports on a variety of topics have been submitted and this has assisted Members' awareness of their role i.e. effective compliance with the laid down Terms of Reference of the Committee.

The Committee broadly undertakes its duties in line with the guidance given in the Code of Practice for Internal Audit in Local Government in the UK. This Code was formally adopted by the Audit Committee on 21<sup>st</sup> January 2004 as the basis for an "adequate and effective system of internal audit" within the Authority. At this meeting the aim and objectives of the Service were approved together with the linkage to the Authority's Corporate Aims and Values. Also approved was a high level strategy advocated by the Code.

This make up and operation of the Committee will also now fall in line with the requirement of the Local Government (Wales) Measure 2011.

## **4. THE YEAR AHEAD**

As for every year to date, a number of challenges lie ahead:

- Provide an adequate level of audit coverage given the reduced resources available to the section;
- Provide assurance to Members on the adequacy and effectiveness of internal controls on systems that have been affected by the budget reductions faced by the Authority;
- The requirement to further improve the assessment of risk in audit work;
- Continuing with the progress made to date in improving and enhancing the role of the Audit Committee;
- Continuing to work closely with service managers to improve the effectiveness of audit work, particularly with regard to the increasing emphasis on corporate governance issues;

- Continuing to work closely with Wales Audit Office to maximise the effectiveness of audit work for the Authority.

In terms of ongoing requirements, there is a need to constantly monitor and review the progress being made in connection with the various assignments contained within the Audit Plan (aided by a computerised Audit Management System which has been developed in-house for our purposes). The 3 monthly progress reports will continue to be presented to Audit Committee. In addition, our External Auditors report on the performance of Internal Audit in terms of compliance with the Public Sector Internal Audit Standards on an annual basis in line with their statutory responsibility and this report in its entirety will be submitted to the Audit Committee.

Finally, this Internal Audit Plan is submitted to the Audit Committee for approval at its next meeting scheduled for the 20<sup>th</sup> March 2015.

**H J Jenkins**  
**Director of Finance &**  
**Corporate Services**

**D Rees**  
**Head of Financial Services**

**A M O'Donnell**  
**Audit Manager**

## SECTION 1

### **LEGISLATIVE REQUIREMENTS RELATING TO THE PROVISION OF THE INTERNAL AUDIT FUNCTION**

- 1.1 This section deals with the legislative question and the manner in which compliance is effected by the Authority.
- 1.2 Section 151 of the Local Government Act 1972 requires that “every local authority shall make arrangements for the proper administration of their financial affairs and shall ensure that one of their officers has responsibility for the administration of those affairs.”
- 1.3 The responsible financial officer in this Authority is the Director of Finance & Corporate Services, and one of the more important ways in which he exercises his statutory responsibility for financial administration is through the work of the Internal Audit Service.
- 1.4 The Accounts and Audit Regulations state ..... “ A Local Government body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices, and any officer or member of that body shall; if the body requires:-
  - a) Make available such documents of the body which relate to its accounting and other records as appear to that body to be necessary for the purpose of the audit; and
  - b) Supply the body with such information and explanation as that body considers necessary for that purpose.” This duty has been devolved to the Director of Finance & Corporate Services in his role as the ‘responsible financial officer’. The Council has also formally confirmed its compliance with the 1991 “Guidance for Internal Auditors” Guideline published by the Auditing Practices Board – this being an integral component in complying with the Regulation outlined above. **In this connection, the role, duties and responsibilities of the Internal Audit Service was reaffirmed at a Strategic Resources Board meeting held on 25<sup>th</sup> January 2001. (Prior to this the role etc. was agreed at a Finance Committee meeting held on 10<sup>th</sup> July 1996.) At this meeting, the then new Code of Practice (subsequently revised and updated for Internal Audit in Local Government in the United Kingdom) was formally adopted as a basis for an adequate and effective system of internal audit within the Authority. A report on this issue was submitted to the Audit Committee in January 2004 together with the statement of the aims and objectives of the Internal Audit Service, the linkage with the Council’s Corporate Aims and Objectives and**

**an overall Strategy Statement for the Service as advocated by the Code of Practice.**

- 1.5 These Accounts and Audit Regulations are supplemented by this Authority's Financial Regulation No 3.4.5 and Financial Procedures Nos. 4.9.8 and 4.9.9 which state:

Financial Regulation 3.4.5 – Audit Requirements

This states that the Accounts and Audit Regulations require every local authority to maintain an adequate and effective internal audit.

Financial Procedure Nos. 4.9.8 & 4.9.9

4.9.8 Responsibilities of the Director of Finance & Corporate Services

- To ensure that internal auditors have the authority to:
  - a) Access all assets, records, documents, correspondence and control systems
  - b) Receive any information and explanation considered necessary concerning any matter under consideration
  - c) Require any employee of the Authority to account for cash, stores or any other Authority asset under his or her control
  - d) Access records belonging to third parties, such as contractors, when required
  - e) Directly access the head of paid service, the executive and Audit Committee
  
- To ensure that effective procedures are in place to investigate promptly any fraud, irregularity or malpractice.

4.9.9 Responsibilities of Corporate Directors (Chief Officers)

- To ensure that internal auditors are given access at all reasonable times to premises, personnel, documents and assets that the auditors consider necessary for the purposes of their work.
- To ensure that auditors are provided with any information and explanations that they seek in the course of their work.
- To consider and respond promptly to recommendations in audit reports
- To ensure that any agreed actions arising from audit recommendations are carried out in a timely and efficient fashion.
- To notify the Director of Finance & Corporate Services immediately of any suspected fraud, theft, irregularity, improper use or misappropriation of the Authority's property or resources. Pending

investigation and reporting, the Corporate Director should take all necessary steps to prevent further loss and to secure records and documentation against removal or alteration.

## **SECTION 2**

### **INTERNAL AUDIT PLAN 2015/16 CALCULATION OF AVAILABLE DAYS**

- 2.1 The total number of days included in the Plan is based on a total of 7.31 (FTE) staff.
- 2.2 A number of allowances have to be made to the total number of days available to allow for annual leave, public holidays, sickness, training etc. An estimate also has to be made for staff vacancies arising from the possibility of staff turnover occurring over the year.
- 2.3 These allowances result in a total number of 'available' days to the section of 1,415. From this is deducted a number of days to allow for the general supervision and management of the Section and other 'non-chargeable' items such as attendance at seminars, team meetings etc. The total number allocated to these overhead type areas is 265 days.
- 2.4 This leaves a total of 1,150 days available for planned work. This is the same number as was available last year due a decrease in the number of days allocated to allowances.

