Public Document Pack

Neuadd y Sir
Y Rhadyr
Brynbuga
NP15 1GA

County Hall
Rhadyr
Usk
NP15 1GA

Wednesday, 24 February 2016

Notice of meeting / Hysbysiad o gyfarfod:

Audit Committee

Thursday, 3rd March, 2016 at 2.00 pm,
Council Chamber, County Hall, The Rhadyr, Usk, NP15 1GA

AGENDA

Item No	Item	Pages
1.	**Apologies for Absence**	
2.	**Declarations of Interest**	
3.	**Public Open Forum**	
4.	**To confirm minutes of the previous meeting**	1 - 6
5.	**To note the Action List from the previous meeting**	7 - 8
6.	**Wales Audit Office - Certification of Grants and Returns 2014-15**	9 - 22
7.	**Treasury Management Policy Statement & Strategy Statement, MRP Policy Statement and Investment Strategy 2016/17**	23 - 64
8.	**Audit Committee Work Programme**	65 - 66

Paul Matthews

Chief Executive / Prif Weithredwr

MONMOUTHSHIRE COUNTY COUNCIL
CYNGOR SIR FYNWY

THE CONSTITUTION OF THE COMMITTEE IS AS FOLLOWS:

County Councillors:

P White
J. Higginson
D. Batrouni
P. Clarke
G. Down
A. Easson
D. Edwards
P. Murphy
P. Jordan
B. Hayward
B. Strong
J. Prosser

Public Information

Access to paper copies of agendas and reports
A copy of this agenda and relevant reports can be made available to members of the public attending a meeting by requesting a copy from Democratic Services on 01633 644219. Please note that we must receive 24 hours notice prior to the meeting in order to provide you with a hard copy of this agenda.

Watch this meeting online
This meeting can be viewed online either live or following the meeting by visiting www.monmouthshire.gov.uk or by visiting our Youtube page by searching MonmouthshireCC.

Welsh Language
The Council welcomes contributions from members of the public through the medium of Welsh or English. We respectfully ask that you provide us with adequate notice to accommodate your needs.

Aims and Values of Monmouthshire County Council

Sustainable and Resilient Communities

Outcomes we are working towards

Nobody Is Left Behind

- Older people are able to live their good life
- People have access to appropriate and affordable housing
- People have good access and mobility

People Are Confident, Capable and Involved

- People's lives are not affected by alcohol and drug misuse
- Families are supported
- People feel safe

Our County Thrives

- Business and enterprise
- People have access to practical and flexible learning
- People protect and enhance the environment

Our priorities

- Schools
- Protection of vulnerable people
- Supporting Business and Job Creation
- Maintaining locally accessible services

Our Values

- **Openness:** we aspire to be open and honest to develop trusting relationships.
- **Fairness:** we aspire to provide fair choice, opportunities and experiences and become an organisation built on mutual respect.
- **Flexibility:** we aspire to be flexible in our thinking and action to become an effective and efficient organisation.
- **Teamwork:** we aspire to work together to share our successes and failures by building on our strengths and supporting one another to achieve our goals.

Nodau a Gwerthoedd Cyngor Sir Fynwy

Cymunedau Cynaliadwy a Chryf

Canlyniadau y gweithiwn i'w cyflawni

Neb yn cael ei adael ar ôl

- Gall pobl hŷn fyw bywyd da
- Pobl â mynediad i dai addas a fforddiadwy
- Pobl â mynediad a symudedd da

Pobl yn hyderus, galluog ac yn cymryd rhan

- Camddefnyddio alcohol a chyffuriau ddim yn effeithio ar fywydau pobl
- Teuluoedd yn cael eu cefnogi
- Pobl yn teimlo'n ddiogel

Ein sir yn ffynnu

- Busnes a menter
- Pobl â mynediad i ddysgu ymarferol a hyblyg
- Pobl yn diogelu ac yn cyfoethogi'r amgylchedd

Ein blaenoriaethau

- Ysgolion
- Diogelu pobl agored i niwed
- Cefnogi busnes a chreu swyddi
- Cynnal gwasanaethau sy’n hygyrch yn lleol

Ein gwerthoedd

- **Bod yn agored:** anelwn fod yn agored ac onest i ddatblygu perthnasoedd ymddiriedus
- **Tegwch:** anelwn ddarparu dewis teg, cyfleoedd a phrofiadau a dod yn sefydliad a adeiladwyd ar barch un at y llall.
- **Hyblygrwydd:** anelwn fod yn hyblyg yn ein syniadau a'n gweithredoedd i ddod yn sefydliad effeithlon ac effeithiol.
- **Gwaith tîm:** anelwn gydweithio i rannu ein llwyddiannau a'n methiannau drwy adeiladu ar ein cryfderau a chefnogi ein gilydd i gyflawni ein nodau.

MONMOUTHSHIRE COUNTY COUNCIL

Minutes of the meeting of Audit Committee held at Council Chamber, County Hall, The Rhadyr, Usk, NP15 1GA on Thursday, 14th January, 2016 at 2.00 pm

PRESENT: P White (Chairman)
County Councillor J. Higginson (Vice Chairman)

County Councillors: D. Batrouni, G. Down, A. Easson, D. Edwards, P. Murphy, P. Jordan, B. Strong and J. Prosser

OFFICERS IN ATTENDANCE:

Nicola Perry	Democratic Services Officer
Joy Robson	Head of Finance/Section 151 Officer
Andrew Wathan	Chief Internal Auditor
Richard Cope	Passenger Transport Unit Manager
Matthew Gatehouse	
Roger Hoggins	Head of Operations
Hazel Ilett	Scrutiny Manager
Richard Jones	Improvement Support Officer

APOLOGIES:

There were no apologies for absence.

1. **Declarations of Interest**

There were no declarations of interest made by Members.

2. **Public Open Forum**

There were no members of the public present.

3. **To confirm minutes of the previous meeting**

The minutes of the meeting of Audit Committee held on 3rd December 2015 were approved and signed by the Chairman. In doing so it was noted that County Councillor J. Prosser had given apologies for the meeting.

An update was requested regarding a question from a member of the public at a previous meeting relating to Chepstow School. We were advised this would be referred to in item 5 of the agenda.

4. **To note the Action List from the meeting held on 3rd December 2015**

We received the Action List from the meeting held on 3rd December. In doing so the following points were noted:

The Head of People and Commercial Development had spoken to the Chair and had confirmed that information regarding the outstanding action had been received on the morning prior to the meeting. It was agreed to discuss at the next meeting.

With regards to the Monmouthshire County Council response to the query brought to Committee by a member of the public, the Chairman had been advised by officers that a response was imminent.

The update on Monmouthshire Enterprises would be brought to the following meeting.

The Committee were satisfied that the information received regarding the Inspire to Achieve programme.

5. **To receive an update from the Passenger Transport Unit Manager**

The Committee welcomed the Passenger Transport Unit Manager, who had been invited to present to the Committee, following concerns expressed by members regarding unsatisfactory audit opinion, relating to areas within the service.

The Committee were reassured that actions were being taken to address the unsatisfactory audit opinions within the Passenger Transport Unit. The Passenger Transport Unit Manager advised the Committee of the steps taken in each area. Members were invited to comment.

A Member questioned the procurement requirements and whether they were detrimental to the passenger transport operation. The PTU Manager explained that the process of purchasing a used vehicle could take a month or more. Another challenge was that the OJEU limit had been reduced from £172,000 to £162,000, meaning that most vehicles were over the OJEU limit and a 56 day notice would be need to be given in the interim, during which time vehicles would be sold. In response Members questioned if, due to the prejudicial process to the PTU department, there was any way of adapting the procurement process for the purchase of vehicles. The Head of Operations noted that there needed to be a clear and transparent process it was an ongoing debate with Internal Audit.

Members questioned if other Councils experienced the same problems and we heard that in general there was a difficulty to develop a framework for second hand vehicle procurement. Officers had considered purchasing new vehicles but there was a shortage of suppliers and a high end cost.

A Member raised a question regarding the collection of payments following invoicing. The PTU Manager explained that much of the aged debt had been identified and correctly allocated. There was an issue of payments being received without a remittance.

In response to a question we heard that there were now systems in place to record all orders and bookings.

The Chair suggested that it would be helpful for the Committee to receive a copy of the notes made by the PTU Manager **(Action – RC).**

6. Annual Improvement Report and Corporate Assessment

The Policy and Performance Manager introduced the published Annual Improvement Report 2014-15, incorporating the Corporate Assessment.

The headline finding of the report was “The Council demonstrates ambition in its vision, enthusiasm to deliver and commitment to working collaboratively, but this needs to be supported by a clearly joined-up strategic approach and effective delivery mechanisms.” The plan contained a number of proposals for improvement. Wales Audit Office had been invited Audit Committee to present the findings.

Following the presentation Members were invited to comment.

A Member referred to the analysis on performance and accountability in governance and challenged that the report did not provide sufficient detail in order for Members to scrutinise effectively. It was noted that Internal Audited had been understaffed in recent years and how could we be reassured that the robustness of the data would be increased. Wales Audit Office referred to the improvement plan and the quality of the targets and actions taken, and how they would contribute to the delivery of the improvements. In terms of quantifying the impact, unless there were clear targets and expectations set out, then Members and senior managers would not be able to hold officers to account. It was noted that there had been concerns surrounding data quality, but this had been taken from a small sample. WAO would be undertaking further work to check on the robustness of actions.

The Policy and Performance Manager explained that, in terms of Internal Audit, in the 2017/18 audit plan there would be a change in emphasis away from the paperwork aspect, and more towards helping with scrutiny of systems, which would be in line with the work done by WAO. Audit Committee were advised that there were national and locally produced Performance indicators, both of which came with an internal control rating of good.

In terms of the Improvement Plan

The Chief Internal Auditor explained to Members that Internal Audit were involved with auditing performance indicators on an annual basis. The remit to date was to ensure that the position per each indicator was correct, and to ensure that the collator of the information adhered to the criteria set out in the performance indicator. Internal Audit worked closely with Policy and Performance team to ensure that the data was as robust as possible but could only work with a sample of data at any given time.

