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Bridgend County Borough Council
Cyngor Bwrdeistref Sirol Pen-y-bont ar Ogwr

Civic Offices, Angel Street, Bridgend, CF31 4WB / Swyddfeydd Dinesig, Stryd yr Angel, Pen-y-bont, CF31 4WB

Cyngor Bwrdeistref Sirol Pen-y-bont ar Ogwr
BRIDGEND County Borough Council

Legal and Regulatory Services /
Gwasanaethau Cyfreithiol a Rheoleiddiol
Direct line / Deialu uniongyrchol: 01656 643250
Ask for / Gofynnwch am: Ruth Ronan

Our ref / Ein cyf:
Your ref / Eich cyf:

Date / Dyddiad: Friday, 9 January 2015

Dear Councillor,

AUDIT COMMITTEE

A meeting of the Audit Committee will be held in Committee Rooms 2/3, Civic Offices Angel Street Bridgend CF31 4WB on **Thursday, 15 January 2015** at **2.00 pm**.

AGENDA

10. Forward Work Programme - 2014-15 147 - 150

11. Urgent Items
To consider any other items(s) of business in respect of which notice has been given in accordance with Rule 4 of the Council Procedure Rules and which the person presiding at the meeting is of the opinion should by reason of special circumstances be transacted at the meeting as a matter of urgency.

12. Exclusion of the Public
The report relating to the following item is not for publication as it contains exempt information as defined in Paragraph 14 of Part 4 and Paragraph 21 of Part 5 of Schedule 12A of the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007.

13. Approval of Confidential Minutes 151 - 152
To receive for approval the confidential minutes of a meeting of the Audit Committee dated 20 November 2014

14. Material and Energy Recovery Centre (MREC) and South West Wales Regional Anaerobic Digestion Procurement 153 - 158

Yours faithfully
P A Jolley
Assistant Chief Executive Legal and Regulatory Services

Distribution:

Councillors:	Councillors	Councillors
E Dodd	RC Jones	C Westwood
G Davies	JE Lewis	HM Williams
GW Davies MBE	JR McCarthy	RE Young
CA Green	M Reeves	DK Edwards

Officers

Invitees

Pages

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD IN COMMITTEE ROOM 2/3, CIVIC OFFICES, ANGEL STREET, BRIDGEND ON THURSDAY, 20 NOVEMBER 2014 AT 2.00PM

Present:

Councillor E Dodd - Chairperson

Councillors	Councillors	Councillors	Councillors
G Davies	C A Green	J R McCarthy	H M Williams
G W Davies MBE	R C Jones	M Reeves	R E Young
D K Edwards	J E Lewis	C Westwood	

Co-opted Member: J Williams

Officers:

N Young	-	Corporate Director - Resources and Section 151 Officer
M Shephard	-	Corporate Director - Communities
R Hemingway	-	Head of Finance and ICT
H Smith	-	Chief Internal Auditor
S Barratt	-	Auditor - Wales Audit Office
D Gilbert	-	Director - KPMG
R Martin	-	Risk Management and Insurance Officer
J Jenkins	-	Benefits and Financial Assessments Manager
K Daw	-	Legal Officer
M A Galvin	-	Senior Democratic Services Officer - Committees

145 WELCOME

The Chairperson welcomed Councillor D K Edwards to his first meeting as a Member of the Audit Committee.

146 APOLOGIES FOR ABSENCE

None.

147 DECLARATIONS OF INTEREST

None.

148 MINUTES OF PREVIOUS MEETINGS

RESOLVED: That the minutes of a meeting of the Audit Committee held on the 25 September 2014, be approved as a true and accurate record.

149 AUDIT COMMITTEE - ANNUAL AUDIT LETTER 2013/14

The representative from KPMG presented a report, the purpose of which, was to submit to Members the Appointed Auditor's Annual Audit Letter for noting, attached as Appendix A to the report.

This reflected that an unqualified audit opinion on the accounting statements had been made, confirming that these presented a true and fair view of the Council's financial position and transactions. The letter also confirmed that the Auditor was satisfied that the Council had appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

He explained that a Certificate had been issued confirming that an audit of the accounts had been completed, in accordance with the Public Audit (Wales) Act 2004.

RESOLVED: That the Committee noted the content of the Appointed Auditor's Letter.

150 WALES AUDIT OFFICE PERFORMANCE WORK 2014/15

The Auditor, Wales Audit Office presented a report, the purpose of which, was to submit an update on the Performance Audit Programme 2014/15 (Appendix A to the report referred) by the Wales Audit Office.

He referred to Appendix A for the benefit of Members, and gave an update on the present position with regard to the Improvement Assessments 2014/15, including the current status in terms of progress that had been made on each of these, upon which he gave a resumé.

The Performance Audit Programme outlined work to be undertaken in the Authority, between April 2014 and March 2015.

RESOLVED: That Members noted the update on the Performance Audit Programme for 2014/15.

151 WALES AUDIT OFFICE LOCAL AUTHORITY ARRANGEMENTS TO SUPPORT SAFEGUARDING OF CHILDREN

The Auditor, Wales Audit Office presented a report, the purpose of which was to present to Members the findings of the Wales Audit Office review regarding Local Authority Arrangements to Support Safeguarding Children.

By way of background, he explained that during the period March to May 2014, the Wales Audit Office completed a review of the assurance and accountability arrangements of Bridgend County Borough Council (the Council) for ensuring that safeguarding policies and procedures are in place and being adhered to. The study examined what the Council itself has done to seek assurances that its arrangements to support safeguarding are effective by reviewing how the Council is discharging its safeguarding responsibilities at all levels.

He confirmed to Members, that the study focussed on answering the following question:

Do the Council's governance and management arrangements provide assurance that children are safeguarded?

The main questions that the review sought to answer were:-

- Are there clear governance, accountability and management arrangements for overseeing whether the Council is meeting its safeguarding responsibilities to children?
- Is the Council monitoring and evaluating appropriate information, which provides assurance that it is meeting its safeguarding responsibilities to children?
- Are assurance systems operating effectively?

The Auditor, Wales Audit Office stated that the report concluded that the arrangements for governance, accountability, management, monitoring, evaluating, identifying and acting on improvements is overall adequate but some improvements could be made. The WAO also concluded that overall whistleblowing arrangements were generally sound, but some weaknesses in training needed to be addressed.

A copy of the Wales Audit Office report entitled Local Authority Arrangements to Support Safeguarding of Children was attached at Appendix A to the report.

A Member noted that the areas for improvement were outlined on page 8 of the attached Appendix A, and he asked if the Committee had any role to play in the support of these.

The Chief Internal Auditor confirmed that the Committee would have an involvement in the fourth proposal for improvement, i.e. 'Identify and agree an appropriate internal audit programme of work for Safeguarding'.

The Auditor, Wales Audit Office stressed that the report was positive, in that there were not any significant concerns but more just a revision of a few certain processes and protocols, and overall he felt it was a good and positive report.

RESOLVED: That the Committee noted the report,

152 INFORMATION AND ACTION REQUESTS

The Corporate Director - Resources submitted a report, that summarised for Committee the actions and information requests made by the Audit Committee at its last scheduled meeting.

This was detailed in paragraph 4.1 of the report, and the Chief Internal Auditor explained that a report on the topic so highlighted would appear later in the meeting as an agenda item.

A Member referred to page 5 (84) of the minutes of the previous meeting, and the third paragraph of Minute no 138 on this page where she had requested detailed information on the dispute between the Authority and the contractor over the final costs of the Bridgend Resource Centre's capital contract.

The Corporate Director - Resources and Section 151 Officer confirmed that the dispute had resulted in the Authority considering making a payment in the region of £175k costs to the contractor which could be challenged and appealed against though this was unlikely to take place if this sum was paid

A Member also asked for an update at the next meeting on disposal of waste/aerobic digestion.

The Chief Internal Auditor added that an update on the present position with regard to both the above, would be placed on the agenda at the next scheduled Committee meeting.

RESOLVED: That the Committee noted the report and awaits further progress reports as confirmed above, at its next meeting.

153 REVIEW ANNUAL GOVERNANCE STATEMENT 2013-14

The Head of Finance and ICT presented a report so as to review the Action Plan that accompanied the Annual Governance Statement (AGS) 2013-14.

He advised that legislation previously introduced a requirement for the Authority to be responsible for annually reviewing and reporting on internal controls.

The Annual Governance Statement (AGS) 2013-14 had previously been presented to the Audit Committee in June 2014, and was subsequently included within the Final Statement of Accounts for 2013-14 approved by Committee in September 2014.

The Head of Finance and ICT proceeded by stating that the AGS provided an overall assessment of the Council's corporate governance arrangements and an appraisal of the controls in place to manage the Council's key risks and identify where improvements need to be made. The AGS 2013-14 was attached at Appendix A to the report, subject to a minor amendment at paragraph 5.1 of the document.

He explained that in conjunction with producing the AGS 2013-14, it was necessary to review the Action Plan linked to this. To that end, Appendix B to the report showed the Plan which had been updated with progress on each significant governance issue.

A Member noted from Appendix A the main risks identified that were facing the Council and she asked what assurance could be given that plans were in place to mitigate these risks from being realised.

The Corporate Director - Resources and Section 151 Officer confirmed that when risks to the Authority were identified these were incorporated in Directorate Business Plans and regularly monitored corporately by Directors and through meetings with the Cabinet. There were also plans put in place she assured, to mitigate these risks.

RESOLVED: That the Audit Committee:

(1) Noted the amended Annual Governance Statement 2013-14 (Appendix A to the report referred)

(2) Considered the Annual Governance Statement 2013-14 Action Plan (Appendix B to the report referred)

154 THE CORPORATE RISK ASSESSMENT 2014 - 15

The Insurance and Risk Management Officer presented a report which confirmed that the Audit Committee overseen risk management within the Council. The purpose of the report was to inform Members of the amendments made to the 2014-15 Corporate Risk Assessment, as a result of the quarterly reviews undertaken by Corporate Management Board.