### **SECTION 3 – INTERNAL AUDIT PLAN FOR 2015/16**

<b><u>Service Area</u></b>	<b><u>Days Allocated</u></b>	<b><u>Risk Factor*</u></b>
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#### **Education Leisure & Lifelong Learning**

##### **School based audits**

Primary Schools	120	M
Secondary Schools	35	H
Procurement Cards	10	H

##### **Other education**

Unofficial funds of the feeder schools to the new Ysgol Newydd Bae Baglan Comp.	10	M
Real Opportunities Funding	7	M
Think Families First	8	M

**Total number of days = 190**

\*H=high

M= medium

<u>Service area</u>	<u>Days Allocated</u>	<u>Risk Factor*</u>
<b><u>Finance &amp; Corporate Services</u></b>		
<b>Revenue Collection</b>		
Council Tax	20	M
NNDR	10	M
Sundry Debtors	20	H
Cash collection	10	H
<b>Benefit Administration</b>		
Housing Benefits	20	M
Attendance at Prosecution Panel	10	N/A
<b>Exchequer</b>		
Payroll	15	M
Creditor Payments	20	H
Creditor cut off testing	10	M
Travel & Subsistence Allowances	10	M
<b>Accountancy</b>		
Treasury Management	10	H
Bank Reconciliation	5	M
<b>Other</b>		
Review of write offs	20	N/A
<b>Legal Services</b>		
None		

**Total number of days=180**

<u>Service area</u>	<u>Days allocated</u>	<u>Risk Factor*</u>
<b><u>Chief Executive's</u></b>		
Internal/Public Information	15	L
Electoral Registration	5	M

**Total number of days=20**

\*H=high, M=medium & L=low

<u>Service area</u>	<u>Days allocated</u>	<u>Risk Factor*</u>
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**Environment**

Stores/equipment	5	H
Streetcare	25	H
Bus service operators grant	5	M
Fleet	15	M
Grants	10	M

**Total number days=60**

**Social Services, Health & Housing**

Social Services

Hillside Secure Unit	15	M
Trem Y Mor	5	M
Safeguarding:		
DOLS	10	M
POVA	10	M
Escalating Concerns protocol	10	M

Public Protection

Trading Standards	20	M
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Housing

Social Lettings Agency	10	M
Disabled Facility Grants	15	M

Contingency	15	N/A
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**Total number days=110**

\*H=high

M=medium



<u>Service area</u>	<u>Days allocated</u>	<u>Risk Factor*</u>
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**Cross Directorate**

Special Investigations	200	N/A
Corporate Governance	20	N/A
Advice & Guidance	65	N/A
IT Audit	35	N/A
Contract Audit	35	N/A
Officer Declarations	15	M
Petty Cash	15	H
Procurement Cards	15	H
Honoraria Payments	10	M
Settlement Agreements	10	M
NFI	40	N/A
DBS Checks	20	H

**Total number of days= 480**

**Other Commitments**

Banking Administrator	10	N/A
Attendance at working Parties	20	N/A
Servicing Audit Committee	20	N/A
West Glam Blind Welfare	5	L
SWTRA	10	N/A
Review of Accounting Instructions	5	N/A
FOI Requests	5	N/A
Contingencies	35	N/A

**Total number of days=110**

**Total number of days for 2015/16=1150**

\*H=high, M=medium & L=Low

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## AUDIT COMMITTEE

20 MARCH 2015

### REPORT OF THE DIRECTOR OF FINANCE & CORPORATE SERVICES – H. JENKINS

#### SECTION B – MATTERS FOR INFORMATION WARDS AFFECTED – ALL

#### INTERNAL AUDIT SERVICE – PROGRESS REPORT TO 28<sup>th</sup> February 2015.

##### 1. Purpose of the report

- 1.1 To provide details of the work undertaken for the period from mid November 2014 to 28<sup>th</sup> February 2015 and an update on progress against the 2014/15 Internal Audit Plan.

##### 2. Background

- 2.1. One of the terms of reference of this Committee is to ‘monitor internal (and external) audit performance’. In order to comply with this requirement to monitor the in-house service, a progress report is given below outlining internal audit work undertaken during the period stated above. This work is then set against the original Internal Audit Plan to show what progress has been achieved against that plan.
- 2.2. In addition, information is provided for members on the current position regarding staff vacancies and other staffing issues within the section.

##### 3. Audit Assignments Completed

- 3.1. A total of 13 formal audit reports have been issued since mid-November 2014 in line with normal distribution guidelines.
- 3.2. The following is a summary list of the reports that have been issued:
  - 5 Special Investigations
  - 2 Primary Schools
  - 1 Comprehensive School
  - Contract Compliance Monitoring

- YG Ystalyfera Budget Monitoring
- Admin issued Pen-y-Cae Day Centre
- Travel & Subsistence
- Hillside Secure Centre

3.3. Attached as Appendix 1 to this report is a full list of the reports along with a brief summary of their findings.

3.4. In addition to the above, Internal Audit continues to carry out post audit reviews (follow ups) on all the planned audits carried out.

3.5. There are no issues in terms of the post audit reviews that need to be brought to Members' attention.

#### **4. Progress against the Audit Plan**

4.1. Appendix 2 gives details of the work carried out to date against the 2014/15 audit plan.

4.2. There is currently 1 special investigation in progress.

#### **5. Staffing**

5.1 Currently there is one member of staff studying for a professional accountancy qualification.

5.2 The Audit Assistant vacancy has been filled and the successful applicant has been in post since 2<sup>nd</sup> March 2015.

5.3 One Auditor (0.5FTE) has taken voluntary redundancy and will leave on 31<sup>st</sup> March 2015.

#### **6. Update**

At last Audit Committee Members asked about the audit arrangements in the new regional collaborations. The legal agreements do not specify how internal audits should be undertaken. However, there is a lead organisation responsible for managing the service and the lead organisation's internal audit service should carry out the internal audit work.

## **Appendices**

Appendix 1 – Published Reports

Appendix 2 – Audit Plan Monitoring 2014/15

## **List of Background Papers**

Audit Files

## **Officer Contact**

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## COMPLIANCE STATEMENT

### INTERNAL AUDIT SERVICE – PROGRESS REPORT TO 28<sup>th</sup> February 2015.

(a) **Implementation of Decision**

The decision is proposed for immediate implementation.

(b) **Sustainability Appraisal**

**Community Plan Impacts:**

Economic Prosperity	No impact
Education and Lifelong Learning	No impact
Better Health and Well Being	No impact
Environment and Transport	No impact
Crime and Disorder	No impact

**Other Impacts:**

Welsh Language	No impact
Sustainable Development	No impact
Equalities	No impact
Social Inclusion	No impact

(c) **Consultation**

There has been no requirement under the Constitution for external consultation on this item.