A Member raised concerns surrounding the recommendation to reconsider the Councils policy of not formally minuting Cabinet meetings, and it was considered important the meetings should be formally minuted. The Cabinet Member highlighted that Cabinet meetings were live streamed and the agendas and background information were readily available. We heard that Cabinets collective view was that the decision log would be published following the meeting and formal minutes were considered unnecessary. A Member expressed that the area of concern was not the decisions but rather announcements made which were not part of the agenda, which could be distributed widely through minutes.

A Member referred to the Corporate Assessment proposal for improvement P8, '*Develop the Council's workforce planning arrangements by including accurate data and key management information around workforce issues and statistics, reporting regularly to Senior Leadership and Management Teams to enable effective monitoring of progress and management of these issues on an ongoing basis.* In response to a request of further clarification it was explained that there was no strategy for how the workforce, as a whole, would be taken forward. WAO would expect to see a clear picture of the workforce, profile of the organisations, alongside where the organisation was heading in order to identify future needs. We heard that this would be important in terms of redundancies, in order to identify the correct positions were removed. Without the workforce plan it would be difficult to identify the future needs of the organisation.

The Committee resolved to note the report.

7. **Internal Audit Quarter 3 Progress Report**

The Chief Internal Auditor presented the Internal Audit Quarter 3 Progress Report in order to allow Members to consider the adequacy of the internal control environment within the Council based on the outcomes of audit reviews and subsequent opinions issued to the 31st December 2015.

Members of the Audit Committee were required to consider the performance of the Internal Audit Section over the first 9 months of the current financial year.

Following presentation of the report Members of the Audit Committee were invited to comment, during which time the following points were noted:

There were concerns surrounding the ongoing back log. It was appreciated that there had been staffing issues in recent years and that special investigations could take up a considerable amount of time. The Chief Internal Auditor explained that the team comprised of the part time Chief Internal Auditor, and 5 members of the audit team. There was a review of the audit plan each year, to create a strategic audit plan of what was aimed to be covered with the available resources. An operational audit plan was also in place which ensured the audit work was correctly prioritised. The risk profile may change from year to year and therefore, through a change in priorities, some low risk jobs would never be covered. Members were reassured that there were sufficient resources to complete the plan. However, with more resources there could be greater coverage across the authority and therefore give greater assurance.

The Committee resolved to note the report.

8. **Scrutiny Performance Report**

We received a report from the Scrutiny Manager to present the Scrutiny Service Plan 2015-2018 (updated for Quarter 2) in order for Members to monitor the performance of the function and assess the fitness of purpose of the Council's Scrutiny arrangements.

The report recommended:

- That the Audit Committee considers the robustness of the Scrutiny Service Plan 2015-2016 together with 'Key Scrutiny Milestones 2014-2015 in ensuring continuous improvement in the scrutiny function.

- That the Audit Committee considers the Council's recent response to the recommendations made to all Welsh Authorities following the WAO Scrutiny Study 2013-2014.
- That the Audit Committee considers the views of the WAO on scrutiny in Monmouthshire during the Council's Annual Improvement Corporate Assessment Report 2014-2015, making recommendations (if appropriate), to address any areas of Member concern.

Following the presentation Members were invited to comment.

A Members raised a question regarding the Council's reduction of attendance on Select Committees, and if the effectiveness of scrutiny was being watered down. The number of special meetings was also queried. The Scrutiny Manager agreed that the membership of scrutiny committees had reduced but felt that the scrutiny process had become far more effective over recent years. It was not thought that there was an overall reduction of members actually attending meetings and therefore reducing the membership had helped the situation. In terms of special meetings, we heard that the reason for the increase in the number of special meetings was due to the amount of work taking place, and the fact there was no longer task and finish groups. Also, in order to scrutinise effectively in a dynamic council environment, Members focused on pre-decision scrutiny and the scrutiny of proposals ahead of Cabinet decisions as opposed to long in-depth investigations. The workload of the Children and Young People Committee had increased due to the Estyn inspection.

A Member suggested that it would be more helpful if the evaluation form, as well as highlighting areas of success, showed areas of weaknesses and failures to provide a more balanced view. In response the Scrutiny Manager confirmed that the weaknesses were areas for continued focus, which were contained within the report. However, the report was due to be updated and the information would be provided as requested.

Further clarification was sought regarding the highly successful engagement on budget scrutiny. We were informed that the Council engaged heavily with the public on the budget proposals ahead of them being considered. Many consultation events were held, along with communication via social media. Views were heavily influenced by members of the public. Members heard that not all councils enabled the public to speak at scrutiny meetings and that MCC enabled public participation through the Public Open Forum of its' ordinary meetings. The Committee was advised that the opportunity for the public to speak as part of the Call-in process is a unique feature offered by scrutiny at Monmouthshire County council.

A Member asked the Scrutiny Manager if there was confidence that the information received was robust, as without robust data the scrutiny process may be flawed. IT was noted that there had been issues with the robustness of data, particularly for the Children and Young People Select Committee, but the Scrutiny Manager felt that the concerns had been addressed by working with the EAS and officers in the CYP department to improve the quality of data coming forward to Members.
A Member, as Scrutiny Champion for MCC, commended the Scrutiny Manager for her continued hard work, and agreed that there had been a gradual improvement in scrutiny.

A question was raised if, with the plethora of meetings over the last 6 months, we were scrutinising the right portfolios. In response, we were informed that the four select committees were set up appropriately in order to scrutinise cross-cutting issues and that the key benefit of having bespoke scrutiny arrangements that are not directorate-focussed is that the Select Committees can perform more outward-focussed scrutiny, for example, engaging with the business activity on increasing and sustaining economic growth. The expectations of scrutiny to engage with external partners and stakeholders are highlighted through the Local Government Measure (Wales) 2011 and as such, the Scrutiny Manager advised that she felt that the scrutiny arrangements are fit for purpose and that MCC operates a streamlined scrutiny process that supports and develops Members to scrutinise the right thing at the right time. The Committee were satisfied with the report and agreed to await a future update towards the end of the year.

9. Forward Work Programme

The Committee noted the future work programme.

10. To confirm the date and time of next meeting as Thursday 3rd March 2016 at 2.00pm

We noted the date and time of the next meeting as Thursday 3rd March 2016 at 2.00pm.

The meeting ended at 3.35 pm

Audit Committee Actions
14th January 2016

Agenda Item:	Subject	Officer	Outcome
Agenda Item 9 23/09/15	Early Departures and Vacant Posts	P. Davies	A breakdown of special payments by banding requested **Peter Davies to provide information at next meeting**
Agenda Item 4 22/10/15	MCC response to issues raised be member of public on 16th July - report	J. Robson	To be provided. **Outstanding – response imminent**
Agenda Item 11 22/10/15	Unsatisfactory Audit Opinions – Monmouthshire Enterprises	J. Boothroyd/ C. York	To provide Audit Committee with a report on action taken as a result of recommendations. **DEFERRED TO MARCH MEETING**

This page is intentionally left blank

Archwilydd Cyffredinol Cymru
Auditor General for Wales

WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Certification of Grants and Returns 2014-15

Monmouthshire County Council

Issued: February 2016

Document reference: 271A2016

Status of report

The grants audit team was Ann-Marie Harkin, Steve Wyndham, Anthony Ford, Jane Thomas, Ben Buckley & Jane Davies.

Contents

We have concluded our 2014-15 grant certification audit and there has been an improvement in all key outcome measures – no claims were qualified and there has been a reduction in the number of claims amended. As a result, the overall audit fee has reduced. There are however some areas for further improvement to address for 2015-16.

Summary report

Introduction

1. Monmouthshire County Council (the Council) is responsible for preparing a range of grants and returns (hereafter referred to as grant claims) for submission to grant paying bodies.

2. In our role as your external auditors, we are required to certify these grant claims in accordance with the respective certification instructions and conclude on whether expenditure has been incurred in accordance with the relevant terms and conditions. The certification instructions issued by the Auditor General for Wales prescribe the work to be undertaken.

3. Our certification arrangements in 2014-15 have changed from prior years with the Welsh Government requiring us to seek a claim amendment (or issue a qualification letter) only when errors amount to £10,000 or more.

4. We have now certified all of the Council's grant claims and returns for 2014-15 in accordance with the relevant certifications. This report provides a summary of the outcomes of our 2014-15 grant audit work.

Summary of 2014-15 grant audit work

5. We certified 11 claims with aggregate expenditure totalling some £56.148m. Of the 11 claims certified (12 in 2013-14):

- 8 were certified with no issues reported (5 in 2013-14);
- 0 claims were qualified (4 in 2013-14);
- 3 were amended (4 in 2013-14); and
- There were no claims that were both qualified and amended (1 in 2013-14).

6. There has therefore been a reduction in the number of qualifications and amendments. The main reason for this is due to the revised certification arrangements in 2014-15 where errors amounting to less than £10,000 were not required to be qualified or amended but instead reported to the Council via a grants feedback note. Our grants feedback note for 2014-15 reported on four claims that would have previously been qualified. The key issues from the feedback note have been reflected within this Grants Certification report.

7. We are also pleased to report all claims were received for audit in line with the agreed deadline. A small number of claims with 30 November deadlines did however experience minor delays in onward submission to the grant paying bodies, due to staffing constraints within the WAO. All claims with 31 December 2015 deadlines were submitted on time.

8. Of the three claims that were amended, there was a net gain to the Council of some £9,200 of additional funding whereas this comparative figure for 2013-14 was a reduction of £17,500.

9. We have summarised all of the matters arising, on a claim-by-claim basis in Appendix A.

10. Appendix B of this report summarises recommendations raised to the Council that need to be addressed as part of the 2015-16 grant claim work. Appendix B also summarises the Council's progress in addressing recommendations we have raised in prior years. There are no outstanding actions for the Council in respect of prior year recommendations.

11. Our Audit Outline for 2014-15 estimated that the total fee for grant certification work would be within the range of £45,000 - £50,000. Our final cost estimate for completing the work is £43,836, which is lower than our initial range estimate and £5,000 lower than our comparative audit fee for 2013-14 (£48,704). A detailed breakdown of the fees charged for each grant is summarised at Appendix C.