He commenced his submission by advising that good governance requires the Council to develop effective risk management processes, including an assessment of corporate risks.

The Audit Committee's Terms of Reference requires the Committee to review, scrutinise and issue reports and recommendations on the appropriateness of the Authority's risk management, internal control and corporate governance arrangements.

The Insurance and Risk Management Officer stated that in accordance with the Council's Corporate Risk Management Policy, it is a requirement that the Corporate Risk Assessment is considered and reviewed by Corporate Management Board, Cabinet and Audit Committee, and is one of the components reviewed as part of the Council's quarterly Corporate Performance Assessment framework.

He added that the Corporate Risk Assessment had been reviewed and updated by Corporate Management Board at their meetings on 24 March 2014, 30 June 2014 and 27 October 2014. The up to date document was attached at Appendix 1 to the report. This identified the main risks facing the Council, the likely impact of these on Council services and the wider County

Borough, what was being done to manage the risks and allocates responsibility for the Council's response.

The principal changes throughout 2014, were outlined in Paragraph 4.2 of the report.

The Insurance and Risk Management Officer for the benefit of Members, then expanded upon each of the following risks, along the lines detailed in Appendix 1:-

(a) Welfare Reform;

(b) Using resources effectively;

(c) Supporting vulnerable people:

(d) School modernisation:

(e) Impact of persistent economic downturns;

(f) Supporting vulnerable children, young people and families;

(g) Disposing of waste;

(h) Healthy life strategies;

(i) Maintaining infrastructure;

(j) Equal pay claims;

(k) Impact of homelessness;

(l) Collaboration with partners, and

(m) Educational attainment.

A Member thanked the Insurance and Risk Management Officer for his submission.

She felt that in future such reports, it would be beneficial if the risks that compromised the Corporate Risk Assessment were categorised, for example those completed, those ongoing and potential future risks, with perhaps a summary page on these being provided as well as the Risk Assessment itself.

RESOLVED: That Committee:

(1) Noted the changes to the Corporate Risk Assessment attached as Appendix 1 to the report.

(2) Receives a further report in January 2015 concerning the 2015-16 Corporate Risk Assessment and review of the Risk Management Policy.

155 HOUSING AND COUNCIL TAX BENEFIT FRAUD INFRASTRUCTURE OUTTURN 2013/14 AND A COMPARISON OF POSITION IN THE FIRST SIX MONTHS OF THIS YEAR

The Benefits and Financial Assessments Manager presented a report, the purpose of which, was to inform the Committee of the activities that have been undertaken in the first six months of this financial year with regard to Housing and Council Tax Benefit fraud investigations, compared with the position during the same period in 2013/14. In addition, the report also summarised the activities undertaken and the results achieved during 2013/14.

Following some background information, she explained that the fraud referrals were summarised in Table 1 of the report. This shows that overall during the first half of 2014/15 there has been a slight decrease in the number of referrals received overall. There has been a significant decrease in the number of cases referred via benefit staff, this was primarily due to an inflated 2013/2014 figure as an intervention exercise, where unreported increases in wages were highlighted, resulting in an influx of referrals. There were no National Fraud Initiative (NFI) referrals for the first 6 months of 2014 as this exercise is only run on alternate years whilst the Housing Benefit Matching Service has returned to its normal level.

Fraud awareness training sessions are undertaken for Benefit, Homelessness, Council Tax and Customer Service staff and with outside agencies on a cyclical basis. Fraud awareness also forms part of the induction process for all new benefits staff.

The Benefits and Financial Assessments Manager confirmed that investigations are undertaken based upon information received as a data match or in the form of a specific allegation regarding either the claimant's circumstances or the claimant's landlord. As well as new cases there are also cases ongoing from previous years.

She then referred to Table 2 in the report which illustrated a breakdown of the types of cases that have been investigated in specific periods, covering categories of living together, contrived tenancy, non-dependant, non-occupation, undeclared income and working and claiming..

She emphasised that investigations into alleged living together situations remain a major element of Benefit Fraud investigation within the county borough for the reasons given in paragraph 4.3 of the report.

The Benefits and Financial Assessments Manager confirmed that during 2013/14, 368 cases were closed and the closure categories were detailed below in Table 3 in paragraph 4.4 of the report.

She explained that the percentage of fraud proven cases for April to Sept 2014 has decreased from that of April to Sept 2013. This was partly due to a small decrease in the number of staff within the fraud team and also because the quality of information received in referrals from the public is typically not as reliable as those generated via housing benefit assessment staff or from external agencies.

Table 4 in the report then illustrated the sanction action taken in the relevant periods, i.e. April - Sept 2014, together with comparable information for the period April - September 2013.

The overall number of sanctions achieved during the first six months of 2013/2014 was down on that of the previous year, but this was in part due to the overall decrease in staff within the section and also the lack of targeted referrals (for example, an earned income intervention campaign) which generally provide less complex investigations and 'quick hits' for sanctions.

Finally, the Benefits and Financial Assessments Manager confirmed that investigation staff from all local authorities will become civil servants within SFIS as part of a phased programme which will run until 2016. The first phase of local authority investigators being absorbed into the new service (SFIS) began in June of this year; in Wales investigation staff from Blaenau Gwent, Cardiff and the Vale of Glamorgan were included in this first phase. In scope investigation staff from Bridgend are scheduled to join SFIS in November 2015, when all Housing Benefit and Council Tax Benefit investigation work transfers to SFIS. Prosecutions will then be dealt with by the Crown Prosecution Service. The financial impact on the Council of this change is not yet known.

A Member asked if the grant allocated by the Welsh Government covered the costs of staffing in the Fraud Investigating Team.

The Benefits and Financial Assessments Manager advised that part of the grant to cover administration came from the DWP, though this was worked out by way of a very complex calculation. Though, some of this grant would be lost as part of the changes proposed as part of the staff transfer, some staff would also be lost to compensate for this.

A Member felt that steps should be taken for a higher profile to be given to the Fraud Team, for example by publishing successfully prosecutions made as a result of investigations.

RESOLVED: That the Committee is recommended to note the report.

155 INTERNAL AUDIT - OUTTURN REPORT - APRIL TO OCTOBER 2014

The Chief Internal Auditor submitted a report, the purpose of which was to inform the Audit Committee of actual Internal Audit performance against the seven months of the audit plan April - October 2014.

A summary of audits commenced and completed during the period April to October 2014 were detailed in both Appendix A and B to the report.

The Table in paragraph 4.2 of the report, showed an analysis of work done in relation to the plan (1,310 available days). There currently still existed a vacant post in the Section as it had been difficult to find a suitable candidate to appoint to this post. It was hoped this could be filled in the New Year.

The staffing structure was reflected at Table 1 in Appendix A to the report.

Sickness levels in the Audit Division were still presenting a problem, and this included one member of staff on maternity leave.

The Shared Services between Bridgend County Borough Council and the Vale of Glamorgan County Borough Council had just over a year of the Agreement to run and in relation to the period covered by the report the Internal Audit Section had achieved 104% of the Vale's expected plan days and 103% of Bridgend's.

The Chief Internal Auditor referred to Table 2 in Appendix A, which reflected that the majority of post audit assessments completed (i.e.76%) had identified that staff were working at a high standard and meeting appropriate targets.

She added that it was pleasing to note that nine assessments (7%) had scored five whereby the auditors had as a result of their work, also identified areas of improvement in terms of efficiency and effectiveness resulting in measurable savings for the client.

Table 3 of Appendix A indicated that a summary of Performance /Outturn 2014/15 also made for positive reading.

The Chief Internal Auditor spoke on the Implementation of recommendations, Audit Client Satisfaction Questionnaires, performance, the qualifications and experience of audit staff and finally issues regarding future financial and governance implications, which would link in with the next agenda item, i.e. completed audits, where there were concerns with five areas of the Authority that had recently been the subject of Internal Audits.

A Member noted that even with staff deficiencies the Internal Audit Section had over achieved in terms of work processed in the above period. He asked how this was the case.

The Chief Internal Auditor advised that this was down to positive attitude and hard work committed by staff within the team, as well as senior staff including herself being actively involved in undertaking audits.

However, pressure of work was building, and therefore due to this there may be a need to look to re-structure the Section within the not too distant future.

RESOLVED: That Members considered the Internal Audit Outturn Report and attached Appendices covering the period April 2014 to October 2014 to ensure that all aspects of their core functions are being adequately reported.

156 COMPLETED AUDITS

The Chief Internal Auditor presented a report, to summarise for Members, the findings of the audits recently completed by the Internal Audit Shared Service, details of which were showed in appendix A to the report.

Referring to this Appendix, she wanted to raise to Members attention those reviews where issues relating to the internal control environment had been identified as listed in Appendix A.

Work Area	Audit Opinion
DBS	Limited Assurance

The key messages from this audit revealed that of the 2,418 total of new starter employees or posts being transferred covering the period highlighted in the report, 479 of these (i.e. 20%) were recruited without a DBS check being in place.. Of a sample taken of 50 of these to ascertain if a Risk Assessment had been completed in respect of these individuals, this confirmed that 21 out of the 50 (42% did have Risk Assessments on file. Of the remaining 29, 25 were covered by other mechanisms such as enhanced CRB checks in place from previous roles, proof of disclosure received prior to 1st available pay date etc.

Of the recommendations made as a result of the audit, the management of this Section had been positive in their response to these in that to improve the DBS process they were looking to introduce an E:Bulk System as a method for undertaking the above checks more effectively. The system was being introduced this month and a further audit review would take place in the New Year.

Work Area	Audit Opinion
Sign Shop	Limited Assurance

The Chief Internal Auditor confirmed that this was being provided as an in-house service for the production of road traffic and other signs. The Chief Internal Auditor confirmed that in 2013-14.

191 orders were made with 160 of these being fully completed. Since April 2014, 31 orders had been received of which 9 had been completed by June. Concerns as a result of the audit

were raised in respect of a lack of continuity of service, and disparities regarding the taking of stock.