<b>Report Ref</b>	<b>Report Subject</b>	<b>Report Conclusion</b>	<b>Category</b>
R44	Special Investigation	Detail is given in the private report attached as Appendix 3	N/A
R45	Special Investigation	Detail is given in the private report attached as Appendix 3	N/A
R46	Contract Compliance Monitoring Social Services Health & Housing	Good controls were found to be in place and recommendations made will help strength the existing controls.	2
R47	Special Investigation	Detail is given in the private report attached as Appendix 3	N/A
R48	Ysgol Gyfun Ystalyfera Budget Monitoring	Recommendations were made to improve the processes currently in place with a view to enhancing the accuracy of the information being reported.	2
R49	Special Investigation	Detail is given in the private report attached as Appendix 3	N/A
R50	Admin issues at Pen Y Cae & Morfa Afan Day Centres	A number of issues were found in relation to the standard of record keeping at both day centres as well as issues relating to the operation of the unofficial funds.	3
R51	Rhos Primary School	Good controls were found to be in place in relation to cash collection and corporate governance. Enhancements to existing controls in	2

Report Ref	Report Subject	Report Conclusion	Category
		relation procurement, inventories and unofficial fund were recommended.	
R52	Coed Hirwaun Primary School	Good controls were found to be in place in relation to procurement, inventories, corporate governance and school meals income. Enhancement to existing controls relating to travel & subsistence, unofficial fund and health and safety & safety were recommended.	2
R53	Dwr Y Felin Comprehensive School	Good controls were found to be in relation to most areas however recommendations were made to enhance the controls in place relating to the treatment of discrepancies in school meal income.	2
R54	Travel & Subsistence	Compliance with the policy in relation to actual claims made was good however driver declaration forms had not been completed for all the staff sampled.	2
R55	Hillside Secure Centre	A high standard of controls were found to be in operation for all areas tested and as a result no recommendations were made	1
R56	Special Investigation	Detail is given in the private report.	N/A

**Key:**

**Category 1** – Service risk assessed as low.

**Category 2** – Service risk will be assessed as low when the recommendations are implemented.

**Category 3** – There are significant risks that Audit Committee needs to be aware of.

**Category 4** – Immediate action is required to reduce the level of risk



## Appendix 2

<u>Monitoring Date</u>	<u>28th February 2015</u>				
<u>Audit Plan Item</u>	<u>Risk</u>	<u>Quarter 1</u>	<u>Quarter 2</u>	<u>Quarter 3</u>	<u>Quarter 4</u>
	<u>Factor</u>				
<b><u>Education, Leisure and Lifelong Learning</u></b>					
<b>School Based Audits</b>					
20 Primary Schools	M	2 schools audited and reports issued	3 schools audited and reports issued	A total of 10 primary schools have been audited and reports issued, 1 audit is in progress the remaining schools will be audited next quarter	12 schools have been audited. 2 draft reports are awaiting agreement and 6 audits are booked to commence before Easter.
2 Secondary Schools	H		2 audits planned and booked for next quarter	1 completed and report issued, 1 audit in progress	One report issued, the remaining audit has been completed and the draft report issued
<b>Other Education</b>					
Adult Education	M		Audit planned will commence next quarter	Audit in progress	Draft report issued
PLASC	M	Audit in planning stage	Due to information obtained during the planning process this audit will not now be undertaken	This allocation of days has been used to carry out work in relation to budget monitoring in a comprehensive school due to issues identified during an earlier audit.	
<b>Leisure, Culture and Lifelong Learning</b>					
None					
<b><u>Finance and Corporate</u></b>					

## Appendix 2

<b>Services</b>					
<b>Revenue Collection</b>					
Council Tax	M			Regular sample testing being undertaken	Audit in progress
NNDR	M				Audit in progress
Sundry Debtors	H			Report issued in respect of 13/14	Audit in progress
Cash Collection	H	Unannounced checks taking place	Unannounced checks taking place	Unannounced checks taking place	Unannounced checks taking place
<b>Benefits Administration</b>					
Housing Benefits	M			Regular sample testing being undertaken	Audit in progress
Attendance at Prosecution Panel	N/A	The regular meetings are attended by Audit	The regular meeting are attended by Audit	The regular meetings are being attended by the Audit Manager	The regular meetings are being attended by the Audit Manager
<b>Exchequer</b>					
Payroll	M				Audit in progress
Creditor Payments	H			Regular sample testing being undertaken	Audit in progress
Travel and Subsistence Allowances	M			Audit in progress	Audit complete and report issued
<b>Accountancy</b>					
Treasury Management	H				Awaiting sight of recent WAO report in this area before undertaking audit
Bank Reconciliation	M			Audit planned and due to commence in next quarter	Audit is in progress
<b>Legal Services</b>					
None					
<b>Chief Executive's</b>					

## Appendix 2

Electoral Registration	M				Data matching work has been carried out and results provided to the elections team
Internal/Public Information	L				Audit will now be undertaken next year
<b><u>Social Services, Health and Housing</u></b>					
<b>Housing General Fund:</b>					
Homelessness	M			Audit planned and due to commence in January delayed due to service pressures	Audit in progress
<b>Social Services</b>					
Fostering & Adoption	H		No longer being undertaken due to the service being reconfigured and falling under Western Bay Safeguarding Board	The days allocated for this work have been used to carry out further a further safeguarding audit i.e. Professional Abuse Strategy Meetings audit complete and report issued.	
Hillside Secure unit	M			Audit in progress	Report issued
Community Meals	M				Audit not undertaken due to full service review being undertaken by the relevant Heads of Service
Environmental Health	H			Will not be carried out. The service has recently been audited by Wales Audit Office and as part of an all Wales review. It was also recently audited by the Food Standards Agency	

## Appendix 2

Pre-Employment Checks - Adults	H	Audit commenced	Work completed awaiting agreement of draft report	Report issued	Further audit of recent new starters in progress due to findings of original audit undertaken
<b><u>Environment</u></b>					
Asset Register	M				Report issued on IT assets authority wide
Stores/Equipment	M				Assistance has been provided at the interim stock take and will be provided at annual stock take
Planning	M	Audit in planning stage	In progress	Audit almost complete delay due to sickness and IT issues with the planning system	Draft report issued
Grant Funding	H				Various grants certified
ERC Submission	H			Audit planned and due to commence next quarter	Audit in progress
<b><u>Cross Directorate</u></b>					
Special Investigations	N/A	1 Report issued. No new investigations currently in progress	4 currently in progress	2 reports issued and 5 investigations currently in progress	5 reports issued, 1 in progress
Advice and Guidance Requests	N/A	On-going	On-going	On-going	On-going
I.T. Audit	N/A	1 audit in progress	Audit complete awaiting agreement of draft report	Report issued in relation to IT asset management	Audit of data centre in progress
Contract Audit	N/A			Final account work ongoing	Final account work ongoing
Corporate Governance Arrangements	N/A	On-going	On-going	On-going	On-going
Bribery Act	N/A		In progress	Audit complete and report issued	