Detailed report

The Council's grants management processes have improved but can be further refined

12. In completing our grants work in previous years we have highlighted a general pattern of a relatively high number of qualifications, amended claims and late claims. There has been a significant improvement however in respect of the 2014-15 grant certification audits as outlined within Exhibit 1; mainly as a result of the introduction of revised requirements by the Welsh Government.

Exhibit 1 – Summary performance information

Issue	2010-11	2011-12	2012-13	2013-14	2014-15
Total claims audited	17	16	15	12	11
Number of qualifications	8	9	6	4	0
Number of amended claims	5	8	6	4	3
Number of late claims (to WAO)	6	3	6	3	0

13. Regarding the three amended claims:

- one increased the total expenditure included on the claims with the result that the Council could claim an additional £9,200 of grant funding;
- One resulted in a change to the overall expenditure in the claim but did not impact on funding; and
- one related to an incorrect claim form being used.

14. The Council's internal quality assurance arrangements involve using its grant completion checklist to ensure the claims are ready for audit. This worked well and ensured that the sorts of issues we identified in prior years were addressed before we commenced our audit work.

15. As referred to above, the Welsh Government has introduced revised arrangements for grant certification work which mean that errors amounting to less than £10,000 will not result in amendment and/or qualification. Instead such matters are reported locally to officers for consideration. Whilst we reported such matters in respect of four of the grants we audited, none of the issues were significant. Further information on the issues arising on a claim-by-claim basis is detailed in Appendix A.

The Housing Benefits claim continues to be completed to a high standard although there is scope for further, small, improvement.

16. We are pleased to report that the recent improvements in Council processes continued again this year. Only one amendment was made to the claim that resulted in additional subsidy being claimed for some £9,200 and no qualification letter was issued to the Department for Work and Pensions (DWP). In addition the agreed action arising from our 2013-14 audit had been implemented.

17. We did however identify two issues that will require action by the Council prior to compiling the 2015-16 claim. These issues are summarised below:

- We identified an error whereby Thomas Powis Almshouse had been incorrectly treated as a registered social landlord (RSL) (and shown in cell 102 of the claim) but was not included on the Welsh Government (WG) list. Accordingly, correct classification was required in cell 103 as Local Housing Association property; and
- The accuracy of data in the claim relies on the Council following a prescribed process to review and correct anomalies in the underlying data. The process is prescribed by the software supplier and is based on the Council running several reports from the Northgate system prior to finalising the claim:
  - One of the reports (RBE250) had not been run at the time of preparing the claim. This report was produced retrospectively at our request which resolved some of discrepancies we had identified in the claim reconciliation process; and
  - Another report (SUB057) had been run and reviewed by the Council. This report identifies cases that have been awarded subsidy but not included in the claim, as they are typically complex and prone to error. Although we noted that the Council had run this report and cleared the listed cases, our subsequent review of this process identified some errors which led to several amendments being made to the final claim.

Recommendations

R1	The Council needs to ensure that only Registered Social Landlords approved by the Welsh Government are treated as such within the Housing Benefits claim.
R2	The Council needs to: • Ensure that all of the required system reports are run as part of the claim reconciliation process and ensure the reconciliation is complete before the claim is compiled; and • Independently review each of the cases in the SUB057 report to ensure they are correctly classified in the claim.

Appendix A – Summary of matters arising for grant claims

Detailed on the following page is a summary of the key outcomes for each of the grants we have certified.

Ref	Summary observations	Qualified	Amended
1. Housing Benefit Subsidy	System report RBE250 had not been run as part of the claim reconciliation process. This report was run retrospectively and resulted in the claim being amended to correct the classification of certain cases in the claim. The corrections resulted in additional subsidy of £9,234 for the Council. Two recommendations have been raised in the main body of the report to amend claim preparation procedures.	No	Yes
2. 21 Century Schools	No issues arose from the certification work	No	No
3. Flying Start	We reported to the Council that: • Evidence of approval of 'virements' had not been provided for our audit; and • A service Level agreement with Aneurin Bevan had not been signed.	No	No
4. Families First	No issues arose from the certification work	No	No
5. Pooled Budget	No issues arose from the certification work	No	No
6. Health Act ss28A and 28BB money transfer	The claim was amended to reflect : • An understated depreciation charge generated by the fixed asset register; and • The removal of an advanced payment of £3,000 that related to 2013-14 We also reported to the Council that: • The advanced 'imprest' payment of £3,000 had not yet been recovered; and • Two items tested in our sample had orders placed retrospectively.	No	Yes
7. National Non-domestic Rates Return	We reported to the Council that: • Relief had been awarded at an incorrect rate; • One vacant property needed to be followed up in 2016.	No	No
8. Sustainable waste management	We identified two issues where supplier invoices did not specify lease charge costs. This prevented us from agreeing lease charges on a vehicle by vehicle basis as set out in our Feedback note at Appendix B	No	No

Appendix A – Summary of matters arising for grant claims

Ref	Summary observations	Qualified	Amended
9. Teachers Pensions Return	The claim form submitted for audit was the version for use in England and not the Welsh version of the form, as was the case last year.	No	Yes
10. Social Care Workforce Development Programme support	No issues arose from the certification work	No	No
11. Free Concessionary Travel	No matters arose with regard to the expenditure recorded in the claim. We issued a separate report to the Welsh Government stating that the target for collecting data via the automate Smartcard system had been met.	No	No

Appendix B – action plan

Recommendations arising from 2014-15 work

Recommendation	Agreed Action/Comments	Implementation Date	Responsible officer
The Council needs to ensure that it allocates RSLs that are included on the WG list.	Agreed – this old claim has been corrected and is now being treated under the correct subsidy rules.	Immediate	Richard Davies
The Council needs to: • Ensure that all of the required system reports are run as part of the claim reconciliation process and ensure the reconciliation is complete before the claim is compiled; and • Independently review each of the cases in the SUB057 report to ensure they are correctly classified within the claim.	Agreed - Running RBE250 was a simple omission from all the reports we are required to run. We will ensure it is run this year as part of the reconciliation process. Reviewing SUB057 did pick up a small number of errors with non-Housing Revenue Account claims, our system provider Northgate have advised that we are able to run a process prior to annual billing that should correct these issues in future	March/April 2016 as part of year end closedown.	Richard Davies

Appendix B – action plan

Follow up of prior year recommendations

Recommendation	Agreed Action	Status	Further Action required
The Council needs to ensure that indirect cost apportionments are fully supported. As a minimum, this should detail the basis for apportioning the total costs to recipient departments.	Overhead costs are calculated on an annual basis centrally for the re-allocation of service expenditure budgets. Any recharges from service departments to grants claims are the responsibility of the respective service manager. It is agreed that the basis for apportionment of overhead charges should be supported by appropriate calculations originating from the service department.	No issues were identified in 2014-15 work.	N/A
The Council needs to review its arrangements for input and checking of standing data in the Housing Benefits system	'Standing data' is a reference to system parameters. There were issues identified with the way system parameters had previously been updated (not by Benefits). They are largely resolved and appropriate checks will be carried out this year to ensure the data is correct.	Implemented	N/A

Appendix C – analysis of audit fees

Grant scheme	2012-13 Fees £	2013-14 Fees £	2014-15 Fees £
Housing & Council Tax Benefits Scheme	26,598	22,077	18,911
Schools Effectiveness grant *	4,851	374	0
Transitional SBIG/21 Century Schools	2,739	1,975	2,137
Learning Pathways *	4,973	336	0
Welsh in Education *	2,079	336	0
Flying Start	3,168	1,981	3,682
Flying Start (Capital) (new for 2013-14)	0	1,259	0
Families First	4,290	2,973	2,423
Grant Planning, S&R	1,711	1,810	2,073
Pooled Budget	1,165	931	934
Health Act ss28A and 28BB money transfers	1,947	1,653	1,999
National Non-domestic Rates Return	5,313	4,148	2,954
Sustainable Waste Management	1,815	2,136	3,120
Teachers Pensions Return	2,376	2,086	1,902
Social Care Workforce Development Programme / Training support	3,267	3,169	1,275
Regional Transport Grants	1,914	0	0
Free Concessionary Travel	2,079	1,460	2,426
Total	**70,285**	**48,704**	**43,836**

Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ

Swyddfa Archwilio Cymru
24 Heol y Gadeirlan
Caerdydd CF11 9LJ

Tel: 029 2032 0500
Fax: 029 2032 0600
Textphone: 029 2032 0660

Ffôn: 029 2032 0500
Ffacs: 029 2032 0600
Ffôn Testun: 029 2032 0660

E-mail: info@audit.wales
Website: www.audit.wales

E-bost: post@archwilio.cymru
Gwefan: www.archwilio.cymru

AGENDA ITEM TBC

REPORT

SUBJECT:	**Treasury Management Policy Statement & Strategy Statement, MRP Policy Statement and Investment Strategy 2016/17**
DIRECTORATE:	**Chief Executive's Unit**
MEETING:	**Audit Committee**
DATE:	**3rd March 2016**
DIVISION/WARDS AFFECTED:	**Countywide**

Page 23

1. PURPOSE:

1.1 The report provides details of the proposed annual Treasury Management Policy Statement and the Treasury Management Strategy Statement including the Investment and Borrowing Strategies for 2016/17 to 2019/20 and the Minimum Revenue Provision (MRP) Statement for 2016/17 at Annex C, for deliberation by Audit Committee in advance of Full Council consideration.

2. RECOMMENDATIONS:

2.1 It is recommended that the proposed Treasury Management Policy Statement for 2016/17 (Appendix 2) and proposed Treasury Management Strategy and Investment & Borrowing Strategies 2016/17 to 2019/20 (Appendix 1), including the Minimum Revenue Provision (MRP) Statement for 2016/17 at Annex C, be reviewed in advance of approval by full Council together with the Treasury Limits as required by section 3 of the Local Government Act 2003.

Agenda Item 7

3. KEY ISSUES:

Treasury Management Policy Statement and Treasury Management and Annual Investment & Borrowing Strategy

3.1 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".

3.2 The Authority pays due regard to CIPFA's Code of Practice for Treasury Management in the Public Services (the "Code") and accompanying Guidance Notes (as revised in 2011) and the Prudential Code for Capital Finance in Local Authorities (as revised in 2011). The Prudential Code for Capital finance in local authorities outlines requirements for the manner in which capital spending plans are to be considered and approved, and in conjunction with this, the development of an integrated treasury management strategy.