Work Area	Audit Opinion
Section 117 Process	No Assurance

The Chief Internal Auditor advised that this area of Adult Social Care was jointly being covered by the Local Authority and the Local Health Board, namely to provide after-care services for certain types of detained patients when they leave hospital.

Notwithstanding the Audit Opinion, she felt that some credit should be given to the Group Manager who started employment with the Council in January 2013, and she identified significant problems within the service. There were weaknesses with regard to the application of the Section 117 process, and as this is a high risk area a two part review of procedures, processes and internal control was undertaken. The first part reviewed the existing processes and procedures so as to identify where the weaknesses were, and the second part to review the current financial arrangements with the Health Board, as there was nothing in place in terms of any financial documentation regarding the joint arrangement other than a ‘gentleman’s agreement’ that the service would be supported financially by way of a “Gentleman’s Agreement”.

The Chief Internal Auditor stated that 277 people had been eligible for assessment in 2013/14, and 295 in 2014/15. Some of these, but not all, received financial support, and also not all of the patients obtained proper follow-up care arrangements such as an appointed Care Co-ordinator, which was a breach of the Act.

A Member asked if there had been any improvements within the service, since the Audit had been carried out.

The Chief Internal Auditor advised that the Group Manager was working tirelessly with Internal Audit to improve the service, and a follow-up audit would be undertaken and a further progress report would then in turn be presented to Committee on the outcomes of this, highlighting any improvements that had not been made, this will be undertaken before the end of the financial year.

Most of the recommendations made as a result of the initial audit had been completed, and the target date for those not yet completed had been set for December/January.

She further added that this had been the first review of the service by Internal Audit.

RESOLVED: (1) That Members gave consideration to the completed audits referred to in Appendix A to the report and expanded upon by the Chief Internal Auditor at the meeting.

(2) That Members await a follow-up report on progress being made in terms of the Section

157 FORWARD WORK PROGRAMME - 2014/15

The Corporate Director - Resources submitted a report, that attached at Appendix ‘A’, the dates of Audit Committee meetings as shown in the overall programme of Council meetings, together with a list of the Forward Work Programme aligned to past and future meetings.

RESOLVED: That Committee noted the updated 2014-2015 Forward Work Programme to ensure that all aspects of its core functions are being adequately considered and reported.

158 EXCLUSION OF THE PUBLIC

RESOLVED: That under Section 100A(4) of the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007, the public were excluded from the meeting during consideration of the following item of business as it contained exempt information as defined in Paragraph 14 of Part 4 and Paragraph 21 of Part 5 of Schedule 12A of the said Act.

The Legal Officer explained the public interest test, and following this, Members resolved that pursuant to the provisions of the Act referred to above, to consider the undermentioned item in private with the public being excluded from the meeting as it would involve the disclosure of exempt information as stated above:-

Minute No.	Summary of Item
158	Porthcawl Harbour Review

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE

15 JANUARY 2015

REPORT OF THE CORPORATE DIRECTOR – RESOURCES

**TREASURY MANAGEMENT HALF YEAR REPORT 2014-15
AND
TREASURY MANAGEMENT STRATEGY 2015-16**

1. Purpose of the Report

1.1 The purpose of the report is to present the:

- Half Year Treasury Management report which was approved by Council on 12 November 2014;

- Proposed Treasury Management Strategy for 2015-16, which includes the:-

  - Borrowing Strategy 2015-16
  - Investment Strategy 2015-16
  - Treasury Management and Prudential Indicators for the period 2015-16 to 2018-19
  - Annual Minimum Revenue Provision Statement 2015-16

2. Connection to Corporate Improvement Objectives/Other Corporate Priorities

2.1 The work of the Audit Committee supports corporate governance and assists in the achievement of all corporate and service objectives. Prudent treasury management arrangements will ensure that investment and borrowing decisions made by officers on behalf of the Council make best use of financial resources and hence assist achievement of corporate priorities.

3. Background

3.1 The Audit Committee has delegated responsibility for ensuring effective scrutiny of the treasury management strategy and policies.

3.2 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management, which was formally adopted by the Council in February 2012, requires all Local Authorities to conduct a mid-year review of its treasury management policies, practices and activities and a report was presented to Council 12 November 2014 **(Appendix A)**. As a result of this review for 2014-15, it was not deemed necessary to make any changes to the main parts of the Treasury Management Strategy 2014-15, however, it was beneficial for the Council to make some minor revisions to the Investment Strategy included within this Statement (section 5 of the Treasury Management Strategy) to enable increased flexibility in an ever changing financial market and increase the investment opportunities available to the Council whilst still maintaining security. Following consultation with the Council's Treasury advisor, Arlingclose, the changes approved by Council were:

- to include a category for UK banks and building societies rated BBB+ for investments up to 100 days with an individual counterparty limit of £2m

- reduce the unrated building society limit from assets greater than £500 million to £250million

- to ensure there is sufficient headroom within the non-specified investment limit, by increasing the investment limit to cover potential investment in the major UK banks if their credit ratings fall

An extract of the revised Investment Strategy 2014-15 incorporating all the changes are highlighted and shown in Appendix A - Schedule C**.**

3.3 The Council manages its Treasury Management activities in accordance with the Local Government Act 2003, and associated guidance:-

- The CIPFA Treasury Management in the Public Services: Code of Practice 2011 Edition (the Code), requires the Council to approve a Treasury Management Strategy (TMS) before the start of each financial year (TMS 2015-16 in **Appendix B**)

- The Welsh Government (WG) issued revised Guidance on Local Authority Investments in April 2010, which requires the Council to approve an Investment Strategy prior to the start of each financial year (Appendix B-Section 5)

- In addition to the CIPFA Code which requires treasury management indicators to be set, CIPFA's Prudential Code for Capital Finance in Local Authorities 2011 Edition requires the Council to set a number of Prudential Indicators (Appendix B-Schedule A)

- The Local Authority (Capital Finance and Accounting) (Amendment) (Wales) Regulations 2008, requires the Council to produce an Annual Minimum Revenue Provision (MRP) Statement that details the methodology for the MRP charge (Appendix B-Schedule B)

4. Current Situation / Proposal

4.1 The Treasury Management Strategy for 2015-16 (Appendix B) confirms the Council's compliance with the Code, which requires that formal and comprehensive objectives, policies and practices, strategies and reporting arrangements are in place for the effective management and control of Treasury Management activities, and that the effective management and control of risk are the prime objectives of these activities.

4.2 The Treasury Management Strategy is to be presented to Council for approval in February 2015 and whilst the main body of the report will remain unchanged there may be variations to some of the figures in the report if there are any changes (such as the capital programme) to reflect the most up to date information.

5. Effect upon Policy Framework & Procedure rules

5.1 Paragraph 17.3 of the Financial Procedure Rules within the Council's Constitution requires that all investments and borrowing transactions shall be undertaken in accordance with the Council's Treasury Management Strategy.

5.2 This report is designed to promote compliance with the above requirements.

6. Equality Impact Assessment

6.1 There are no equality implications.

7. Financial Implications

7.1 These are reflected within the report.

8. Recommendation

8.1 That members note the Half-Year Treasury Management Report which was approved by Council in November 2014;

8.2 That Members give due consideration to the Treasury Management Strategy 2015-16 before it is presented to Council for approval in February 2015 as part of the Medium term Financial Strategy.

Ness Young
Corporate Director - Resources
31 December 2014

Contact Officer: Mary Williams, Chief Accountant
Karin Thomas, Loans & Investment Officer

Telephone: 01656 643312

E-mail: mary.williams2@bridgend.gov.uk
karin.thomas@bridgend.gov.uk

Postal Address: Bridgend County Borough Council
Financial Services
Raven's Court
Brewery Lane
Bridgend
CF31 4AP

Background documents
CIPFA Code of Practice on Treasury Management in Local Authorities (2011)
CIPFA The Prudential Code for Capital Finance in Local Authorities (2011)

Appendix A

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO COUNCIL

12 NOVEMBER 2014

REPORT OF THE SECTION 151 OFFICER

HALF-YEAR TREASURY MANAGEMENT REPORT 2014-15

1. Purpose of the Report

1.1 The purpose of the report is to:-

- Comply with the requirement of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services: Code of Practice 2011 Edition (the Code) to report as part of a mid-year review an overview of treasury activities;

- Report on the projected Treasury Management and Prudential Indicators for 2014-15;

- Inform Cabinet of the proposed changes to the Investment Strategy 2014-15 included in the Treasury Management Strategy.

2. Connection to Corporate Improvement Objectives / Other Corporate Priorities

2.1 The Treasury Management Report is integral to the delivery of the Corporate Improvement Objectives as the allocation of resources determines the extent to which the corporate objectives can be delivered.

3. Background

3.1 The Council's Treasury Management activities are regulated by the Local Government Act 2003 which provides the powers to borrow and invest as well as providing controls and limits on this activity. The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 as amended, develops the controls and powers within the Act.

3.2 The Council is required to operate the overall treasury function with regard to the Code and this was formally adopted by the Council in February 2012. This includes a requirement for the Council to approve a Treasury Management Strategy (TMS) before the start of each financial year which sets out the Council's and Chief Financial Officer's responsibilities, delegation, and reporting arrangements. Council approved the TMS 2014-15 on 19 February 2014.

3.3 The Welsh Government (WG) issued revised Guidance on Local Authority Investments in April 2010, which requires the Council to approve an

Investment Strategy prior to the start of each financial year and this is included in the TMS.

3.4 The Council is also required to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council's adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.