## Appendix 2

Officer Declarations	M	Audit completed and report issued			
Data Protection	H				Following discussion with Head of Legal Service this audit has been postponed until next year
Petty Cash	M		In progress	Audit complete and report issued	
Risk Management	M				Work commenced
Banking System Administrator	N/A	On-going	On-going	On-going	On-going
<b>Other Commitments</b>					
Attendance at Working Parties	N/A	On-going	On-going	On-going	On-going
Servicing/Attendance at Audit Committee	N/A	On-going	On-going	On-going	On-going
FOI Requests	N/A	None received to date	1 received and answered	1 received and answered	1 received and answered
Review of Accounting Instructions	N/A	On-going	Ongoing	On-going	On-going
Contingencies	N/A				
Vision Impaired West Glamorgan	N/A		In progress	Audit complete and report issued	
WPI Work inc. Performance Indicators	L	Audit in planning stage	1 report issued, no further work will be done in this area due to resource issues in the service areas	Agreed with Head of Corporate Strategy & Democratic Services that a review of systems in place regarding PI collection across the Authority will be undertaken. Work to commence next quarter	Audit in progress
SWTRA	N/A				



## 2014/15 AUDIT COMMITTEE

### REPORT OF THE HEAD OF FINANCIAL SERVICES

20 MARCH 2015

#### MATTERS FOR MONITORING WARDS AFFECTED - ALL

#### TREASURY MANAGEMENT MONITORING 2014/15

##### 1. Purpose of Report

- 1.1 This report sets out treasury management action and information since the previous report. This report has previously been forwarded to Policy & Resources Cabinet Board on 19 February and is now issued to the Audit Committee for scrutiny in line with the Scheme of Delegation.

##### 2. Rates of Interest

- 2.1 Bank base rates remain at of 0.5% (since 5<sup>th</sup> March 2009) and detailed below are the changes in the bank base rate since April 2008.

<b>Effective Date</b>	<b>Bank Rate</b>
10 April 2008	5.00%
08 October 2008	4.50%
06 November 2008	3.50%
04 December 2008	2.00%
08 January 2009	1.50%
05 February 2009	1.00%
05 March 2009 to date	0.50%

- 2.2 The following table provides examples of external borrowing costs as provided by the Public Works Loans Board after 9.15pm on 10<sup>th</sup> February 2015:

	Equal Instalments of Principal		Annuity		Maturity	
	Previous 15 December 2014	Current 10 February 2015	Previous 15 December 2014	Current 10 February 2015	Previous 15 December 2014	Current 10 February 2015
	%	%	%	%	%	%
5-5.5 years	1.84	1.78	1.85	1.79	2.35	2.22
10-10.5 years	2.35	2.22	2.37	2.23	2.92	2.72
20-20.5 years	2.92	2.72	2.98	2.76	3.47	3.24
35-35.5 years	3.38	3.15	3.47	3.24	3.58	3.34
49.5-50 years	3.56	3.34	3.59	3.36	3.55	3.31

### 3. General Fund Treasury Management Budget

3.1 The following table sets out the treasury management budget for 2014/15 and consists of a gross budget for debt charges i.e. repayment of debt principal and interest, and interest returns on investment income.

2013/14 Actual £'000		2014/15 Original Budget £'000
15,017	Principal and Interest charges	16,890
2,176	Contribution to Treasury Management Equalisation Reserve to fund SSIP and other Capital Programme over the next 3 years.	
<b>17,193</b>	<b>Subtotal Expenditure</b>	<b>16,890</b>
	<b>Investment Income</b>	
(778)	- Total	(654)
189	- less allocated to other funds	200
<b>(589)</b>	<b>Subtotal Income</b>	<b>(454)</b>
<b>16,604</b>	<b>Net General Fund</b>	<b>16,436</b>

NB: Other funds include Trust Funds, Social Services Funds, Schools Reserves, Bonds etc.



#### 4. Borrowing

- 4.1 The following long term borrowing was arranged with the PWLB on 22<sup>nd</sup> January 2015:

Date	Lender	Amount £m	Period	Rate	Details
22 January 2015	PWLB	5.0	48 years	2.98%	Fixed maturity loan repayable 01 January 2063

#### 5.1 Investment Income

In line with the Council's Investment Strategy, the 2014/15 Original Budget for investment income is £654,000; treasury management investment income generated on investments made to date is £634,000.

Members should note that the majority of investments are classified as 'specified' i.e. up to 12 months and are currently with the major banks including Barclays, Lloyds Group, Bank Santander, Clydesdale, Royal Bank of Scotland and Nationwide Building Society.

- 5.2 The Council policy will allow investments up to a maximum of £25m for periods of more than 1 year and up to 5 years, and this will be considered when decisions on investing surplus funds are made.
- 5.3 No additional long term investments have been carried out since the last report. The Council currently has £10m invested for periods in excess of 12 months:

Counterparty	Value £'000	Period	Maturity	Rate %
Eastbourne Borough Council	4,000	4.5 Years	June 18	2.2%
Peterborough City Council	6,000	5 Years	Dec 18	2.1%
<b>TOTAL</b>	<b>10,000</b>			

## Icelandic Bank Update

- 5.4 Members should note the following position in relation to the recovery of monies from investments in Icelandic related banks.
- 5.5 The tables below show the amounts outstanding.

**Table 1 – Original Investments**

<b>Bank</b>	<b>Original Investment</b>	<b>Amount of Principal Repaid</b>	<b>Current Outstanding Investment</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Heritable	9,000	8,597	403
KSF	3,000	2,546	454
<b>Total</b>	<b>12,000</b>	<b>11,143</b>	<b>857</b>

**Table 2 – Investments Held in Escrow Accounts – Icelandic Kroner**

<b>Bank</b>	<b>Investment (Sterling Equivalent)</b>	<b>Amount Repaid</b>	<b>Outstanding Investment</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
New Glitnir	387	0	387

- 5.6 Some of the investments matured by the old Glitnir Bank have resulted in cash being held in the form of Icelandic Kroner. In line with Icelandic law, the Kroner is not tradable and can only be spent within Iceland. The Local Government Association is pursuing ways of transferring these investments to realise repayments into Sterling. These new investments with the new bank are held in an Escrow Account in the name of the local authority and generating interest in excess of 4%.
- 5.7 Members should note that the creditors of the old Glitnir Bank have challenged the original basis of settling the preferential creditors debts. Discussions are ongoing within the Icelandic Legal process in relation to this which may impact on some of the £387k referred to in the table above.

**List of Background Papers**

Treasury Management Files

PWLB Notice Number 055/15

**Appendix**

None

**Wards Affected**

All

**Officer Contact**

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## PolicyAUDIT COMMITTEE

### REPORT OF THE DIRECTOR OF FINANCE AND CORPORATE SERVICES

20 MARCH 2015

#### MATTERS FOR MONITORING WARDS AFFECTED: ALL

#### TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY

#### Members of Audit Committee:

This report has previously been forwarded and approved by Council at its 2015-16 Budget Setting meeting of 4 February 2015 and is now issued to the Audit Committee for scrutiny in line with the Scheme of Delegation (please see paragraph 4.2)

#### 1. Purpose of Report

- 1.1 This report sets out the Council's Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy for 2015/16.
- 1.2 Treasury Management is defined as:

“The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

#### 2. Introduction

- 2.1 All local authorities are required under the Local Government Act 2003 and Supporting Regulations to ensure that they prepare a Treasury Management Strategy, an Annual Investment Strategy and have a Minimum Revenue Provision (MRP) Policy in place for each financial year. The Authority must also have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice 2009 (as updated for 2011) to set Prudential and Treasury Indicators for the next three years

to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

- 2.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Welsh Government's MRP Guidance, the CIPFA Treasury Management Code and the Welsh Government's Investment Guidance.