3.3 The Prudential Code further requires the Council to set a number of Prudential and Treasury Management indicators. These indicators were submitted with the capital budget proposals that were approved by Council at its meeting dated 21st January 2016.

3.4 The Council also has regard to the WG Guidance on Local Government Investments. This guidance requires the production of an Investment Strategy in addition to a Treasury Management Strategy, and allows Councils to combine these two strategies into one document. Pages 6-11, Appendix 1 contains the Councils proposed investment strategy. With regards to investments the Codes and Guidance emphasise an appropriate approach to risk management, particularly in relation to the security and liquidity of invested funds. Authorities are required to demonstrate value for money when borrowing in advance of need and ensure the security of such funds.

3.5 The Code requires that Council approve annually a Treasury Management Policy Statement and a Treasury Management Strategy Statement and Investment Strategy. The Council also has regard to the revised Welsh Government (WG) guidance on Local Government Investments issued in April 2010.

3.6 Furthermore, as a minimum, the Code requires that the Authority formally report on their treasury activities and arrangements at the mid-year point and after the year-end. Audit Committee is identified as being the committee responsible for reviewing update reports on the treasury function, given its overarching role in assessing the risk management arrangements for the Authority.

3.7 The Council delegates responsibility for the execution and administration of treasury management decisions to the Head of Finance (S151 officer) who will act in accordance with the Treasury Management policy statement (appendix 2) and treasury management practices and CIPFA's Standard of Professional Practice on Treasury Management.

3.8 The Council's contract with Arlingclose as Treasury Management advisors comes to an end on the 31st March 2016. This contract is currently being retendered for 2016-2020 with an option to extend for a further 2 years. Responses are due by the 19th February, with a view to appointing the successful applicant by the 31st March 2016. The Council is clear as to the services it expects and requires to be provided under the new contract. The service provision is comprehensively documented.

3.9 The Council is also clear that overall responsibility for treasury management remains with the Council.

Annual Minimum Revenue Provision Policy Statement

3.10 The annual Minimum Revenue Provision is the mechanism used for spreading the capital expenditure financed by borrowing over the years to which benefit is provided. Regulations state that the authority must calculate for the current financial year an amount of minimum revenue provision which it considers to be prudent. In addition there is the requirement for an Annual Minimum Revenue Provision Policy Statement to be drafted and submitted to full Council.

3.11 Authorities are permitted discretion in terms of the charge levied, albeit within certain parameters. A "prudent" period of time for debt repayment is defined as being one which reflects the period over which the associated capital expenditure provides benefits. Annex C of the attached Treasury Management Strategy and Investment Strategy (Appendix 1) incorporates the Council's Statement in this regard.

3.12 During 2015/16 a substantial exercise has been carried out with Arlingclose, the Authority's treasury advisors. This has been undertaken to establish whether changes should be made to the current practice of providing MRP payments. The majority of MRP payments relating to unsupported borrowing, were previously made and budgeted on the basis of equal annual installments. A conclusion has been reached and agreed by Council on the 17th December 2015, that these payments could have prudently been spread using an annuity principal. The annuity method tends to evidence a trend of smaller payments in early years and larger payments in later years and has the advantage of linking MRP to the flow of benefits from an asset where the benefits are expected to increase in later years. An annuity can be structured to pay out funds for a fixed amount of time so like straight line this approach is designed to pay off a liability in a set period. Cipfa's Guidance states '*the informal commentary on the statutory guidance suggests that the annuity method may be particularly attractive in projects where revenues will increase over time. However, it is arguably the case that the annuity method provides a fairer charge than equal instalments as it takes account of the time value of money, whereby paying £100 in 10 years' time is less of a burden than paying £100 now. The schedule of charges produced by the annuity method thus results in a consistent charge over an asset's life, taking into account the real value of the amounts when they fall due. The annuity method would then be a prudent basis for providing for assets that provided a steady flow of benefits over their useful life'*. By applying this amendment to MRP payments made from 2006/07 to 2015/2016, a reduction in MRP payable in 2016/17 of £2,136,000 materialises. No compromising issues have been raised specifically in relation to this change by external audit and it has been included in the approved 2016/17 budget.

3.13 Work progresses to review the Minimum revenue provision calculation associated with Supported Borrowing considerations, reflecting upon recent guidance provided by WAO colleagues. This will be subject to a separate paper in due course.

Changes influencing proposed amendments to the strategy

3.14 Bail-in legislation, which ensures that large unsecured investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and Germany. The rest of the European Union will follow suit in January 2016, while Australia, Canada and Switzerland are well advanced with their own plans. Meanwhile, changes to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with Local Authorities making unsecured bank deposits has therefore increased since early 2015.

3.15 These changes have resulted in the loss of Government support for failing banks and have therefore affected the ratings given to these banks by the ratings agencies. Alongside the effects of bail in however, many banks have strengthened their own core capital position and are therefore less likely to fail. Thirdly, the Ratings agencies, Fitch, Moody's and Standard and Poors have adapted their rating methodologies to give an uplift to institutions which have other factors such as parent companies which could assist them with the absorbency of losses either externally or from within.

3.16 As a result of these changes the number of counterparties with a rating of A- or higher which the Authority can invest with is similar to 2015/16. It is recognized however that it is not prudent to invest large sums of money with any one counterparty so that the effect of any one bail in will be relatively small. Due to the expectation that we will maximize internal borrowing and our investment balances will therefore remain low, this is not expected to be an issue, but in order to be prudent and to encourage diversification across a larger number of counterparties, an absolute limit of £2m per counterparty has been set for unsecured investments with banks and building societies whose rating is A- or above. This approximates to 12.5% of the Authority's revenue reserves which is considered prudent. This category represents the majority of our investments. Other limits have been set (see Appendix 1) for other types of investments.

3.17 The Authority's current account provider is Barclays bank. At the time of writing, Barclays currently has a minimum rating of (A-). An additional limit of £1m has been set to allow for the total of overnight credit balances held in the Authority's current accounts even if the bank's rating should fall to (BBB) or it should be put on credit watch negative. This is to allow for the total of all credit balances as the Authority does not have the right to a legal offset of its current account balances. The total of all positive and negative account balances are reduced to a practical minimum level at the end of each day.

5. REASONS:

5.1 The Authority is required to produce a Treasury Management Policy and a Treasury Management and Annual Investment Strategy in order to comply with the Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code").

5.2 The Authority is required to produce an MRP Policy Statement in order to comply with the Local Authorities (Capital Finance and Accounting) (Wales) Regulations, last amended in 2009.

6. RESOURCE IMPLICATIONS:

6.1 There are no resource implications directly arising from this report. The medium-term treasury budgets contained within the 2016-2017 revenue budget proposals presented to Council on 21st January 2016, were constructed in accordance with the strategy documents appended to this report.

6.2 There are however some key future financial risks on medium-term treasury budgets concerning:

- The number of significant capital receipts in the existing medium-term forecasts, and on which the authority's internal borrowing strategy and budgets are based. There will be an adverse financial impact in the event that such receipts do not materialise or are significantly delayed.

- The strategy states the Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. It presents the option of taking advantage of currently low short-term interest rates possibly at the expense of increasing future borrowing costs. This balance will be monitored regularly in order to decide whether to borrow additional sums at long-term fixed rates in 2016/17 or later with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

- It should be noted that as a result of the expenditure plans of the Authority and the forecasts for interest rates in the future, that borrowing costs are expected to rise in the medium/long term.

7. EQUALITY IMPACT ASSESSMENT:

There is no equality impact arising directly from this report.

8. SUSTAINABLE DEVELOPMENT IMPLICATIONS:

None

9. BACKGROUND PAPERS:

Appendix 1 – Treasury Management Strategy Statement & Investment Strategy 2016/17 (including MRP policy statement)
Appendix 2 – Treasury Management Policy Statement 2016/17
Appendix 3 – Prudential Indicators (Previously Distributed with Revenue and Capital budget proposals, Council 21st Jan 16)

10. AUTHORS:

Joy Robson Head of Finance (S151 Officer)
Mark Howcroft Assistant Head of Finance (Deputy S151 Officer)

11. CONTACT DETAILS:

Tel: (01633) 644270
Email: joyrobson@monmouthshire.gov.uk

Tel: (01633) 644740
Email: markhowcroft@monmouthshire.gov.uk

This page is intentionally left blank

Future Generations Evaluation
(includes Equalities and Sustainability Impact Assessments)

Name of the Officer completing the evaluation Mark Howcroft **Phone no:01633 644740** **E-mail:markhowcroft@monmouthshire.gov.uk**	**Please give a brief description of the aims of the proposal** **To provide a Treasury Management Policy and Strategy Statement for forthcoming year**
Name of Service Chief Executives Business Support	**Date Future Generations Evaluation** form completed 22/2/16

1. **Does your proposal deliver any of the well-being goals below?** Please explain the impact (positive and negative) you expect, together with suggestions of how to mitigate negative impacts or better contribute to the goal.