3.5 This report covers the following areas:

- The Council's treasury position for the period 1 April to 30 September 2014
- Borrowing and Debt Strategy 2014-15
- Borrowing Outturn for the period 1 April to 30 September 2014
- Investment Strategy 2014-15
- Investment Outturn for the period 1 April to 30 September 2014
- Review of the Treasury Management Strategy 2014-15
- Treasury Management and Prudential Indicators 2014-15

4. Current Situation

4.1.1 The treasury position for 1 April to 30 September 2014:

		Principal as at 01-04-14 £m	Average Rate %	Principal as at 30-09-14 £m	Average Rate %
Fixed rate long term funding	PWLB*	77.63	4.70	77.62	4.70
Variable rate long term funding	PWLB*	-	-	-	-
	LOBO**	19.25	4.65	19.25	4.65
Total Long Term External Borrowing* **		**96.88**	**4.69**	**96.87**	**4.69**
Other Long Term Liabilities*** (including PFI)		21.60		21.26	
TOTAL GROSS DEBT		**118.48**		**118.13**	
Fixed rate investments		4.50	0.63	22.00	0.48
Variable rate investments		6.00	0.55	2.40	0.50
TOTAL INVESTMENTS******		**10.50**	**0.59**	**24.40**	**0.48**
TOTAL NET DEBT		**107.98**		**93.73**	

* Public Works Loan Board (PWLB)
** Lender's Option Borrower's Option (LOBO)

*** Long term borrowing/liabilities include all instruments with an initial term of 365 days or more.

**** The investment totals include instant access deposit accounts which are included as "Cash" in the Council's balance sheet in the Statement of Accounts and also investments shown as "Cash Equivalents" in the Council's balance sheet that mature in 1 month or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value

Fixed rate in the above table includes instruments which are due to mature in the year

4.1.2 Details of the debt maturity on the £96.87m long term borrowing outstanding as at 30 September 2014 are detailed in **Schedule A**. The £19.25m showing as maturing in 2054, relates to Lender's Option Borrower's Option (LOBO) loans which may be re-scheduled in advance of this maturity date. The LOBO rate and term may vary in the future depending upon the prevailing market rates, the lender exercising their option to increase rates at one of the bi-annual trigger points (the next trigger date being January 2015 however it is not expected to be repaid on this date) and therefore, the Council being given the option to accept the increase or to repay the loan without incurring a penalty. The long term liabilities figure of £21.26m at 30 September 2014 includes £19.54m for the Council's Private Finance Initiative (PFI) arrangement (for the provision of a Secondary School in Maesteg).

4.1.3 It should be noted that the accounting practice required to be followed by the Council requires financial instruments in the accounts (debt and investments) to be measured in a method compliant with International Financial Reporting Standards (IFRS). The figures shown in the above table and throughout the report are based on the actual amounts borrowed and invested and so may differ from those in the Statement of Accounts which include accrued interest or are stated at fair value in different instances.

4.1.4 The Co-operative Bank is currently the Council's bank following a competitive tender exercise in 2012. They are currently rated below the minimum credit rating identified in the Investment Strategy however a bank retendering exercise has been done and contract implementation started in October 2014 with new banking services with Barclays Bank effective from January 2015. The Council operates a pooling system on all accounts and the balance is kept as close to zero as possible and does not currently place any investments with them so this mitigates any potential risk associated with their drop in credit ratings.

4.1.5 The Council's Treasury Management Advisors are currently Arlingclose and the services provided to the Council include:-

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

4.2 Borrowing and Debt Strategy for 2014-15 (Extract from TMS 2014-15)

4.2.1 The Expectation for Interest Rates

The interest rate views, incorporated in the Council's Treasury Management Strategy for 2014-15, were based upon officers' views supported by a selection of City forecasts provided by Arlingclose, our Treasury Management advisers.

This view was seeing the Bank Rate remaining at 0.50% for 2014-15 and it was considered that it could be 2016 before official UK interest rates rise.

4.2.2 The Adopted Borrowing and Debt Strategy 2014-15

The major objectives to be followed in 2014-15 are:-

- to minimise the revenue costs of debt,

- to manage the Council's debt maturity profile i.e. to leave no one future year with a high level of repayments that could cause problems in re-borrowing (the current debt maturity profile is shown in **Schedule A**),
- to effect funding in any one year at the cheapest cost commensurate with future risk,
- to forecast average future interest rates and borrow accordingly,
- to monitor and review the level of variable interest rate loans in order to take greater advantage of interest rate movement,
- to reschedule debt if appropriate, in order to take advantage of potential savings as interest rates change, and
- to maximise the use of all capital resources including borrowing, both supported and unsupported, useable capital receipts and grants and contributions.

The Section 151 Officer will take the most appropriate form of borrowing depending on the prevailing interest rates at the time and the expected borrowing requirement for 2014-15 is £5 million at an estimated rate of 4.60%.

Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. The uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its treasury strategy. 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 borrow short term loans or use internal resources. Short term and variable rate loans expose the Council to the risk of short term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates as shown in the treasury management indicators in **Schedule B.**

However, with long term rates forecast to rise in the coming years, any such short term savings will need to be balanced against the potential longer-term costs. The Council's Treasury Management advisers will assist the Council with this 'cost of carry' and breakeven analysis.

4.3 Borrowing Outturn for 1 April to 30 September 2014

4.3.1 The Bank Rate started the financial year at 0.50% and remained at that level from 1 April to 30 September 2014. It is forecast that it will remain at that level for the remainder of the 2014-15 financial year.

4.3.2 The Council's primary objective for the management of its debt is to ensure its long term affordability. The majority of its loans have therefore been borrowed from the Public Works Loan Board (PWLB) at long term fixed rates of interest.

4.3.3 No long or short term borrowing has been taken during the period 1 April to 30 September 2014. It was originally forecast that £5 million new PWLB borrowing would be taken in 2014-15, however, this is currently being reviewed and an update will be provided in the Cabinet report in February 2015. Market conditions have meant that there has been no loan rescheduling so far this year, however, during the second half of 2014-15, in conjunction with Arlingclose, the loan portfolio will be reviewed for any potential savings as a result of any loan rescheduling.

4.3.4 During the second half of the year, there is a potential that the Council will be receiving two loans from Welsh Government in respect of housing grants and regeneration works. These loans would be on an interest free basis repayable to Welsh Government in accordance with prescribed terms and conditions. These will be incorporated within Other Long Term Liabilities as and when they are received by the Council.

4.4 Investment Strategy 2014-15 (Extract from TMS 2014-15)

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

The major objectives to be followed in 2014-15 are:-

- To maintain capital security;
- To maintain liquidity so funds are available when expenditure is needed;
- To achieve the yield on investments commensurate with the proper levels of security and liquidity.

The Annual Investment Strategy incorporated in the Council's Treasury Management Strategy 2014-15 deals with the credit ratings defined for each category of specified investments, the prudential use of non-specified investments and the liquidity of investments.

4.4.2 The Council uses long-term credit ratings from the three main rating agencies Fitch Ratings Ltd., Moody's Investors Service Inc. and Standard & Poor's Financial Services LLC to assess the risk of investment default. The lowest available credit rating will be used to determine credit quality unless an investment specific rating is available. In the current climate, relying mainly on credit ratings is considered to be inappropriate and the Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, 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.

4.4.3 A half year review of the Annual Investment Strategy will be undertaken and any changes will be reported to Council.

4.5 Investment Outturn for 1 April to 30 September 2014

4.5.1 On a day to day basis the Council typically has surplus cash balances arising from the cash flow e.g. timing differences between grants being received and making various payments. These are invested on the market via brokers, direct with the institution or held in instant access deposit accounts. The Council usually invests for a range of periods dependent on cash flow requirements and the interest rates on offer having regard to the Investment Strategy. There was one long term investment (duration of 12 months or more) taken out in April 2014 for one year but all other investments in the first half of 2014-15 were short term (instant access deposit account or fixed term deposits). The table below details these investments by counterparty type:

Investment Counterparty Category	Balance 01 April 2014 (A) £m	Investments Raised (B) £m	Investments Repaid (C) £m	Balance 30 Sept 2014 (A+B-C) £m	Average Balance Apr - Sept 2014 £m	Average Rate for Apr - Sept 2014 %
UK Government (DMO)	0.50	104.35	104.85	**0.00**	**5.74**	**0.25**
UK Local Authorities	0.00	41.30	28.30	**13.00**	**8.05**	**0.31**
Building Societies	2.00	8.00	5.00	**5.00**	**4.46**	**0.51**
Banks Call Accounts (Instant Access)	6.00	29.45	33.05	**2.40**	**5.55**	**0.50**
Banks (Fixed Maturity)	2.00	6.00	4.00	**4.00**	**4.89**	**0.76**
Total	**10.50**	**189.10**	**175.20**	**24.40**	**28.69**	**0.44**

4.5.2 Occasionally, other investments are placed with the UK Debt Management Office (DMO - Executive Agency of UK Government) but only for very short term deposits. The interest rates offered by this facility are lower than some other counterparties but this is commensurate with the high level of security and reduced risk offered. It provides another option when examining potential investments and ensures compliance with the Council's investment objective that security takes priority over yield.

4.5.3 Favourable cash flows have provided positive cash balances for investment and as shown above the balance on investments at 30 September 2014 was £24.40 million. The table below shows a breakdown based on the maturity profile and counterparty type from 30 September 2014.

Counterparty Category	Instant Access Deposit Accounts @ 30-9-14 £m	Deposits Maturing Within 1 Month @ 30-9-14 £m	Deposits Maturing Within 1-3 Months @ 30-9-14 £m	Deposits Maturing Within 4-6 Months @ 30-9-14 £m	Deposits Maturing Within 6-9 Months @ 30-9-14 £m	Total 30-9-14 £m
UK Banks	2.40	-	-	2.00	2.00	6.40
UK Building Societies	-	-	3.00	-	2.00	5.00
Local Authorities	-	9.00	-	4.00	-	13.00
Total	**2.40**	**9.00**	**3.00**	**6.00**	**4.00**	**24.40**

4.5.4 The Council's primary objective for the management of its investment portfolio is to give priority to the security and liquidity of its funds before seeking the best rate of return. As shown above, the majority of its surplus cash has been held as short term investments with UK Local Authorities and banks and building societies of high credit quality. This has therefore resulted in more of the investment portfolio being moved into investment instruments with lower rates of return but higher security and liquidity.