### **3. Reporting Requirements**

- 3.1 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporates a variety of policies, estimates and actuals details of which are outlined below.

#### **3.2 Prudential and Treasury Indicators and Treasury Strategy (this report)**

The first and most important report covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision Policy (how capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organized) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

- 3.3 This report also updates some of the Council's Treasury Management Practices Statements which govern how the Council undertakes its Treasury Management Operations.

#### **3.4 A Mid Year Treasury Management Report (prepared after 1<sup>st</sup> October)**

This will update Members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision.

#### **3.5 An Annual Treasury Report**

This provides details of the actual performance for the previous financial year and provides a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy. This report must be considered by Members by 30<sup>th</sup> September of the following financial year.

#### **4. Compliance with the Revised Code**

4.1 The Council has adopted the following four clauses in order to comply with the requirements of the Revised Code:

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

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

- 2) The Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual Treasury Management Strategy Statement for the year ahead, a mid-year Review Report and an Annual Report covering activities during the previous financial year, in the form prescribed in its TMPs (see Scheme of Delegation on next page for further information).
- 3) The Council delegates responsibility for the implementation of treasury management policies to Cabinet, regular monitoring of its treasury management policies and practices to Policy and Resources Scrutiny and Cabinet Board/Audit Committee and for the execution and administration of treasury management decisions to the Director of Finance and Corporate Services (S151), who will act in accordance with the Council's policy statement and TMPs.
- 4) This Council nominates the Policy and Resources Scrutiny and Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

This Council has adopted the following reporting arrangements in accordance with the requirements of the revised Code. The aim of these reporting arrangements will ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

## 4.2 Scheme of Delegation

Area of Responsibility	Council/ Committee	Frequency
Treasury Management Strategy / Annual Investment Strategy / MRP policy	Cabinet for approval by Full Council	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – mid year report	Cabinet	Mid year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – updates or revisions at other times	Cabinet for approval by Full Council	Periodically
Annual Treasury Outturn Report	Policy and Resources Cabinet Board	Annually by 30 <sup>th</sup> September after the end of the year
Treasury Management Monitoring and Performance Reports	Policy and Resources Cabinet Board and Scrutiny and Audit Committee	6 Weekly Quarterly
Treasury Management Practices	Cabinet for approval by Full Council	Annually
Scrutiny of Treasury Management Strategy	Policy and Resources Scrutiny and Audit Committee	Annually

## 5. Treasury Management Strategy for 2015/16

5.1 The strategy for 2015/16 in respect of the following aspects of the treasury management function is based upon the Council's treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor, Capita Asset Services.



## 5.2 The strategy covers:

- treasury limits in force which will limit the treasury risk and activities of the Council
- Prudential and Treasury Indicators
- the current treasury position
- the borrowing requirement
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers
- the MRP strategy

## 6. **Balanced Budget Requirement**

6.1 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from: -

- increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
- Any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

## 7. **Treasury Limits for 2015/16 to 2017/18**

7.1 It is a statutory duty under Section 3 of the Act and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the “Affordable Borrowing Limit” or Operational Boundary. In England and Wales the Authorised Limit represents the legislative limit specified in the Local Government Act.

7.2 The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital

investment remains within sustainable limits and, in particular, that the impact upon its future council tax levels is ‘acceptable’.

- 7.3 Whilst termed an “Affordable Borrowing Limit”, the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years; details of the Authorised Limit can be found in Appendix 1 of this report.

## 8. Current Portfolio Position

- 8.1 The Council’s treasury portfolio position at 31<sup>st</sup> March 2014 comprised:

<b>Table 1</b>	<b>Principal</b>		<b>Ave Rate</b>	
		<b>£m</b>	<b>£m</b>	<b>%</b>
Fixed rate funding	PWLB	109.4		5.35
	Market	62.7		3.93
		<u>172.1</u>		
Variable rate funding	PWLB			
	Market			
Other long term liabilities				
<b>Gross Debt</b>			<u>172.1</u>	<b>4.89</b>
<b>Total investments</b>			<b>59.4</b>	<b>0.92</b>
<b>Net Debt</b>			<u>112.7</u>	

## 9. Borrowing Requirement

- 9.1 The borrowing requirement reflects the Council’s underlying requirement to fund capital expenditure and service loan debt. The requirement will be financed from external sources or internally through cash reserves or a combination of both. The Council’s borrowing requirement is as follows:

<b>Table 2</b>	<b>2014/15</b>				
	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
	<b>Actual</b>	<b>Revised Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£’000</b>	<b>£’000</b>	<b>£’000</b>	<b>£’000</b>	<b>£’000</b>
Borrowing requirement	12,449	17,434	19,882	12,375	2,910

## **10. Prudential and Treasury Indicators for 2015/16 – 2017/18**

- 10.1 Prudential and Treasury Indicators (as set out in Appendix 1 to this report) are relevant for the purposes of setting an integrated treasury management strategy.
- 10.2 Council adopted the original 2001 Code on 21st March 2002 and the Revised Code was adopted by Council on 3<sup>rd</sup> March 2010 and updated at the Annual Budget setting meeting. Details of this code can be found at Appendix 2 of this report.

## **11. Prospects for Interest Rates**

- 11.1 The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives our central view.

<b>Quarter Ending</b>	<b>Bank Rate %</b>	<b>PWLB Borrowing Rates % (including certainty rate adjustment)</b>		
		<b>5 year</b>	<b>25 year</b>	<b>50 year</b>
Mar 2015	0.50	2.20	3.40	3.40
Jun 2015	0.50	2.20	3.50	3.50
Sep 2015	0.50	2.30	3.70	3.70
Dec 2015	0.75	2.50	3.80	3.80
Mar 2016	0.75	2.60	4.00	4.00
Jun 2016	1.00	2.80	4.20	4.20
Sep 2016	1.00	2.90	4.30	4.30
Dec 2016	1.25	3.00	4.40	4.40
Mar 2017	1.25	3.20	4.50	4.50
Jun 2017	1.50	3.30	4.60	4.60
Sep 2017	1.75	3.40	4.70	4.70
Dec 2017	1.75	3.50	4.70	4.70
Mar 2018	2.00	3.60	4.80	4.80

## 12. Borrowing Strategy

12.1 The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However this strategy can only be used as a short term measure therefore consideration will be given to entering into external borrowing during 2015/16.