Well Being Goal	How does the proposal contribute to this goal? (positive and negative)	What actions have been/will be taken to mitigate any negative impacts or better contribute to positive impacts?
A prosperous Wales Efficient use of resources, skilled, educated people, generates wealth, provides jobs	The 2016-17 Strategy reflects an anticipation of future money market trends to safeguard resources for future and avoid direct front line consequences to services.	
A resilient Wales Maintain and enhance biodiversity and ecosystems that support resilience and can adapt to change (e.g. climate change)	N/A	
A healthier Wales People's physical and mental wellbeing is maximized and health impacts are understood	N/A	

Well Being Goal	How does the proposal contribute to this goal? (positive and negative)	What actions have been/will be taken to mitigate any negative impacts or better contribute to positive impacts?
A Wales of cohesive communities Communities are attractive, viable, safe and well connected	The viability aspect is considered in the efficient use of resources above	
A globally responsible Wales Taking account of impact on global well-being when considering local social, economic and environmental wellbeing	N/A	
A Wales of vibrant culture and thriving Welsh language Culture, heritage and Welsh language are promoted and protected. People are encouraged to do sport, art and recreation	N/A	
A more equal Wales People can fulfil their potential no matter what their background or circumstances	*This includes the protected characteristics of age, disability, gender reassignment, race, religion or beliefs, gender, sexual orientation, marriage or civil partnership*	

2. How has your proposal embedded and prioritised the sustainable governance principles in its development?

Sustainable Development Principle	How does your proposal demonstrate you have met this principle?	What has been done to better to meet this principle?
Long-term Balancing short term need with long term and planning for the future	MRP proposals provides a positive cashflow effect until 2027-28 after which the cashflows effect becomes negative against the present straight line approach. The existing approach ignores the time value of money and could be viewed as disproportionately affecting current tax payers. The revised proposal provides a payment approach that avoids that inequality. The 2016-17 Strategy reflects an anticipation of future money market trends to safeguard resources for future and avoid direct front line consequences to services.	
Collaboration Working together with other partners to deliver objectives	N/A	
Involvement Involving those with an interest and seeking their views	N/A	
Prevention Putting resources into preventing problems occurring or getting worse	N/A	

Sustainable Development Principle	How does your proposal demonstrate you have met this principle?	What has been done to better to meet this principle?
 Positively impacting on people, economy and environment and trying to benefit all three	*There is space to describe impacts on people, economy and environment under the Wellbeing Goals above, so instead focus here on how you will better integrate them and balance any competing impacts*	

3. Are your proposals going to affect any people or groups of people with protected characteristics? Please explain the impact, the evidence you have used and any action you are taking below.

Protected Characteristics	Describe any positive impacts your proposal has on the protected characteristic	Describe any negative impacts your proposal has on the protected characteristic	What has been/will be done to mitigate any negative impacts or better contribute to positive impacts?
Age	The proposal does not seek to treat any individual with a protected characteristic any differently. The consequence of the proposal in managing cashflows prudently is designed to safeguard resources to avoid a direct front line consequence to services.		
Disability	As above		
Gender reassignment	As above		
Marriage or civil partnership	As above		
Race	As above		
Religion or Belief	As above		
Sex	As above		
Sexual Orientation	As above		
Welsh Language	As above.		

4. Council has agreed the need to consider the impact its decisions has on important responsibilities of Corporate Parenting and safeguarding. Are your proposals going to affect either of these responsibilities? For more information please see the guidance http://hub/corporatedocs/Democratic%20Services/Safeguarding%20Guidance.docx and for more on Monmouthshire's Corporate Parenting Strategy see http://hub/corporatedocs/SitePages/Corporate%20Parenting%20Strategy.aspx

	Describe any positive impacts your proposal has on safeguarding and corporate parenting	**Describe any negative impacts your proposal has on safeguarding and corporate parenting**	**What will you do/ have you done to mitigate any negative impacts or better contribute to positive impacts?**
Safeguarding	The proposal does not seek to treat any individual with a safeguarding aspect differently. It does not have a direct front line service aspect to it. The consequence of the proposal involves recommending a prudent borrowing and investment framework for the forthcoming year, designed to safeguard overall resources of the Council.		
Corporate Parenting	The proposal does not seek to treat any individual with a safeguarding aspect differently. It does not have a direct front line service aspect to it. The consequence of the proposal involves recommending a prudent borrowing and investment framework for the forthcoming year, designed to safeguard overall resources of the Council.		

5. What evidence and data has informed the development of your proposal?

- Performance indicator activity data
- Regard for capital financing regulations
- Services of Treasury advisers
- Feedback for WAO

6. SUMMARY: As a result of completing this form, what are the main positive and negative impacts of your proposal, how have they informed/changed the development of the proposal so far and what will you be doing in future?

The policy has a predominantly neutral effect in the delivery of services for 2016-17. The MRP changes introduced in respect of option 3 have been subject to a separately approved report change but did introduce a positive cashflow up to and including 2027-28 with a complementary negative cashflow thereafter. The change in approach better reflects the time value of money and avoids current tax payers contributing disproportionately to the repayment of debt..

7. Actions. As a result of completing this form are there any further actions you will be undertaking? Please detail them below, if applicable.

What are you going to do	When are you going to do it?	Who is responsible	Progress
None			

8. Monitoring: The impacts of this proposal will need to be monitored and reviewed. Please specify the date at which you will evaluate the impact, and where you will report the results of the review.

The impacts of this proposal will be evaluated at:	Audit Committee (March 16) as a prelude to full Council endorsement later same month

This page is intentionally left blank

Appendix 1 - Treasury Management Strategy Statement & Investment Strategy 2016/17 (including MRP policy Statement)

Introduction

In March 2005 the Authority originally adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services Code. The Code of Practice 2011 Edition* (the CIPFA Code) requires the Authority to approve a treasury management strategy before the start of each financial year.

In addition, the Welsh Government (WG) issued revised *Guidance on Local Authority Investments* in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.

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

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

External Context

Economic background: Domestic demand has grown robustly, supported by sustained real income growth and a gradual decline in private sector savings. Low oil and commodity prices were a notable feature of 2015, and contributed to annual CPI inflation falling to 0.1% in October. Wages are growing at 3% a year, and the unemployment rate has dropped to 5.4%. Mortgage approvals have risen to over 70,000 a month and annual house price growth is around 3.5%. These factors have boosted consumer confidence, helping to underpin retail spending and hence GDP growth, which was an encouraging 2.3% a year in the third quarter of 2015. Although speeches by the Bank of England's Monetary Policy Committee (MPC) members sent signals that some were willing to countenance higher interest rates, the MPC held policy rates at 0.5% for the 81st consecutive month at its meeting in November 2015. Quantitative easing (QE) has been maintained at £375bn since July 2012.

The outcome of the UK general election, which was largely fought over the parties' approach to dealing with the deficit in the public finances, saw some big shifts in the political landscape and put the key issue of the UK's relationship with the EU at the heart of future politics. Uncertainty over the outcome of the forthcoming referendum could put downward pressure on UK GDP growth and interest rates.

China's growth has slowed and its economy is performing below expectations, reducing global demand for commodities and contributing to emerging market weakness. US domestic growth has accelerated but the globally sensitive sectors of the US economy have slowed. Strong US labour market data and other economic indicators however suggest recent global turbulence has not knocked the American recovery off course. The Federal Reserve raised its policy rates by 0.25% at its meeting in December 2015. In contrast, the European Central Bank finally embarked on QE in 2015 to counter the perils of deflation.

Credit outlook: The varying fortunes of different parts of the global economy are reflected in market indicators of credit risk. UK Banks operating in the Far East and parts of mainland Europe have seen their perceived risk increase, while those with a more domestic focus continue to show improvement. The sale of most of the government's stake in Lloyds and the first sale of its shares in RBS have generally been seen as credit positive.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and Germany. The rest of the European Union will follow suit in January 2016, while Australia, Canada and Switzerland are well advanced with their own plans. Meanwhile, changes to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain stubbornly low.

Interest rate forecast: The Authority's treasury advisor Arlingclose projects the first 0.25% increase in UK Bank Rate in the third quarter of 2016, rising by 0.5% a year thereafter, finally settling between 2% and 3% in several years' time. Persistently low inflation, subdued global growth and potential concerns over the UK's position in Europe mean that the risks to this forecast are weighted towards the downside.

A shallow upward path for medium term gilt yields is forecast, as continuing concerns about the Eurozone, emerging markets and other geo-political events weigh on risk appetite, while inflation expectations remain subdued. Arlingclose projects the 10 year gilt yield to rise from its current 2.0% level by around 0.3% a year. The uncertainties surrounding the timing of UK and US interest rate rises are likely to prompt short-term volatility in gilt yields.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at ***Annex A***.

For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.5%, (due to low expected investment balances), and that new long-term loans will be borrowed at an average rate of 3.5%.

Local Context

At the 31st December 2015, the Authority had £95.0m of borrowing and £13.1m of investments. This is set out in further detail at ***Annex B***. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance Sheet Summary and Forecast

	31.3.15 Actual £m	31.3.16 Estimate £m	31.3.17 Forecast £m	31.3.18 Forecast £m	31.3.19 Forecast £m	31.3.20 Forecast £m
General Fund CFR	122.9	113.3	124.8	121.1	118.0	116.0
Less: Other debt liabilities *	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2
Borrowing CFR	**121.7**	**112.1**	**123.6**	**119.9**	**115.8**	**114.8**
Less: External borrowing **	-99.3	-92.6	-63.6	-60.5	-59.6	-57.8
Internal (over) borrowing	**22.4**	**19.5**	**60.0**	**59.4**	**56.2**	**57.0**

Less: Usable reserves	-36.6	-22.3	-31.7	-20.0	-17.4	-16.9
(Investments) or New borrowing	**-14.2**	**-2.8**	**28.3**	**39.4**	**38.8**	**40.1**

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt
** shows only loans to which the Authority is committed and excludes optional refinancing

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, subject to holding a minimum investment balance of £5m.