4.6 Review of the Treasury Management Strategy 2014-15

4.6.1 Cipfa's Code of Practice for Treasury Management requires all Local Authorities to conduct a mid-year review of its treasury management policies, practices and activities. As a result of this review it was not deemed necessary to make any changes to the main parts of the Treasury Management Strategy 2014-15, however, it would be beneficial for the Council to make some minor revisions to the Investment Strategy included within this Statement (section 5 of the Treasury Management Strategy) to enable increased flexibility in an ever changing financial market and increase the investment opportunities available to the Council whilst still maintaining security.

4.6.2 The UK is implementing the final bail-in provisions of the EU *Bank Recovery and Resolution Directive* to commence in January 2015, a year ahead of most other countries which means there a lower likelihood that the UK and other governments will support failing banks. Credit rating agencies have stated they plan to review EU banks' ratings in line with each country's implementation of the directive. Many UK banks have standalone ratings in the "BBB" category, with uplifts for potential government support taking them into the "A" category. There is therefore a realistic risk that some major UK banks' credit ratings will fall below the Council's definition of "high credit quality" of A- in this financial year if this uplift is removed. Whilst we are not considering lowering our definition on high credit quality below A-, we are proposing to amend the Investment Strategy 2014-15 to allow investment in the major UK banks as a precautionary measure.

Following consultation with Arlingclose the proposed changes are:

- to include a category for UK banks and building societies rated BBB+ for investments up to 100 days with an individual counterparty limit of £2m

- reduce the unrated building society limit from assets greater than £500 million to £250million

- to ensure there is sufficient headroom within the non-specified investment limit, by increasing the investment limit to cover potential investment in the major UK banks if their credit ratings fall

4.6.3 An extract of the revised Investment Strategy 2014-15 incorporating all the proposed changes are highlighted and shown in **Schedule C.** When the 2015-16 Treasury Management Strategy is presented to Council as part of the Medium Term Financial Strategy in February 2015 we will update Members on the new regulatory framework and how changes to the regulatory framework can best be mitigated. Maintaining a balanced investment portfolio focusing on security, liquidity and yield will still remain the Council's objective for its investments.

4.7 Treasury Management and Prudential Indicators 2014-15

4.7.1 The Treasury Management Code and Prudential Code require the Council to set and report on a number of Treasury Management and Prudential Indicators. The indicators either summarise the expected activity or introduce limits upon the activity, and reflect the underlying capital programme. **Schedule B** details the estimate for 2014-15 set out in the Council's Treasury Management Strategy and also the projected indicators for 2014-15.

5. Effect upon Policy Framework and Procedure Rules

5.1 As required by Financial Procedure Rule 17.3, all investments and borrowing transactions have been undertaken in accordance with the Treasury Management Strategy 2014-15 approved by Council.

6. Equality Impact Assessment

6.1 There are no equality implications.

7. Financial Implications

7.1 The financial implications are reflected within the report.

8. Recommendation

8.1 **It is recommended that**:

- Council approve the changes to the Investment Strategy within the Treasury Management Strategy 2014-15 as highlighted in the report and **Schedule C**;
- Council note the treasury management activities for the first half of 2014-15;
- Council note the projected Treasury Management and Prudential Indicators for 2014-15.

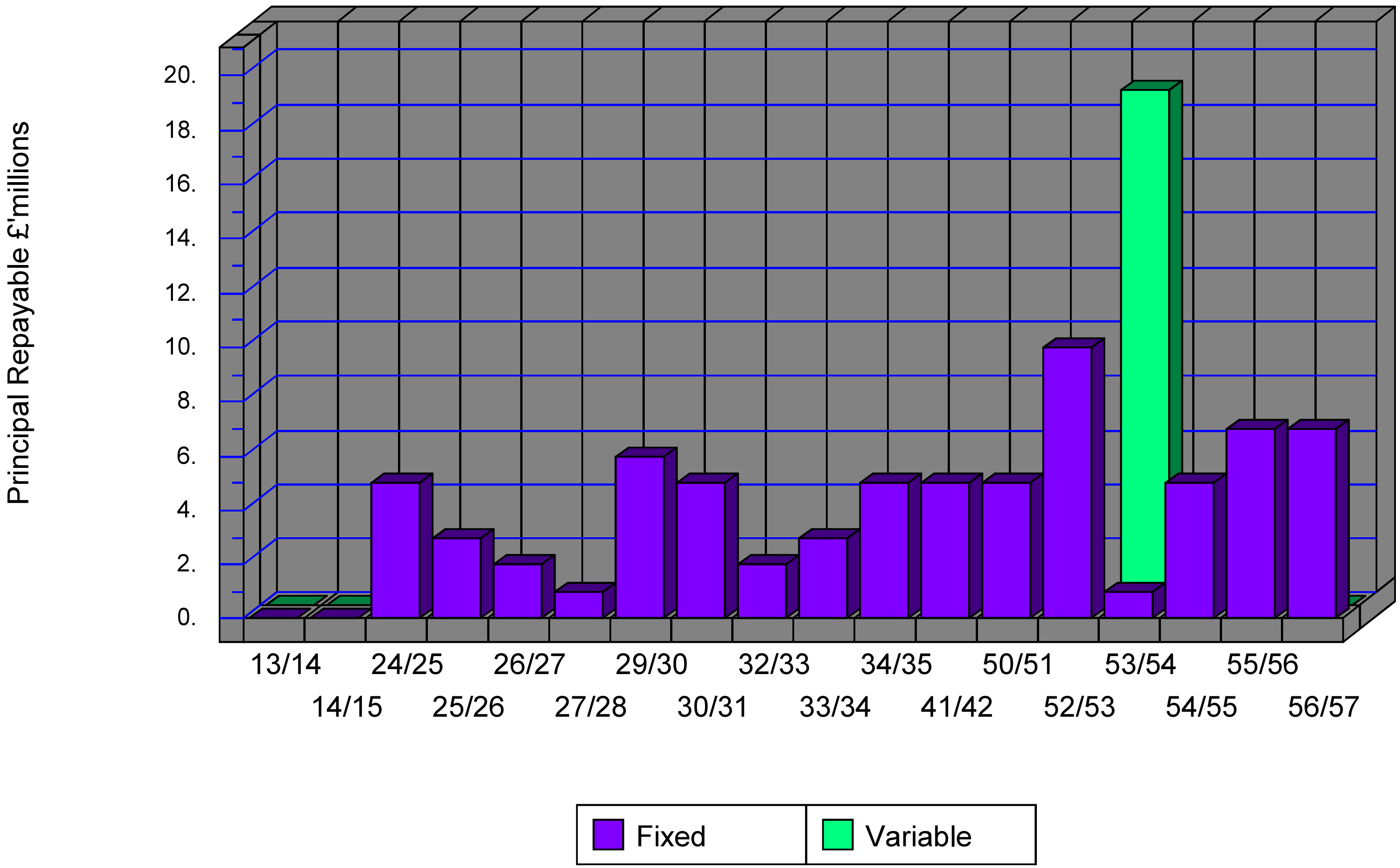
Ness Young
Section 151 Officer
Corporate Director - Resources
21 October 2014

Contact Officer:	Karin Thomas Loans & Investment Officer
Telephone:	01656 643312
E-mail:	Karin.Thomas@bridgend.gov.uk
Postal Address:	Bridgend County Borough Council Performance - Financial Services Raven's Court Brewery Lane Bridgend CF31 4AP

Background documents:
Treasury Management Strategy 2014-15

Schedule A
Long Term Debt Outstanding – Principal due to be paid

MATURITY ANALYSIS - 2014 to 2057



1 TREASURY MANAGEMENT INDICATORS 2014-15

1.1.1 The following indicators (which are forward looking parameters) form part of the CIPFA Code of Practice on Treasury Management. They enable the Council to measure and manage its exposure to Treasury Management risks using the following indicators.

The Council needs to set the upper limits to its **Interest Rate Exposure** for the effects of changes in interest rates. There are two treasury management indicators that relate to both fixed interest rates and variable interest rates. These limits have been calculated with reference to the net outstanding principal sums and are set to control the Council's exposure to interest rate risk.

No.	Interest Rate Exposure	Treasury Management Strategy 2014-15 £m	Projection 31-03-2015 £m
	Total Projected Principal Outstanding on Borrowing 31 March 2015	101.87	**101.87**
	Total Projected Principal Outstanding on Investments 31 March 2015	9.00	**9.00**
	Net Principal Outstanding	**92.87**	**92.87**
1.	**Upper Limit on fixed interest rates (net principal) exposure**	130.00	**80.62**
2.	**Upper Limit on variable interest rates (net principal) exposure**	50.00	**12.25**

The Section 151 Officer will manage interest rate exposures between these limits in 2014-15.

1.1.2 A further indicator for Treasury Management measures the **Maturity Structure of Borrowing** and is the amount of projected borrowing that is fixed rate, maturing in each period as a percentage of total projected fixed rate borrowing. This indicator is set to control the Council's exposure to refinancing risk and has been set to allow for the possible restructuring of long term debt where this is expected to lead to an overall saving or reduction in risk. The Code requires the maturity of LOBO loans to be shown as the earliest date on which the lender can require payment, i.e. the next call date of January 2015 (which is shown below), however it is not expected that the loans will repaid on that date.

No	Maturity structure of fixed rate borrowing during 2014-15	Upper limit	lower limit	Projection 2014-15
3.	Under 12 months	50%	0%	**18.91%**
	12 months and within 24 months	25%	0%	**0.02%**
	24 months and within 5 years	50%	0%	**0.00%**
	5 years and within 10 years	60%	0%	**0.00%**
	10 years and above	100%	40%	**81.07%**

1.1.3 The **Upper Limit for Total Principal Sums invested over 364 days** indicator controls the amount of longer term investments which mature beyond the period end. This is set to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments.

No.		Treasury Management Strategy 2014-15 (Limit) £m	Projection 31-03-15 £m
4.	**Upper Limit for Total Principal Sums Invested for more than 364 days**	12	**4**

2 PRUDENTIAL INDICATORS 2014-15

The Prudential Indicators are required to be set and approved by Council in accordance with CIPFA's *Prudential Code for Capital Finance in Local Authorities.*

Council is required to formally adopt CIPFA's Treasury Management Code and the revised version of the 2011 code was adopted by Council on 22 February 2012.