12.2 The following types of loan arrangement will be considered (in no particular order):

- Temporary borrowing from the money markets or other local authorities.
- Short dated borrowing from the market or PWLB.
- Long term fixed rate market or PWLB loans.

### 12.3 External –v- Internal Borrowing

<b>Table 3: Comparison of gross and net debt positions at year end</b>	<b>2014/15</b>				
	<b>2013/14 Actual £'000</b>	<b>Revised Estimate £'000</b>	<b>2015/16 Estimate £'000</b>	<b>2016/17 Estimate £'000</b>	<b>2017/18 Estimate £'000</b>
External debt (gross)	172,084	196,222	216,640	224,470	226,823
Cash balances	(59,477)	(60,000)	(40,000)	(40,000)	(40,000)
<b>Net Debt</b>	<b>112,607</b>	<b>136,222</b>	<b>176,640</b>	<b>184,470</b>	<b>186,823</b>

- The general aim of this treasury management strategy is to ensure the affordability of capital investment within the ongoing revenue budget, to ensure that the credit risk is managed effectively when comparing borrowing costs and investment holdings and returns.
- The next financial year is expected to continue to be one with an abnormally low Bank Rate with a base rate rise not forecast until December 2015. This provides a continuation of the current window of opportunity for local authorities to review their strategy of undertaking new external borrowing.
- The Council will continue to examine the potential for undertaking early repayment of some external debt to the PWLB in order to reduce the difference between its gross and net debt positions. However, the introduction by the PWLB of significantly lower repayment rates than new borrowing rates in November 2007,

which has now been compounded since 20th October 2010 by a considerable further widening of the difference between new borrowing and repayment rates, has potentially meant that large premiums would be incurred by such action and such levels of premiums are unlikely to be justifiable on value for money grounds. This situation will be monitored in case these differentials are narrowed by the PWLB at some future date.

- Members should note that the Council has taken new borrowing of £20m from the PWLB together with drawing down £2.574m from the Regional Investment Fund for Wales during the current year. The latter provides a £13m loan facility with some £7.2m available for drawdown by the end of October 2015.

### **13. Proposed Strategy**

- 13.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. The extent of this underborrowed position is outlined in the table below:

	<b>Actual 2013/14</b>	<b>Estimate 2014/15</b>
Capital Financing Requirement (borrowing need)	219,942	234,052
External Debt	172,084	196,222
Under borrowing	47,858	37,830

- 13.2 It is not anticipated that the Council can continue to meet its borrowing requirement from internal balances. It is proposed that Council Officers monitor the cost of external borrowing and if considered necessary externalise the 2015/16 borrowing requirement during the financial year if considered advantageous to do so.

### **14. Policy on Borrowing in Advance of Need**

- 14.1 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. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to

ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

14.2 In determining whether borrowing will be undertaken in advance of need the Council will;

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use
- consider the impact of borrowing in advance on increasing investment cash balances and the consequent increase in exposure to counterparty risk and other risks and the level of such risks given the controls in place to minimise them.
- Consider the impact on resources arising from any grant conditions.

## **15. Debt Rescheduling**

15.1 As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

15.2 The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings,
- helping to fulfil this Treasury Management Strategy, and
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

15.3 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

15.4 No rescheduling is anticipated in 2015/16. If rescheduling does take place it will be reported to the Policy and Resources Cabinet Board, at the earliest meeting following its action.

## **16. Annual Investment Strategy**

### **16.1 Investment Policy**

16.1.1 The Council's investment policy has regard to the WG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second and then return.

16.1.2 In accordance with the above, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using Capita's ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

16.1.3 Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets.

16.1.4 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

- 16.1.5 The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.
- 16.1.6 The intention of the strategy is to provide security of investment and minimisation of risk.
- 16.1.7 Investment instruments identified for use in the financial year are listed in Appendix 3 under the ‘Specified’ and ‘Non-Specified’ Investments categories. Counterparty limits will be as set through the Council’s Treasury Management Practices Schedules.

## **17. Creditworthiness Policy**

- 17.1 The Council utilises the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody’s and Standard and Poor’s. The credit ratings of counterparties are supplemented with the following overlays:
- credit watches and credit outlooks from credit rating agencies
  - CDS spreads to give early warning of likely changes in credit ratings
  - sovereign ratings to select counterparties from only the most creditworthy countries
- 17.2 All credit ratings are monitored on a daily basis. The Council is alerted to changes to ratings of all three agencies through its use of the Capita creditworthiness service.
- If a downgrade results in the counterparty/investment scheme no longer meeting the Council’s minimum criteria, its further use as a new investment will be withdrawn immediately.
- 17.3 In addition the Council uses market information and data, information on government support for banks and the credit ratings of that government support.
- 17.4 In accordance with the Code, the Director of Finance and Corporate Services has produced its Treasury Management Practices (TMP’s). This part TMP1 covering investment counterparty policy requires approval each year.



## 18. Country Limits

18.1 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ from Fitch Ratings (or equivalent from other agencies if Fitch does not provide) The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 3. This list will be added to or deducted from by officers should ratings change in accordance with this policy. In addition the Council will also seek to obtain sovereign guarantees wherever possible.

## 19. Investment Strategy

19.1 **In-house funds:** The Council currently manages its surplus funds in-house. The core balance, available for strategic investment is estimated to be in the region of £60m reducing to c£40m over the medium term. The remaining cash balances are mainly cash flow derived and available for short term investment only.

19.2 Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (up to 12 months). The Council policy will allow investments up to a maximum of £25m for periods of more than 1 year and up to 5 years, and this will be considered when decisions on investing surplus funds are made.

19.3 The Council currently has £10m invested for periods in excess of 12 months (See table).

<b>Counterparty</b>	<b>Value £'000</b>	<b>Start Date</b>	<b>Period</b>	<b>Rate %</b>
Eastbourne Borough Council	4,000	19/12/13	4.5 Years	2.2
Peterborough City Council	2,000	04/12/13	5 Years	2.1
Peterborough City Council	2,000	06/12/13	5 Years	2.1
Peterborough City Council	2,000	18/12/13	5 Years	2.1

19.4 The decision was taken to invest for longer than 1 year to achieve a higher return on investments, at a time when short term interest rates are at an all time low. The £10m is a relatively small proportion of the core balances

available for investments, invested with risk free counterparties and has significantly increased the amount of interest received.

- 19.5 **Investment returns expectations.** Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from December 2015. Bank rate forecasts for financial year ends (March) are:

2014/15	0.50%
2015/16	0.75%
2016/17	1.25%
2017/18	2.00%

- 19.6 There are upside risks to these forecasts (i.e. start of increases in Bank Rate occurs sooner) if economic growth remains strong and unemployment falls faster than expected. However, should the pace of growth fall back, there could be downside risk, particularly if Bank of England inflation forecasts for the rate of fall of unemployment were to prove to be too optimistic.