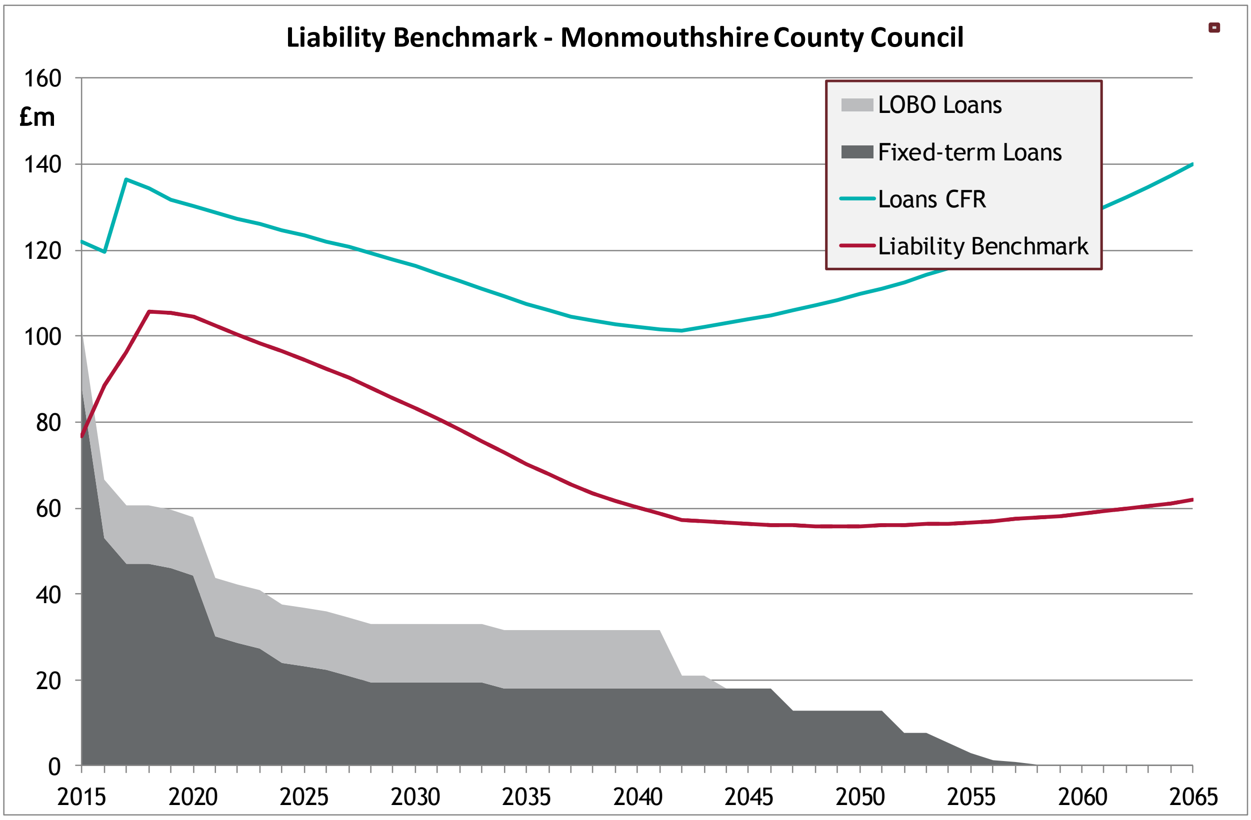
The Authority is intent to maximise internal borrowing to reduce the cost of carry (the difference between the cost of new borrowing offset by the return from investing surplus cash). The internal borrowing at the 31st March 2016 is expected to be £19.5m. At the 31st December 2015 the Authority was holding £27m of short term borrowing which is not included in the 31/3/17 and later external borrowing figures above. The bottom line shows a net borrowing requirement from 2016/17 onwards which can be satisfied by renewing the £27m of temporary borrowing and/or taking out new long term borrowing. The 2016/17 treasury budget us based on taking out £10m of long term borrowing, the rest being short term.

The CFR increases in 2016/17 are due to the borrowing funded element of the future schools program.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2016/17.

To assist with its long-term treasury management strategy, the Authority and its advisers have created a liability benchmark, which forecasts the Authority's need to borrow over a 50 year period. Following on from the medium term forecasts in table 1 above, the benchmark assumes:

- capital expenditure funded by borrowing increases by 2.5% per year
- minimum revenue provision on new capital expenditure based on a 25 year asset life
- income, expenditure and reserves all increase by 2.5% inflation a year



The loans CFR is the level of borrowing the Authority is entitled to take out. The liability benchmark (lower line) is the Loans CFR adjusted for reserves and working capital which represents the borrowing level which is required if we continue to maximise internal borrowing. The shaded area represents loans which we are committed to. The gap between the blue line and the grey shaded area is the new borrowing which the Authority will need to take out if the assumptions above the graph do not change. This shows that if we renew the £27m of short term borrowing for the foreseeable future, we would need an additional level of borrowing, maybe long term borrowing, of about £10m from about 2017 to about 2035 ie about 18 years.

Borrowing Strategy

At the 31st March 2016, the Authority expects to be holding £92.6 million of loans, a decrease of £6.7m million on the previous year. The balance sheet forecast in table 1 shows that the Authority expects to borrow £28.3m in 2016/17 in order to fund its capital program.

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

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

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring external borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2016/17 with a view to keeping future interest costs lower, even if this causes additional cost in the short-term.

Alternatively, the Authority may arrange forward starting loans during 2016/17, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Authority may borrow short-term loans to cover unexpected cash flow shortages.

Any borrowing taken out for more than one year requires the approval of the S151 officer or deputy.

Sources: The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except the Greater Gwent Pension Fund)
- Local Fire or Police authorities
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

The Authority has previously raised the majority of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

LGA Bond Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Council.

LOBOs: The Authority holds £13.6m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. These 3 LOBOS all have options during 2016/17, and although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans is limited by the debt maturity profile.

Short-term and Variable Rate loans: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

Debt Rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Investment Strategy

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £13 and £39 million. The levels in the forthcoming year are expected to range from £5 to £20m as internal borrowing levels are maximised.

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

Strategy: Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority will continue to review, with its treasury advisors more secure and/or higher yielding asset classes during 2016/17. Due to the low levels of investment balances available as a result of internal borrowing, the scope for this is not likely to be extensive. The Authorities surplus cash is currently invested in short-term unsecured bank deposits and CDs, deposits with other Local Authorities, t-bills and the DMO and with money market funds.

Approved Counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown. Any formal recommendations received from the Authority's treasury advisors which places additional restrictions on certain counterparties in terms of eligibility or duration of Investments will supersede the limits set below. Investments classified as Non Specified must obtain further approval before implementation see page 9.

Table 2: Approved Investment Counterparties and Limits

Counterparty / Instrument	Instrument Limit of Portfolio	Counterparty Limit of Portfolio	Country Limit	Other Limits	Time Limit (Over 1 Year = Non Specified)
UK Central Government including Debt Mgt deposit facility, Gilts and T Bills.	**100%**	**100%**	**N/A**	**N/A**	**50 Years**

Any investment with UK Local Authorities (irrespective of credit rating)	75%	The higher of £2m or 10% of total investments (at the time of deposit)	N/A	NA	2 Years
'Unsecured' investments with Banks, Building Societies, Other Organisations and Securities whose lowest published rating from Fitch, Moody's and S&P's is (A-) As above but (A) As above but (A+)	75% of total investments at the time of deposit For Non-UK 50% of total investments at the time of deposit	Upper limit of £2m. An additional £1m can be held in the Authority's bank current account to cover the total of credit balances.	£4m per foreign country	Limit for negotiable instrument s held in Brokers nominee accounts: the lower of 50% or £10m per Broker	6 months 13 months 2 years
Unsecured Investments with Banks, Building Societies, Other Organisations and Securities whose lowest published rating is BBB+ or lower.	25% of total investments	£1m per Counterparty (Additional £1m total of credit balance's in Authority's current account)	£1m per foreign country	N/A	BBB+ 100 Days BBB (Authority Current Account Only)
Secured Investments with Banks, Building Societies, Other Organisations and Securities, (including Re-po's) whose lowest published rating from Fitch, Moody's and S&P's is (A-)	75% of total investments at the time of deposit (both secured and unsecured) For Non-UK 50% of total investments at the time of deposit (both secured and unsecured)	£4m per counterparty (both secured and unsecured)	£4m per foreign country for all investment types	N/A	13 months
Deposits with unrated UK Building Societies which have been assessed by our Treasury	25% of total investments	£1m per Counterparty	UK only	N/A	100 Days

advisers as comparable with the Building Societies that have an A- credit rating or higher					
Money Market Funds with a Constant Net Asset Value (CNAV) or Variable Net Asset Value if assessed by our Treasury advisers as being of high credit worthiness	50% of total investments at the time of deposit increased to 75% if total investments is £10m or less	The lower of £2m and 10% of total investments rounded up to the next £0.5m; not exceeding 0.50% of MMF size or 2% for Government MMFs	N/A	N/A	N/A
Pooled funds without credit ratings if assessed by our Treasury advisers as being of high credit worthiness	£4m total investment at the time of deposit	£2m per issuer	N/A	N/A	N/A
Investments with UK Registered Providers (e.g. Housing Associations) where the lowest published credit rating is A- or higher	£4m of total investments at the time of deposit.	£2m per issuer	N/A	N/A	5 years

This table must be read in conjunction with the notes below

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

Banks Unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB are restricted to overnight deposits at the Authority's current account bank.

Banks Secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely. These are included under Secured / Unsecured investments with Banks, Building Societies, Other Organisations in the table above.

Registered Providers: Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.

Pooled Funds: Shares in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

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

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

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

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

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Specified Investments: The WG Guidance defines specified investments as those:

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

The Authority defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

Non-specified Investments: Any investment not meeting the definition of a specified investment is classed as non-specified. A non-specified investment can only be undertaken after gaining approval by the Authority's Section 151 officer or deputy and the Authority's treasury management advisor. The Authority does not intend to make any investments denominated in foreign currencies. Non-specified investments will therefore comprise long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement; those that are defined as capital expenditure by legislation; and investments with bodies and schemes not meeting the definition on high credit quality.

The Authority has set an upper Limit for its non-specified investments in total at:- **£10m**.

An indication of how this might be made up is shown in table 3 below.

Table 3: Non-Specified Investments

	Cash level
Total long-term investments	£0 - 5m
Total shares in pooled funds	£0 - 4m
Total investments without credit ratings or rated below [A-]	£0 - 3m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below [AA+]	£0m
Total non-specified investments	£10m

Investment Limits: The Authority's revenue reserves available to cover investment losses are forecast to be £16 million on 31st March 2016. The maximum that will be lent to any one organisation (other than the UK Government and Local Authorities) is £4m for secured investments or £2.0 million for unsecured investments to banks & building societies. The amount that is put at risk in the case of a single default should therefore be no more than 25% (secured) or 12.5% (unsecured) of reserves, levels which are considered prudent.

A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits have also been placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors in table 2 above. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Liquidity Management: The Authority uses an excel based cash flow forecasting tool to determine the maximum period for which funds may prudently be committed. Amounts are held on an ongoing basis in instant access accounts to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, 'AA+'=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	Target
Portfolio average credit rating / score	A- / 5.0

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures are expressed as the net amount of principal borrowed/invested as follows:

	Existing Level 31.12.15	**2015/16 Approved**	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Upper limit on fixed interest rate exposure	49.9	100.0	100.0	100.0	100.0	100.0
Variable Interest Rate exposure on Debt	45.1					
Variable Interest Rate Exposure on Investments	13.1					
Upper Limit on Net Variable Interest Rate Exposure	32	50.0	50.0	50.0	50.0	50.0

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

In the table above, LOBO loans have been classed as fixed rate instruments. The Authority is currently paying a fixed rate of interest. They may be called at each 6 monthly interval, but this outcome in not expected in the current interest rate climate and they could be replaced with a PWLB loan at a lower rate of interest if this did occur.