2.1 Prudential Indicators for Prudence

2.1.1 The following Prudential Indicators are based on the Council's capital programme which is subject to change.

The Council's capital expenditure plans are summarised below and this forms the first prudential indicator for Prudence. The total capital expenditure is funded from capital grants and contributions, capital receipts and revenue with the remainder being the **Net Financing Need for the Financial Year** to be met from borrowing.

No.	Prudential indicators For Prudence	Estimate Treasury Management Strategy 2014-15 £'000	Projection 31-03-15 £'000
1	**Estimates of Capital Expenditure** Non – HRA	 32,060	 29,685
	Total Capital Expenditure	**32,060**	**29,685**
	Financed by :-		
	Capital Grants and Contributions	11,393	9,933
	Capital Receipts	12,005	9,748
	Revenue	0	38
	Net Financing Need for Year	**8,662**	**9,966**

The capital expenditure figures have changed from the Treasury Management Strategy 2014-15 as the capital programme approved by Council on 19 February 2014 has been amended to include new approved schemes, to incorporate slippage of schemes identified as part of the capital monitoring and a change in the profile of prudential borrowing. This has resulted in an increase in the Net Financing Need for 2014-15.

2.1.2 The second Prudential Indicator is the **Capital Financing Requirement (CFR)** for the Council. This shows the total outstanding capital expenditure that has not been funded from either revenue or other capital resources. It is derived from the actual Balance Sheet of the Council. It is essentially a measure of the underlying need to finance capital expenditure and forms the basis of the charge to the General Fund under the Prudential Code system.

The process for charging the financing of capital expenditure to revenue is a statutory requirement and is called the Minimum Revenue Provision (MRP).The actual MRP charge needs to be prudent and the methodology has been revised from 2014-15 as detailed in the Council's MRP policy in the TMS 2014-15. The MRP requirement for the PFI Scheme, Finance Leases, Innovation Centre and HALO will be equivalent to the write down of the liability for the year and is met from existing budgets.

No.	Prudential indicators For Prudence	Est. Treasury Management Strategy 2014-15 £'000	Projection 2014-15 £'000
2	**Capital Financing Requirement (CFR)**		
	Opening CFR (1 April 2014) excluding PFI	157,092	155,429
	Opening PFI CFR	19,776	19,776
	Opening Finance Lease CFR	41	41
	Opening Innovation Centre	816	816
	Opening HALO	1,267	971
	Total Opening CFR	**178,992**	**177,033**
	Movement in CFR excluding PFI & other liabilities	1,778	3,135
	Movement in PFI CFR	(476)	(476)
	Movement in Finance Lease CFR	(41)	(41)
	Movement in Innovation Centre CFR	(47)	(47)
	Movement in HALO CFR	(117)	180
	Total Movement in CFR	**1,097**	**2,751**
	Closing CFR (31 March 2015)	**180,089**	**179,784**
	Movement in CFR represented by :-		
	Net Financing Need for Year (above)	8,662	9,966
	Adjustment for Halo	-	296
	Minimum and Voluntary Revenue Provisions*	(7,565)	(7,511)
	Total Movement	**1,097**	**2,751**

Minimum Revenue Provision (MRP) and Voluntary Revenue Provision (VRP) represent the revenue charge for the repayment of debt and includes MRP for the Public Finance Initiative (PFI), Finance Leases, Innovation Centre and Halo

2.2 Limits to Borrowing Activity

2.2.1 The Council's long term borrowing at the 30 September 2014 was £96.87m as detailed in section 4.1.1 the Treasury Position. External Borrowing can arise as a result of both capital and revenue expenditure and timing of cash flows. Because the Council has an integrated Treasury Management Strategy there is no association between individual loans and particular types of expenditure.

Therefore, the Capital Financing Requirement and actual external borrowing can be very different.

The **Gross Debt** position (Borrowing and Long Term Liabilities) is shown below:

No.	Prudential indicators For Prudence Gross Debt 31 March	Estimate Treasury Management Strategy 2014-15 Est. £'000	Projection 31-03-15 £'000
3	External Borrowing	101,867	101,867
	Long Term Liabilities (including PFI)	21,219	21,219
	Total Gross Debt	**123,086**	**123,086**

2.2.2 Within the Prudential Indicators, there are a number of key indicators to ensure the Council operates its activities within well-defined limits. One key control is to ensure that over the medium term, debt will only be for a capital purpose. The Council needs to ensure that external debt does not, except in the short term, exceed the Capital Financing Requirement for 2013-14. The table below shows that the Council is on target to comply with this requirement.

No.	Prudential indicators For Prudence	Estimate Treasury Management Strategy 2014-15 £'000	Projection 31-03-15 £'000
4	**Gross Debt & the CFR**		
	Total Gross Debt	123,086	123,086
	Closing CFR (31 March 2015)	**180,089**	**179,784**

2.2.3 A further two Prudential Indicators control the Council's overall level of debt to support capital expenditure. These are detailed below and confirms that the Council is well within the limit set :-

- The **Authorised Limit** for External Debt – this represents the limit beyond which borrowing is prohibited. It reflects a level of borrowing that could not be sustained even though it would be affordable in the short term. It needs to be set and approved by Members.

- The **Operational Boundary** for External Debt – this is not an actual limit and actual borrowing could vary around this boundary during the year. It is based on the probable external debt during the course of the year.

Prudential Indicators for Prudence Nos. 5 & 6	Authorised Limit Treasury Management Strategy 2014-15 £m	Operational Boundary Treasury Management Strategy 2014-15 £m	Projection 31-03-15 £m
Borrowing	140	115	102
Other long term liabilities	30	25	21
Total	**170**	**140**	**123**

2.3 Prudential Indicators for Affordability

2.3.1 The Prudential Code Indicators Numbered 1 to 6 above in section 2.1 and 2.2 cover the overall controls on borrowing and financing of capital expenditure within the Council. The second suite of indicators detailed below assesses the affordability of capital investment plans and the impact of capital decisions on the Council's overall finances.

The indicator the **Ratio of Financing Costs to Net Revenue Stream** demonstrates the trend in the cost of capital against the Total Revenue amount to be met from local taxpayers and the amount provided by Welsh Government in the form of Revenue Support Grant. The estimates of capital financing costs include interest payable and receivable on Treasury Management activities and the Minimum Revenue Provision charged to the Comprehensive Income and Expenditure Statement. The revenue stream is the amount to be met from government grants and local taxpayers.

No.	Prudential Indicators for Affordability	Estimate Treasury Management Strategy 2014-15	Projection 2014-15
7.	**Ratio of Financing Costs to Net Revenue Stream**		
	Ratio	5.34%	**5.10%**

2.3.2 The indicator of the **Incremental Impact of Capital Investment Decisions on Council Tax** identifies the estimate of the incremental impact to the Council Tax from the capital expenditure proposals, particularly changes in borrowing requirements that have occurred since the Capital Programme was approved for the year. This is a purely notional calculation designed to show the effect of changes in capital investment decisions.

No.	Incremental Impact of Capital Investment Decisions on Council Tax	Estimate Treasury Management Strategy 2014-15	Projection 2014-15
8.	Increase in Band D Council Tax as per Capital Programme	£ 3.28	£ **2.96**

Proposed Extract to be inserted into Treasury Management Strategy 2014-15 (Section 5.0)

5.0 Investment Strategy

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

The major **objectives** to be followed in 2014-15 are:-

- To maintain capital **security**;
- To maintain **liquidity** so funds are available when expenditure is needed;
- To achieve the **yield** on investments commensurate with the proper levels of security and liquidity.

Approved Instruments: The Council may lend or invest money using any of the following instruments:

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

Investments will be made after the following steps have been taken:

- assessment of the available funds and the suitability of the period over which the investment is to be made,
- reference to the list of approved counterparties and to the maximum limit on funds to be placed with a single organisation,
- the completion of adequate documentation to ensure the protection of the Council's interests,
- checks to ensure that the interest rates offered are comparable with the other available investments, and
- due regard has been paid to the fact that a comparatively high return will usually entail a higher level of risk.

With short term interest rates currently much lower than long-term rates, due consideration will also be given to using surplus funds to make early repayments of long term borrowing if appropriate.

Specified Investments: This is an investment which offers high security and high liquidity. It is a low risk investment where the possibility of loss of principal or investment income is negligible and satisfies the conditions below as defined by *WG Investment Guidance*:-

- denominated in sterling,
- contractually committed to be paid within 12 months of arrangement (364 days),
- not defined as capital expenditure by legislation, and
- invested with one of:
    - body or in an investment scheme of high credit quality (Council's definition detailed below),
    - the UK Government,
    - a UK local authority,
    - a UK parish or community council

The Council's definition of **"high credit quality"** is deemed to be counterparties 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. Overseas subsidiaries of foreign banking groups will normally be assessed according to the country of domicile of the parent organisation. However, Santander UK plc (a subsidiary of Spain's Banco Santander) and Clydesdale Bank plc (a subsidiary of National Australia Bank) will be classed as UK banks due to their substantial UK franchises and arms- length parent-subsidiary relationships.

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Non-specified Investments: Any investment that does not fall into the criteria detailed above under the Specified definition. The Council does not intend to make any investments denominated in foreign currencies. Non-specified investments will therefore be limited to:

- long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement,
- those that are defined as capital expenditure by legislation, such as shares in money market funds and other pooled fund, and
- investments with bodies and schemes not meeting the definition on high credit quality above.

All investments longer than 364 days will be made with a cautious approach to cash flow requirements and will only be entered into with prior advice from the Council's Treasury Management Advisers.