- 19.7 The Council's budgeted investment earnings rates for return on investments each financial year for the next three years has been set at 1% per annum.

## 20. Icelandic Bank Investments

- 20.1 Members should note the following position in relation to the recovery of monies from investments in Icelandic related banks.

<b>Bank</b>	<b>Original Investment</b>	<b>Amount of Principal Repaid</b>	<b>Current Outstanding Investment</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Heritable	9,000	8,597	403
KSF	3,000	2,546	454
	<b>12,000</b>	<b>11,143</b>	<b>857</b>

- 20.2 Some of the investments matured by the old Glitnir bank have resulted in cash being held in the form of Icelandic Kroner. In line with Icelandic law, the Kroner is not tradable and can only be spent within Iceland. The Local Government Association is pursuing ways of transferring these investments to realise repayments into Sterling. These new investments with the new banks are held in Escrow Accounts in the name of the local authority and generating interest in excess of 4%. £387k is held in Escrow.

## **21 End of Year Investment Report**

21.1 Members will receive a report on its 2014/15 investment activity as part of the Annual Treasury Report by 30<sup>th</sup> September 2015 and its 2015/16 activity by 30<sup>th</sup> September 2016.

## **22. Policy on the Use of External Service Providers**

22.1 The Council uses Capita Asset Services as its external treasury management advisers.

22.2 The Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

22.3 However it is recognised that responsibility for treasury management decisions remains with the Council.

## **23. Role of the Section 151 Officer**

23.1 The Director of Finance and Corporate Services is the designated Section 151 Officer for the Council. The specific responsibilities of the S151 Officer are set out below:

- recommend clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommend the appointment of external service providers.

## **24. Minimum Revenue Provision**

### **24.1 Introduction**

24.1.1 Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred therefore such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision.

24.1.2 The council is required to approve its MRP policy for the forthcoming financial year ensuring that “prudent provision” is made. The Welsh Government has issued guidance on MRP policy to which the council must have regard.

## **25. Minimum Revenue Provision Policy Statement 2015/16**

25.1 The major proportion of the MRP for 2015/16 will relate to the historic debt liability that will continue to be charged on 4% of the opening capital financing requirement each year.

25.2 Certain expenditure funded via Prudential Borrowing will be subject to MRP on the basis of asset life and using the equal annual instalment or annuity methods as appropriate. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

25.3 Estimated life periods will be determined by the Director of Finance and Corporate Services under delegated powers. To the extent that expenditure is not on the creation of an asset e.g. computer software and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

25.4 Where some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure, as determined by the Director of Finance.

25.5 The Council will apply the Minimum Revenue Provision to the accounts in the financial year following which the asset becomes operational.

**26. Appendices**

Appendix 1 - Prudential and Treasury Indicators

Appendix 2 - Revised CIPFA Treasury Management Code of Practice 2009 as updated for 2011

Appendix 3 - Investment Criteria

**27. Recommendations**

27.1 It is recommended that Cabinet commend to Council the approval of the Treasury Management Strategy, Annual Investment, Minimum Revenue Provision and Prudential Indicators as set out in this report.

**28. Reasons for Proposed Decision**

28.1 To comply with the requirements of the CIPFA Treasury Management Code of Practice.

**List of Background Papers**

CIPFA – Treasury Management in the Public Sector Code of Practice  
Treasury Management Working Papers

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## COMPLIANCE STATEMENT

### **TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY**

(a) **Implementation of Decision**

The decisions are proposed for implementation immediately after consultation with the Cabinet Scrutiny Committee and determination by Council.

(b) **Sustainability Appraisal**

**Community Plan Impacts:**

Economic Prosperity	Positive
Education and Lifelong Learning	Positive
Better Health and Well Being	Positive
Environment and Transport	Positive
Crime and Disorder	Positive

**Other Impacts:**

Welsh Language	Neutral
Sustainable Development	Positive
Equalities	Neutral
Social Inclusion	Neutral

(c) **Consultation**

This item has been included in the Forward Work Programme.

## Prudential and Treasury Indicators

### A4.1 Estimates of Capital Expenditure

‘The local authority will make reasonable estimates of the total capital expenditure that it plans to incur during the forthcoming financial year and at least the following two financial years. The estimates below are based on the latest approved budgets which will be revised when changes to the capital programme are known.

	<b>2013/14 Actual £'000</b>	<b>2014/15 Revised Estimate £'000</b>	<b>2015/16 Estimate £'000</b>	<b>2016/17 Estimate £'000</b>	<b>2017/18 Estimate £'000</b>
Capital Expenditure	53,718	62,230	66,821	34,258	18,569

The Authority expects to supplement its Capital Expenditure Programme in 2015/16 and beyond through additional external grant funding of projects. These figures will be updated in future years.

### A4.2 Estimates of Capital Financing Requirement (CFR)

The term Capital Financing Requirement represents the projected total amount of borrowing needed to fund Capital Expenditure. The sums involved are shown below:

	<b>2013/14 Actual £'000</b>	<b>2014/15 Revised Estimate £'000</b>	<b>2015/16 Estimate £'000</b>	<b>2016/17 Estimate £'000</b>	<b>2017/18 Estimate £'000</b>
CFR	219,942	234,052	260,101	263,940	258,263

### A4.3 Affordability Indicators

These indicators consider the estimated impact of capital financing costs on the net budget and taxpayers of the Authority.

## Prudential and Treasury Indicators

	<b>2013/14 Actual £'000</b>	<b>2014/15 Revised Estimate £'000</b>	<b>2015/16 Estimate £'000</b>	<b>2016/17 Estimate £'000</b>	<b>2017/18 Estimate £'000</b>
<b>Estimated ratio of financing cost to net revenue stream:</b>					
- for General Fund	5.87%	6.77%	7.20%	7.23%	7.54%
<b>Estimate of incremental impact of new capital investment decisions on:</b>					
- Council Tax	3.83	18.39	22.84	11.66	27.70

The following Treasury Management Indicators are required:-

#### A5.1 Operational Boundary & Authorised Limit

The local authority will set for the forthcoming financial year and the following two financial years an operational boundary & authorised limit for its total external debt. The operational boundary should be based on the Authority's estimate of most likely i.e. prudent, but not worst case scenario.

	<b>2014/15 Revised Estimate £'000</b>	<b>2015/16 Estimate £'000</b>	<b>2016/17 Estimate £'000</b>	<b>2017/18 Estimate £'000</b>
Operational Boundary	236,222	261,640	269,470	271,823
Authorised Limit	256,222	281,640	289,470	291,823



**Prudential and Treasury Indicators**

A5.2 The following limits to be established to administer interest rate exposure for the next 3 years.