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

<table>
<tr><th></th><th>Lower Limit for 2015/16 %</th><th>Upper Limit for 2015/16 %</th><th>Level at 31/03/15 % - £m</th><th>Lower Limit for 2016/17 %</th><th>Upper Limit for 2016/17 %</th></tr>
<tr><td>Under 12 months – LOBO's</td><td rowspan="2">0</td><td rowspan="2">50</td><td>23.7% - £13.6m</td><td>0</td><td rowspan="2">50</td></tr>
<tr><td>Under 12 months – Other</td><td>13.2% - £7.6m</td><td>0</td></tr>
<tr><td>12 months and within 24 months</td><td>0</td><td>40</td><td>5.2% - £3.0m</td><td>0</td><td>40</td></tr>
<tr><td>24 months and within 5 years</td><td>0</td><td>45</td><td>5.9% - £3.4m</td><td>0</td><td>45</td></tr>
<tr><td>5 years and within 10 years</td><td>0</td><td>30</td><td>12.0% - £6.9m</td><td>0</td><td>30</td></tr>
<tr><td>10 years and above</td><td>0</td><td>100</td><td>39.9% - £22.9m</td><td>0</td><td>100</td></tr>
</table>

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

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2016/17	2017/18	2018/19
Limit on principal invested beyond year end	£5m	£5m	£5m

<u>Other Items</u>

There are a number of additional items that the Authority is obliged by CIPFA or WG to include in its Treasury Management Strategy.

Policy on Use of Financial Derivatives: In the absence of any legal power to do so, the Authority will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

Investment Training: The needs of the Authority's treasury management staff for training in investment management are assessed on an ongoing basis and formerly as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff attend training courses, seminars and conferences provided by Arlingclose and CIPFA.

Investment Advisers: The Authority appointed Arlingclose Limited as treasury management advisers in 2011/12. This contract has come to its end and is currently being retendered for 2016/17. The Authority receives from its treasury management advisors specific advice on investment, debt and capital finance issues. The quality of this service is assessed at the contract tender stage by comparing to other market leaders and their historical track record. It is then monitored by on-going interaction with treasury personnel. The Authority maintains the quality of the service with its advisors by holding quarterly meetings and tendering periodically.

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

For 2016/17, the total amount borrowed will not exceed the authorised borrowing limit of £134 million.

Financial Implications

The budget for investment income in 2016/17 is £53,000, based on an average investment portfolio of £10 million at an interest rate of 0.5%. The budget for debt interest paid in 2016/17 is £3.5 million, based on an average debt portfolio of £95 million at an average interest rate of 3.5%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

The WG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Head of finance/S151 officer, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income may be higher / or lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income may be lower / or higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow at long-term fixed interest rates instead of short term	Debt interest costs will rise in the short term but may level out in the medium term; this is unlikely to be offset by higher investment income in the short term	Long-term interest costs may be more certain
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise in the short term and medium term; this is unlikely to be	Higher investment balance leading to a higher impact in the event of a default;

	offset by higher investment income in the short term	however long-term interest costs may be more certain
Borrow more/even shorter-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower but this is more time consuming for the treasury team.	Debt interest costs will reduce in the short term but the benefit will reduce in the medium / long term; long term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income; There is a minimum level of cash that can sensibly be managed due to the uncertainty of cash flow requirements.	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Annex A – Arlingclose Economic & Interest Rate Forecast November 2015

Underlying assumptions:

- UK economic growth softened in Q3 2015 but remained reasonably robust; the first estimate for the quarter was 0.5% and year-on-year growth fell slightly to 2.3%. Negative construction output growth offset fairly strong services output, however survey estimates suggest upwards revisions to construction may be in the pipeline.
- Household spending has been the main driver of GDP growth through 2014 and 2015 and remains key to growth. Consumption will continue to be supported by real wage and disposable income growth.
- Annual average earnings growth was 3.0% (including bonuses) in the three months to August. Given low inflation, real earnings and income growth continue to run at relatively strong levels and could feed directly into unit labour costs and households' disposable income. Improving productivity growth should support pay growth in the medium term. The development of wage growth is one of the factors being closely monitored by the MPC.
- Business investment indicators continue to signal strong growth. However the outlook for business investment may be tempered by the looming EU referendum, increasing uncertainties surrounding global growth and recent financial market shocks.
- Inflation is currently very low and, with a further fall in commodity prices, will likely remain so over the next 12 months. The CPI rate is likely to rise towards the end of 2016.
- China's growth has slowed and its economy is performing below expectations, which in turn will dampen activity in countries with which it has close economic ties; its slowdown and emerging market weakness will reduce demand for commodities. Other possible currency interventions following China's recent devaluation will keep sterling strong against many global currencies and depress imported inflation.
- Strong US labour market data and other economic indicators suggest recent global turbulence has not knocked the American recovery off course. Although the first rise in official interest rates occurred at its meeting in December 2015.
- Longer term rates will be tempered by international uncertainties and weaker global inflation pressure.

Forecast:

- Arlingclose forecasts the first rise in UK Bank Rate in Q3 2016. Further weakness in inflation, and the MPC's expectations for its path, suggest policy tightening will be pushed back into the second half of the year. Risks remain weighted to the downside. Arlingclose projects a slow rise in Bank Rate, the appropriate level of which will be lower than the previous norm and will be between 2 and 3%.

- The projection is for a shallow upward path for medium term gilt yields, with continuing concerns about the Eurozone, emerging markets and other geo-political events, weighing on risk appetite, while inflation expectations remain subdued.

- The uncertainties surrounding the timing of UK and US monetary policy tightening, and global growth weakness, are likely to prompt short term volatility in gilt yields.

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Official Bank Rate													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.75**	**0.75**	**1.00**	**1.00**	**1.25**	**1.25**	**1.50**	**1.50**	**1.75**	**1.75**
Downside risk				-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-1.00	-1.00	-1.25	-1.25
3-month LIBID rate													
Upside risk	0.20	0.30	0.30	0.30	0.35	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	**0.55**	**0.60**	**0.70**	**0.80**	**0.95**	**1.05**	**1.15**	**1.30**	**1.40**	**1.55**	**1.65**	**1.80**	**1.85**
Downside risk		-0.20	-0.30	-0.45	-0.55	-0.65	-0.80	-0.90	-1.05	-1.10	-1.20	-1.20	-1.20
1-yr LIBID rate													
Upside risk	0.25	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.45
Arlingclose Central Case	**1.10**	**1.20**	**1.35**	**1.45**	**1.55**	**1.70**	**1.80**	**1.95**	**2.00**	**2.10**	**2.15**	**2.15**	**2.15**
Downside risk	-0.15	-0.25	-0.35	-0.50	-0.60	-0.70	-0.85	-0.95	-1.10	-1.15	-1.25	-1.25	-1.25
5-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	**1.50**	**1.55**	**1.60**	**1.70**	**1.80**	**1.90**	**2.00**	**2.10**	**2.20**	**2.25**	**2.30**	**2.35**	**2.35**
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25
10-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	**2.00**	**2.05**	**2.10**	**2.20**	**2.30**	**2.40**	**2.50**	**2.60**	**2.65**	**2.70**	**2.75**	**2.80**	**2.80**
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25
20-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	**2.45**	**2.50**	**2.55**	**2.55**	**2.60**	**2.65**	**2.70**	**2.75**	**2.80**	**2.85**	**2.90**	**2.95**	**2.95**
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.65	-0.75	-0.85	-0.95	-1.05	-1.10	-1.15	-1.20	-1.20
50-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	**2.45**	**2.50**	**2.55**	**2.60**	**2.65**	**2.70**	**2.75**	**2.80**	**2.85**	**2.90**	**2.95**	**3.00**	**3.00**
Downside risk	-0.25	-0.35	-0.45	-0.50	-0.60	-0.70	-0.80	-0.90	-1.00	-1.05	-1.10	-1.15	-1.15

Annex B – Existing Investment & Debt Portfolio Position

	31st December 2015 **Actual Portfolio** **£m**	31st December 2015 **Average Rate** **%**
External Borrowing:		
PWLB – Fixed Rate	40.9	**5.7**
PWLB - Variable Rate	13.5	**0.7**
Local Authorities	27.0	**0.6**
LOBO Loans	13.6	**4.8**
Total External Borrowing	**95.0**	**3.4**
Other Long Term Liabilities:		
PFI / finance lease	0.9	
Other	0.3	
Total Gross External Debt	**96.2**	
Investments:		
Managed in-house		
Short-term investments	9.2	
Long-term investments	0	
Managed externally		
Money market funds	3.9	
Total Investments	**13.1**	0.44%
Net Debt	**83.1**	

Annex C – MRP Statement 2016/17

The Welsh Government's Guidance on Minimum Revenue Provision (issued in 2010) places a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Welsh Ministers and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

The four MRP options available are:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

Note: This does not preclude other prudent methods.

MRP in 2015/16:

Options 1 and 2 can only be used for supported Non-HRA capital expenditure funded from borrowing (i.e. financing costs deemed to be supported through Revenue Support Grant from Central Government). Methods of making prudent provision for unsupported Non-HRA capital expenditure include Options 3 and 4 (which may also be used for supported Non-HRA capital expenditure if the Authority chooses).

The MRP Statement will be submitted to Council before the start of the 2016/17 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to Authority at that time.

The Authority's current policy is to apply Option 2 in respect of supported capital expenditure funded from borrowing. It has set its 2016/17 revenue MTFP on this basis.

The Authority's policy is to apply Option 3 in respect of unsupported capital expenditure funded from borrowing. There are 2 calculation methods which are available within option 3.

- The equal instalment method and
- The annuity method – whereby the MRP element increases over time to reflect a consistent charge over the assets life taking into account the real value of money

Following on from the approval by Council on the 17th December 2015 of a revision to the approach to MRP for unsupported borrowing, the annuity method will tend to be the default calculation, unless there is an overriding reason to use an alternative approach.