The WG Guidance requires the Council's Investment Strategy to set an overall limit for non-specified investments which is currently set at £25m. The table below shows the non-specifed categories and the relevant limits – the total of the individual limits exceed £25m, however at any one point in time a maximum of £**25m** of investments could be in one of the following non-specified categories with the following category limits:

Non-Specified Investment Limits	**Category Total Cash limit**
Total long-term investments	£15m
Total money market funds and other pooled funds	£ 8m
Total building societies not meeting the Council's high credit quality definition (but with assets greater than £250m)	£ 6m
Total investments (excluding building societies – separate limit above) not meeting the Council's high credit quality definition	£ 6m

The combined values of specified and non-specified investments with any one organisation are subject to the limits detailed above and the approved counterparties and limits shown in the table below. A group of banks under the same ownership will be treated as a single organisation for limit purposes.

The Council's investments have historically been placed in bank and building society deposits and local and central government, however, investments may be made with any public or private sector organisations that meet the above credit criteria. This reflects a lower likelihood that the UK and other governments will support failing banks as the bail-in provisions in the *Banking Reform Act 2014* and the EU *Bank Recovery and Resolution Directive* are implemented.

The Council's **approved counterparties** are shown in the table below:

Counterparty	Credit Rating (or equivalent)	Time Limit	Cash Limit
UK registered banks, building societies and other organisations and securities whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:	AAA AA+ AA AA-	6 years 5years 4years 3years	£8m each of which no more than £3m over 1 year
	A+ A A- BBB+	2 years 1 year 1 year 6 months 100 days	£6m of which no more than £3m over 1 year £5m £3m £5m (higher cash limit than 1 year due to shorter duration and less perceived risk) £2m
UK Central Government	n/a	10 years	Unlimited
UK Local Authorities** but excluding parish and community councils	n/a	10 years	£15m
The Council's current account bank if it fails to meet the above criteria*		next day	£3m
UK registered building societies whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:	BBB	100 days	£2m
UK registered building societies without credit ratings with assets greater than £250m		100 days	£1m
Banks owned and domiciled in foreign countries with a sovereign rating of AA+ or higher	A+	6 months	£3m
Money market funds** and other pooled funds*		n/a	£2m
Any other organisation and pooled fund subject to an external credit assessment and specific advice from the Council's treasury management advisers		1 year 6 months	£1m £2m

**following discussion and approval from Treasury management advisers*
*** as defined in the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003*
****as defined in the Local Government Act 2003, and similar authorities in Scotland*
N.B. Long-term credit ratings refers to those published from Fitch, Moody's and Standard and Poor

Some of the counterparties in the above table are explained in more detail below:

Current Account Bank: A competitive tender exercise was held in 2012 and the Council's current accounts are held with the Co-operative Bank which is currently rated below the minimum credit rating shown in the above counterparty table. The Council operates a pooling system on all accounts and the balance is kept as close to zero as possible and does not currently place any investments with them. However, should their credit rating improve the Council would consider reviewing this providing that investments can be withdrawn on the next working day, and that the bank maintains a credit rating no lower than BBB- (the lowest investment grade rating). A bank retendering exercise is expected to be undertaken in 2014 with a view to awarding a new banking contract in the latter part of 2014-15 as the Co-Operative Bank announced in November 2013 that it does not wish to support local government banking beyond 2015-16, although it will honour existing contracts.

Building Societies: are mutually owned financial institutions with a more cautious business model than shareholder owned banks. They are tightly regulated by the Prudential Regulation Authority, which detects problems at an early stage. The probability of a building society defaulting on its financial obligations is therefore low. The Council takes additional comfort from the building societies' regulatory framework and insolvency regime where, in the unlikely event of a building society liquidation, the Council's deposits would be paid out in preference to retail depositors. The Council would therefore consider investing with unrated building societies where independent credit analysis shows them to be suitably creditworthy. The Government has announced plans to amend the building society insolvency regime alongside its plans for wide ranging banking reform, and investments in lower rated and unrated building societies will therefore be kept under continuous review.

Money Market Funds: These funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. A credit rating is not shown in the counterparty table above as there are EU proposals to stop money market funds from having credit ratings. To date the Council has not used money market funds.

Other Pooled Funds: The Council may consider using pooled bond, equity and property funds that offer enhanced returns over the longer term, but are potentially more volatile in the shorter term. To date the Council has not used any pooled funds but if it did their performance and continued suitability in meeting the Council's investment objectives would be monitored regularly.

Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. They use long-term credit ratings from the three main rating agencies Fitch Ratings Ltd., Moody's Investors Service and Standard & Poor's Financial Services to assess the risk of investment default. The lowest available counterparty credit rating will be used to determine credit quality, unless an investment specific rating is available.

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

Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

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

Where a credit rating agency announces that a rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it 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 Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, 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 this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Investment Balances: The Council holds surplus funds representing income received in advance of expenditure plus balances and reserves held. Based on its cash flow forecasts, the Council anticipates its fund balances in 2014-15 to range from £5m to £40m. The actual balance varies because of the cash flow during the month and year as to when income is received (such as specific grant income, housing benefits subsidy and Revenue Support Grant) and payments are made (such as salaries and wages, major capital expenditure and loan repayments).

Appendix B

TREASURY MANAGEMENT STRATEGY 2015-16

Cyngor Bwrdeistref Sirol Pen-y-bont ar Ogwr

BRIDGEND County Borough Council

1.0 Introduction

The Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services*: *Code of Practice 2011 Edition* (the CIPFA Code) in February 2012 which requires the Council to approve a treasury management strategy before the start of each financial year. In addition to the Code of Practice, the Welsh Government (WG) issued revised *Guidance on Local Authority Investments* in April 2010 that requires the Council to approve an Investment Strategy before the start of each financial year.

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

The Council has an integrated Treasury Management Strategy where borrowing and investments are managed in accordance with best professional practice. The Council borrows money either to meet short term cash flow needs or to fund capital schemes approved within the capital programme. Therefore any actual loans taken are not associated with particular items of expenditure or assets. The Council is exposed to financial risks including the potential 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 Council's treasury management strategy.

The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Section 151 Officer, who will act in accordance with the organisation's strategy, Treasury Management Practices (TMP) and CIPFA's Standard of Professional Practice on Treasury Management. Council will receive reports on its treasury management activities, including as a minimum, an annual strategy in advance of the year, a mid-year review and an annual report after its financial year end. Quarterly reports will also be received by Cabinet.

The Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

The Co-Operative Bank announced in November 2013 that it did not wish to support local government banking beyond 2015-16 so a bank retendering exercise was undertaken in 2014 and a new banking contract has been awarded to Barclays Bank which commenced on 5 January 2015.

2.0 Economic Context and Forecasts for Interest Rates

Economic background: There is momentum in the UK economy, with a continued period of growth through domestically-driven activity and strong household consumption. There are signs that growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansion of Gross Domestic Product. However, inflationary pressure is benign and is likely to remain low in the short-term. There have been large falls in unemployment but levels of part-time working, self-employment and underemployment are significant and nominal earnings growth remains weak and below inflation.

The Bank of England's Monetary Policy Committee (MPC)'s focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the Committee. Despite two MPC members having voted for a 0.25% increase in rates at each of the meetings August 2014 onwards, some Committee members have become more concerned that the economic outlook is less optimistic than at the time of the August *Inflation Report*.

Credit outlook: The transposition of two European Union directives into UK legislation in the coming months will place the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors. The *Bank Recovery and Resolution Directive* promotes the interests of individuals and small businesses covered by the Financial Services Compensation Scheme and similar European schemes, while the recast *Deposit Guarantee Schemes Directive* includes large companies into these schemes. The combined effect of these two changes is to leave public authorities and financial organisations (including pension funds) as the only senior creditors likely to incur losses in a failing bank after July 2015.

The continued global economic recovery has led to a general improvement in credit conditions since last year. This is evidenced by a fall in the credit default swap spreads of banks and companies around the world. However, due to the above legislative changes, the credit risk associated with making unsecured bank deposits will increase relative to the risk of other investment options available to the Council. This has led to a requirement for the Council to adopt a new strategy for 2015-16 which is detailed in section 5 Investment Strategy.

Interest rate forecast: The Council's treasury management advisor Arlingclose forecasts the first rise in official interest rates in August 2015 and a gradual pace of increases thereafter, with the average for 2015-16 being around 0.75%. Arlingclose believes the normalised level of the Bank Rate post-crisis to range between 2.5% and 3.5%. The risk to the upside (i.e. interest rates being higher) is weighted more towards the end of the forecast horizon. On the downside, Eurozone weakness and the threat of deflation have increased the risks to the durability of UK growth. If the negative indicators from the Eurozone become more entrenched, the Bank of England will likely defer rate rises to later in the year. Arlingclose projects gilt yields on an upward path in the medium term, taking the forecast average 10 year PWLB loan rate for 2015-16 to 3.40%.