	<b>2014/15 Revised Estimate £'000</b>	<b>2015/16 to 2017/18 Estimate £'000</b>
Upper Limit on Fixed Interest Rate Exposure	256,222	291,823
Lower Limit on Fixed Interest Rate Exposure	0	0
Upper Limit on Variable Interest Rate Exposure	128,111	145,912
Lower Limit on Variable Interest rate Exposure	0	0

The above limits will be measured upon the gross principal invested method. This method takes account of total borrowing outstanding.

<b>Upper Limit for total principal sums invested over 364 days</b>	<b>2013/14 Actual £'000</b>	<b>2014/15 Revised Estimate £'000</b>	<b>2015/16 Estimate £'000</b>	<b>2016/17 Estimate £'000</b>	<b>2017/18 Estimate £'000</b>
	£25m	£25m	£25m	£25m	£25m

A5.3 The Borrowing Maturity structure will be:

<b>Maturity Structure of Fixed Rate Borrowing</b>	<b>2015/16 Estimate %</b>	<b>Upper Limit %</b>	<b>Lower Limit %</b>
Under 12 months	1	15	0
12 months to 2 years	1	15	0
2 to 5 years	8	40	0
5 to 10 years	11	60	0
10 years +	79	100	15

**The Revised CIPFA Treasury Management Code of Practice 2009 as updated for 2011**

Neath Port Talbot County Borough Council has formally adopted the revised Code, the main proposals of which are:-

- a) All councils must formally adopt the revised Code which must be approved by Full Council.
- b) The strategy report will affirm that the effective management and control of risk are prime objectives of the Council's treasury management activities.
- c) The Council's appetite for risk must be clearly identified within the strategy report and will affirm that priority is given to security of capital and liquidity when investing funds and explain how that will be carried out.
- d) Responsibility for risk management and control lies within the organisation and cannot be delegated to any outside organisation.
- e) Credit ratings should only be used as a starting point when considering risk. Use should also be made of market data and information, the quality financial press, information on government support for banks and the credit ratings of that government support.
- f) Councils need a sound diversification policy with high credit quality counterparties and should consider setting country, sector and group limits.
- g) Borrowing in advance of need is only to be permissible when there is a clear business case for doing so and only for the current capital programme or to finance future debt maturities.
- h) There needs to be, at a minimum, a mid year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved.
- i) Each council must delegate the role of scrutiny of treasury management strategy and policies to a specific named Committee.
- j) Treasury management performance and policy setting should be subjected to scrutiny prior to approval.
- k) Members should be provided with access to relevant training.
- l) Those charged with governance are also personally responsible for ensuring they have the necessary skills and training.
- m) Responsibility for these activities must be clearly defined within the organisation.

Officers involved in treasury management must be explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Council.

**Specified Investments**

All such investments will be sterling denominated, with **maturities up to maximum of 1 year**. In order to limit the counterparty risk exposure, the Council adopts stringent credit criteria, maximum investment periods and amounts for the various categories of counterparty, as reflected below.

	<b>Minimum ‘High’ Credit Criteria</b>	<b>Funds Managed</b>	<b>Max Amount</b>	<b>Max Duration</b>
<u>Fixed term deposits with fixed rate and fixed maturity:</u>				
Debt Management Agency Deposit Facility	N/A	In-house	Unlimited	1 year
Term deposits – local authorities	N/A	In-house	£10m	1 year
Term deposits – Nationalised & Part Nationalised UK banks/Building Societies	Fitch short-term rating F1 with support rating of 1	In-house	£20m	1 year
Term deposits – UK banks/Building Societies	Fitch short-term rating F1+ with support rating of 1	In-house	£20m	1 year
Term deposits – UK banks/Building Societies	Fitch short-term rating F1+	In-house	£15m	1 year
Term deposits – Barclays Bank Plc	Fitch short-term rating F1 with a support rating of 1 and a short term stable outlook	In-house	£15m	6 months
Term deposits – UK banks/Building Societies	Fitch short-term rating F1 with a support rating of 1 and a short term stable outlook	In-house	£10m	6 months
Principality Building Society	Fitch short-term rating F2	In-house	£3m	6 months
Term deposits – non UK banks	Fitch short-term rating F1+	In-house	£5m	6 months
Callable deposits -	Fitch short-term rating F1 or F1+	In-house	As above with the addition of a £3m limit for the Council’s bankers Santander	

Other specified investments are as follows:

1. The UK Government – in addition to the Debt Management Account facility, there are UK Treasury Bills or Gilts with less than 1 year to maturity.
2. Supranational Bonds of less than 1 year duration – there are two categories:
  - (a) multilateral development bank bonds such as European Investment Bank Bonds
  - (b) a financial institution that is guaranteed by the UK Government such as The Guaranteed Export Finance Company.
3. Pooled Investment Vehicles (such as Money Market funds) that have been awarded a high credit rating agency.

Specified investments are considered low risk assets where the possibility of loss of principal or investment income is small.

The Council has not utilised these types of investments in the past but is currently investigating the merits for doing so.

**Non-Specified Investments:**

A maximum of £25m will be held in aggregate in non-specified investments. All non-specified investments will be sterling denominated, as reflected below:

**Maturities in excess of 1 year**

	<b>Minimum Credit Criteria</b>	<b>Funds Managed</b>	<b>Max. Investment</b>	<b>Max. Maturity Period</b>
<b>Fixed term deposits with fixed rate and fixed maturity</b>				
Debt Management Agency Deposit Facility	N/A	In-house	Unlimited	5 years
Term deposits – local authorities	NA	In-house	£10m	5 years
Term deposits – UK banks/Building Societies	Fitch long-term rating A	In-house	£10m	5 years
Term deposits – Non UK banks	Fitch long-term rating A	In-house	£3m	5 years
Term deposits – building societies	Fitch long-term rating A	In-house	£3m	5 years
<b>Fixed term deposits with variable rate and variable maturities</b>				
Callable deposits	Fitch long-term rating A	In-house	Criteria as above	

### Other

The Council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as possible to a maximum of £3m and maximum investment period of 3 months.

### **The Monitoring of Investment Counterparties**

The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Capita as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Finance, and if required new counterparties which meet the criteria will be added to the list.

### **Government Support**

The original list of banks covered when the support package was initially announced was: -

- Part Nationalised Banks:
  - Lloyds Group
  - RBS
  
- Others:
  - Barclays
  - HSBC
  - Nationwide Building Society
  - Standard Chartered

### Approved Countries for Investments

At present the Council has the ability to invest in the countries as set out below; the Council will take account of all information if making investments in Non-UK banks.

The Council will only invest in Banks where the sovereignty is AA+ or higher. However should the UK sovereignty rating reduce the Council will immediately review its investments but will continue to invest in UK institutions in line with the agreed strategy and a report will be forwarded to Members for consideration.

Based on lowest available rating:

#### AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Norway
- Singapore
- Sweden
- Switzerland

#### AA+

- Finland
- Hong Kong
- Netherlands
- U.K.
- U.S.A.

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