MRP in respect of leases and Private Finance Initiative schemes brought on Balance Sheet under the CIPFA Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

TREASURY MANAGEMENT POLICY STATEMENT 2016/17

1. INTRODUCTION AND BACKGROUND

1.1 The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.

1.2 Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.3 The Council (i.e. full Council) will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, and a semi-annual report and an annual report after its close.

1.4 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Audit Committee and for the execution and administration of treasury management decisions to Head of Finance (S151 officer), who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

1.5 The Council nominates Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies and they will receive the mid-year report on Treasury Management activities.

2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

2.1 The Council defines its treasury management activities as:

"The management of the Council'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."

2.2 This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

2.3 This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management."

As CIPFA states the policy statement should also include the Council's high level policies for borrowing and investments:

2.4 The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

2.5 The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations.

3. Approach to Risk Management

3.1 This section identifies the risks that the Council faces as a result of it undertaking treasury management activities.

Liquidity risk
Credit (or counterparty) risk
Interest rate risk
Inflation rate risk
Exchange rate risk
Market risk
Refinancing risk
Procedural risk
Legal and regulatory risk

The Council manages these down to an acceptable level within the regulatory framework through the consideration and application of its Treasury Strategy and appropriate monitoring against agreed prudential indicators and limits.

Appendix 3 - Prudential Indicators for Capital Programme Proposals 2016/2020

Local Authorities determine their own programmes for capital investment in fixed assets. The Prudential Code is the code of practice supporting local authorities in taking decisions and underpins the system of capital finance. The key objectives of the Prudential Code are to ensure, within the Prudential Framework, that capital investment plans of the Authority are affordable, prudent and sustainable.

To demonstrate that local authorities have fulfilled these objectives, the Prudential Code sets out the indicators that must be used, and the factors that must be taken into account. These indicators are reported below based on actual, current and planned capital budget proposals as in the proposed 2016/2020 capital medium term financial plan.

Importantly, it should be noted that the proposed supported and unsupported borrowing results from the current and future capital budget proposals:

Borrowing budgeted in the capital budget proposals 2016/17 to 2019/20 is as follows: The 2016/17 figures are inclusive of slippage from 2015/16 as identified and reported as part of the month 6 capital monitoring process.

- General Unsupported borrowing of £1,000,000 2016/17 to 2019/20.
- 21st Century Schools – budgeted unsupported borrowing of £18,596,000 (including slippage) in 2016/17
- £2,420,000 of supported borrowing in 2016/17 to 2019/20 which assists in financing the core capital programme and is funded through Revenue Support grant from the Welsh Government.

Capital Expenditure

The actual capital expenditure and financing (excluding vehicle leasing) that was incurred in 2014/15 and the estimates of capital expenditure and financing for the current year and future years that are recommended for approval are:

	2014/15 Actual £000	**2015/16 Estimate £000**	**2016/17 Estimate £000**	**2017/18 Estimate £000**	**2018/19 Estimate £000**	**2019/20 Estimate £000**
Capital Expenditure	13,772	24,756	42,274	29,567	8,192	5,391

The estimate of capital expenditure for the 2015/16 and 2016/17 financial years includes allowance for slippage of expenditure from the 2015/16 capital programme that was forecast at month 6 capital monitoring.

As stated in the Capital programme budget proposals the medium term programme has been drafted, and a programme constructed for the next four years. There will be opportunity for the programme to be reviewed annually.

Ratio of financing costs to net revenue stream

Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2014/15 are:

	2014/15 Actual %	**2015/16 Estimate %**	**2016/17 Estimate %**	**2017/18 Estimate %**	**2018/19 Estimate %**	**2019/20 Estimate %**
Ratio of financing costs to net revenue stream	6.23	6.53	4.78	6.31	6.54	6.49

The estimates of financing costs include current commitments and the proposals in this budget report and are based on the actual and anticipated borrowing, net of investments.

Capital Financing Requirement

Estimates of the end of year Capital Financing Requirement for the Authority for the current and future years and the actual Capital Financing Requirement at 31 March 2015 are:

	2014/15 Actual £000	**2015/16 Estimate £000**	**2016/17 Estimate £000**	**2017/18 Estimate £000**	**2018/19 Estimate £000**	**2019/20 Estimate £000**
Capital Financing Requirement	122.9	113.3	124.8	121.1	118.0	116.0

The Capital Financing Requirement measures the authority’s underlying need to borrow for capital purposes. In accordance with best professional practice, Monmouthshire County Council does not associate borrowing with particular items or types of expenditure, other than under its current policy for determining its Minimum Revenue Provision. The authority has an integrated treasury management strategy (last approved on 26th February 2015 by Council) and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.

The Council manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices. In day-to-day cash management, no distinction can be drawn between revenue and capital cash. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. In contrast, the Capital Financing Requirement reflects the authority's underlying need to borrow for a capital purpose.

CIPFA's Prudential Code for Capital Finance in Local Authorities includes a key indicator of prudence where Gross External Borrowing does not, except in the short term exceed the total of Capital Financing Requirement. This is the case for the preceding year plus the estimates of any Capital Financing Requirement for the current and next two financial years.

Net external borrowing is the borrowing budgeted to finance the capital programme (Gross External borrowing) offset by the levels of cash and investments.

	2014/15 Actual £000	**2015/16 Estimate £000**	**2016/17 Estimate £000**	**2017/18 Estimate £000**	**2018/19 Estimate £000**	**2019/20 Estimate £000**
Net External borrowing	76.2	95.0	95.0	106.3	108.0	106.0
Gross External borrowing	100.6	100.0	105.0	116.3	118.0	116.0
Capital Financing Requirement	122.9	113.3	124.8	121.1	118.0	116.0

The Head of Finance, as the Authority's S151 officer, reports that the Authority had no difficulty meeting this requirement in 2014/15, nor are any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Authorised Limit for External Borrowing

In respect of external debt, it is recommended that the Council approves the following Authorised Limit for its total external debt gross of investments for the next four financial years.

	2014/15 Limit set £000	2015/16 Limit set £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Borrowing	134.6	137.1	134.0	145.3	147.0	139.0
Other long term liabilities	2.6	2.6	2.6	2.6	2.5	2.5
Total	**137.2**	**139.8**	**136.6**	**147.9**	**149.5**	**141.5**

These limits separately identify borrowing from other long-term liabilities. The Council is asked to approve these limits and to delegate authority to the Head of Finance, within the total limit for any year, to effect movement between the separately agreed limits of borrowing and other long-term liabilities, in accordance with option appraisal and best value for money for the authority. Any such changes made will be reported to the Audit Committee or Council at the next opportunity following the change.

These limits are consistent with the authority's current commitments, existing plans and the proposals in this budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices. They are based on the estimate of the most likely, prudent but not worse case scenario, with sufficient headroom over and above this to allow for operational management, for example unusual cash movements.

Operational Boundary for External Debt

The Council is also asked to approve the following Operational Boundary for external debt for the same period.

	2014/15 Limit Set £000	2015/16 Limit Set £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Borrowing	113.6	120.2	113.0	124.3	126.0	118.0
Other long term liabilities	1.1	1.1	1.1	1.1	1.0	1.0
	114.7	**121.3**	**114.1**	**125.4**	**127.0**	**119.0**

The proposed Operational Boundary for external debt is based on the same estimates as the Authorised Limit but reflects the estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the Authorised Limit to allow, for example, for unusual cash movements and equates to the maximum of external debt projected by this estimate.

The Operational Boundary represents a key management tool for in-year monitoring by the Head of Finance. Within the Operational Boundary, figures for borrowing and other long-term liabilities are separately identified. The Council is asked to delegate authority to the

Head of Finance, within the total Operational Boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long term liabilities, in a similar fashion to the Authorised Limit. Any such changes will be reported to the Audit Committee or Council at the next opportunity following the change.

The Council's actual external debt at 31 March 2015 was £101.8 million, comprising £100.6 million borrowing and £1.2 million other long-term liabilities. It should be noted that the actual external debt is not directly comparable to the Authorised Limit and Operational Boundary, since the actual external debt reflects the position at one point in time.

In taking its decisions on this budget report, the Council is asked to note that the Authorised Limit determined for 2016/17 would be the statutory limit determined under section 3(1) of the local Government Act 2003.

Incremental impact of new capital investment decisions on Council Tax

A key measure of affordability is the incremental impact on the Council Tax, and the Council should consider different options for its capital investment programme in relation to their differential impact on the Council Tax.

The incremental impact works on the basis that supported borrowing is funded through Revenue Support Grant. The calculation is therefore determined by establishing the revenue impact of:

- Unsupported borrowing – in terms of interest payments and the statutory Minimum Revenue Provision (MRP)
- Any revenue savings or costs that have been identified and that will result from capital schemes being delivered

The current capital budget proposals, using current information available, would have the following impact:

	2014/15 Actual £ p	**2015/16 Estimate £ p**	**2016/17 Estimate £ p**	**2017/18 Estimate £ p**	**2018/19 Estimate £ p**	**2019/20 Estimate £ p**
Effect on Band D Council Tax	12.23	(0.04)	35.84	1.67	(0.30)	1.86

The notable incremental impact in 2016/17 is due to the high level of borrowing required to fund the 21C schools programme. The credit in 2015/16 is due to the low level of borrowing applied to the capital programme.

Joy Robson
Responsible Financial Officer

This page is intentionally left blank

3RD MARCH 2016	
Deadline for finalised reports to Cheryl – Monday 22nd February 2016 - 10am	
Finalised reports to Committee Section –Monday 22nd February 2016 - end of day	
Grants Audit report	WAO
Treasury Strategy 2016/17	Mark Howcroft
21ST APRIL 2016	
Deadline for finalised reports to Cheryl – Monday 11th April - 10am	
Finalised reports to Committee Section –Monday 11th April - end of day	
Annual Governance Statement	Andrew Wathan
Internal Audit 2016/17 Plan	Andrew Wathan
Unsatisfactory Audit Opinions	Andrew Wathan
Audit Outline Plan 2016/17	WAO
Update on Special Investigations	Andrew Wathan