Arlingclose (Council's TM Advisers) central interest rate forecast – December 2014

	Bank Rate	3 Bank month LIBID	1 Year LIBID	5-year gilt yield	10 year gilt yield	20-year gilt yield*	50-year gilt yield*
Dec 2014	0.50	0.55	0.95	1.70	2.40	2.90	3.00
Mar 2015	0.50	0.60	1.00	1.75	2.45	2.95	3.05
June 2015	0.50	0.65	1.05	1.90	2.55	3.05	3.10
Sept 2015	0.75	0.85	1.20	2.00	2.60	3.10	3.15
Dec 2015	0.75	1.00	1.35	2.10	2.65	3.15	3.20
Mar 2016	1.00	1.15	1.50	2.20	2.70	3.20	3.25
June 2016	1.00	1.30	1.65	2.30	2.75	3.25	3.30
Sept 2016	1.25	1.45	1.80	2.40	2.80	3.30	3.35
Dec 2016	1.25	1.60	1.95	2.50	2.85	3.35	3.40
Mar 2017	1.50	1.75	2.10	2.60	2.90	3.40	3.45
Jun 2017	1.50	1.85	2.20	2.70	2.95	3.45	3.50
Dec 2017	1.75	2.05	2.40	2.90	3.05	3.50	3.55
Mar 2017	1.75	2.15	2.50	2.95	3.10	3.55	3.60

3.0 The Council's Current Treasury Management Position

The Council's debt and investment position as at 29 December 2014 is shown below:

Table 1

		Principal as at 29-12-14 £m	Average Rate %
Fixed rate long term funding	PWLB(i)	77.62	4.70
Variable rate long term funding	PWLB	-	-
	LOBO(ii)	19.25	4.65
Total Long Term External Borrowing(iii)		**96.87**	**4.69**
Other Long Term Liabilities(iii) (including PFI)		21.32	
TOTAL GROSS DEBT		**118.19**	
Fixed rate investments (iv)		21.00	0.52
Variable rate investments		5.40	0.46
TOTAL INVESTMENTS(v)		**26.40**	**0.51**
TOTAL NET DEBT		**91.79**	

(i) Public Works Loan Board (PWLB)
(ii) Lender's Option Borrower's Option (LOBO)

(iii) Long term borrowing/liabilities include all instruments with an initial term of 365 days or more.
(iv) Fixed rate in the above table includes instruments which are due to mature in the year
(v) The investment totals include instant access deposit accounts which are included as "Cash" in the Council's balance sheet in the Statement of Accounts and also investments shown as "Cash Equivalents" in the Council's balance sheet that mature in 1 month or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value

The £19.25m relates to Lender's Option Borrower's Option (LOBO) loans which have a maturity date of 2054, however these may be re-scheduled in advance of this maturity date. The LOBO rate and term may vary in the future depending upon the prevailing market rates, the lender exercising their option to increase rates at one of the bi-annual trigger points and therefore, the Council being given the option to accept the increase or to repay the loan without incurring a penalty. The next trigger point is 22 January 2015 and although the Council understands that the lender is unlikely to exercise this option in the current low interest rate environment, an element of refinancing risk remains and the Council would take the option to repay these loans at no cost if it has the opportunity to do so in the future.

Investments are anticipated to drop from £26.40m on 29 December 2014 to approximately £9m by the 31 March 2015. This is due partly to the reduction in income collected from Council Tax and National Non-Domestic Rates in February and March 2015 and expenditure expected for the capital programme.

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 Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Forecast changes in these sums are included in the Treasury Management and Prudential Indicators shown in **Schedule A** which shows that the Council expects to comply with this recommendation during 2015-16 and the following three years.

4.0 Borrowing Strategy

The major **objectives** to be followed in 2015-16 are:-

- to minimise the revenue costs of debt,
- to manage the Council's debt maturity profile i.e. to leave no one future year with a high level of repayments that could cause problems in re-borrowing ,
- to effect funding in any one year at the cheapest cost commensurate with future risk,
- to forecast average future interest rates and borrow accordingly,
- to monitor and review the level of variable interest rate loans in order to take greater advantage of interest rate movement,
- to reschedule debt if appropriate, in order to take advantage of potential savings as interest rates change, and
- to maximise the use of all capital resources including borrowing, both supported and unsupported, useable capital receipts and grants and contributions.

The Section 151 Officer will take the most appropriate form of borrowing depending on the prevailing interest rates at the time and the expected borrowing requirement for 2015-16 is £5m at an estimated rate of 4.00%.

Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. The uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its treasury strategy. 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 borrow short term loans or use internal resources. Short term and variable rate loans expose the Council to the risk of short term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates as shown in the treasury management indicators in **Schedule A.**

However, with long term rates forecast to rise in the coming years, any such short term savings will need to be balanced against the potential longer-term costs. The Council's Treasury Management advisers will assist the Council with this 'cost of carry' and breakeven analysis.

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

- Public Works Loan Board (PWLB)
- UK local authorities and Welsh Government (WG)
- any institution approved for investments (see Investment Strategy)
- any other bank or building society authorised by the Prudential Regulation Authority to operate in the UK
- UK public and private sector pension funds (except the Council's Pension Fund)
- capital market bond investors
- special purpose companies created to enable joint local authority bond issues.

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

Before any long term borrowing is undertaken an assessment of the Council's borrowing requirement must be made. This will include:

- a calculation of the funds needed to meet capital expenditure and revenue implications of repaying the loan,
- options appraisal to determine the funding decision, as required by the Prudential Code,
- ensuring that the level of long term borrowing is consistent with the Treasury Management Strategy and the Treasury Management and Prudential Indicators,
- assessment of the PWLB interest rates and current market rate to ascertain the cheapest source of finance, and
- the selection, dependent upon interest rate levels, of the most appropriate period for borrowing, bearing in mind the maturity profile of existing Council debt.

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. The Council may take advantage of this and replace some higher rate loans with new loans at lower interest rates, or repay loans without replacement, where this is expected to lead to an overall saving or reduction in risk.

5.0 Investment Strategy

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

Investment Balances: The Council holds surplus funds representing income received in advance of expenditure plus balances and reserves held. Based on its cash flow forecasts, the Council anticipates its fund balances in 2015-16 to range from £5m to £40m with an average investment rate of 0.45% (based on current rates and investment types) but this will be reviewed at half year and reported to Council. The actual balance varies because of the cash flow during the month and year as to when income is received (such as specific grant income, housing benefits subsidy and Revenue Support Grant) and payments are made (such as salaries and wages, major capital expenditure and loan repayments).

The major **objectives** to be followed in 2015-16 are:-

- To maintain capital **security**;
- To maintain **liquidity** so funds are available when expenditure is needed;
- To achieve the **yield** on investments commensurate with the proper levels of security and liquidity.

The Council's investments have historically been placed in short term bank and building society unsecured deposits and local and central government, however, investments may be made with any public or private sector organisations that meet the credit criteria detailed below. This change is included in the Strategy as there is increasing (relative) risk from short-term unsecured bank and building society investments therefore requiring the Council to diversify into more secure and/or higher yielding asset classes during 2015-16. This reflects a lower likelihood that the UK and other governments will support failing banks as the bail-in provisions in the *Banking Reform Act 2014* and the EU *Bank Recovery and Resolution Directive* are implemented. As this diversification will represent a substantial change in approach, appropriate training will be provided by the Council's treasury management advisers before investments are made in these alternative instruments. Any new instruments used will be in full consultation with these advisers.

Investments will be made after the following steps have been taken:

- assessment of the available funds and the suitability of the period over which the investment is to be made,

- reference to the list of approved counterparties and to the maximum limit on funds to be placed with a single organisation,
- the completion of adequate documentation to ensure the protection of the Council's interests,
- checks to ensure that the interest rates offered are comparable with the other available investments, and
- due regard has been paid to the fact that a comparatively high return will usually entail a higher level of risk.

With short term interest rates currently much lower than long-term rates, due consideration will also be given to using surplus funds to make early repayments of long term borrowing if appropriate.

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.

Approved Counterparties: The Council may invest with any of the counterparty types shown below in Table 2 below, subject to the cash limits (per counterparty) and the time limits shown. **These must be read in conjunction with the notes immediately below the table and the combined secured and unsecured investments in any one bank must not exceed the cash limit for secured investments**:

Table 2: Approved Counterparties

Credit Rating	Banks (including building societies) Unsecured	Banks (including building societies) Secured	Government	Corporates	Registered Providers
UK Central Government	N/A	N/A	£ Unlimited 50 Years	N/A	N/A
UK Local Authorities *	N/A	N/A	£15,000,000 10 Years	N/A	N/A
AAA	£3,000,000 5 Years	£4,000,000 20 Years	£4,000,000 50 Years	£2,000,000 20 Years	£2,000,000 20 Years
AA+	£3,000,000 5 Years	£4,000,000 10 Years	£4,000,000 25 Years	£2,000,000 10 Years	£2,000,000 10 Years
AA	£3,000,000 4 Years	£4,000,000 5 Years	£4,000,000 15 Years	£2,000,000 5 Years	£2,000,000 10 Years
AA-	£3,000,000 3 Years	£4,000,000 4 Years	£4,000,000 10 Years	£2,000,000 4 Years	£2,000,000 10 Years
A+	£3,000,000 2 Years	£4,000,000 3 Years	£2,000,000 5 Years	£2,000,000 3 Years	£2,000,000 5 Years
A	£3,000,000 13 Months	£4,000,000 2 Years	£2,000,000 5 Years	£2,000,000 2 Years	£2,000,000 5 Years
A-	£3,000,000 6 Months	£4,000,000 13 Months	£2,000,000 5 Years	£2,000,000 13 Months	£2,000,000 5 Years
BBB+	£1,000,000 100 Days	£2,000,000 6 Months	£1,000,000 2 Years	£1,000,000 6 Months	£1,000,000 2 Years
BBB or BBB-	£1,000,000 Next day only	£2,000,000 100 Days	N/A	N/A	N/A
None	£1,000,000 6 Months	N/A	£2,000,000 25 Years	N/A	£2,000,000 5 Years
Pooled Funds	£4,000,000 Per Fund				

** excluding parish and community councils*

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 or BBB- are restricted to overnight deposits at the Council'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 highest 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.

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.

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 Welsh Government and, as providers of public services, they retain a high likelihood of receiving government support if needed.

Money Market Funds (type of pooled fund): These funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. Money Market Funds that offer same-day liquidity and aim for a constant net asset value may be used as an alternative to instant access bank accounts. To date the Council has not used money market funds.

Other Pooled Funds: The Council may consider using pooled bond, equity and property funds whose value changes with market prices and/or have a notice period will be used for longer investment periods as they offer enhanced returns over the longer term, and are potentially more volatile in the shorter term. To date the Council has not used any pooled funds but if it did their performance and continued suitability in meeting the Council's investment objectives would be monitored regularly.

Credit Rating Criteria and their Use: Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes as they occur.

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

Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

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

Where a credit rating agency announces that a rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it 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 Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, 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 this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office 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: This is an investment which offers high security and high liquidity. It is a low risk investment where the possibility of loss of principal or investment income is negligible and satisfies the conditions below as defined by *WG Investment Guidance*:-

- denominated in pound sterling,
- contractually committed to be paid within 12 months of arrangement (364 days),
- not defined as capital expenditure by legislation, and
- invested with one of:

- the UK Government,
- a UK local authority,
- a UK parish or community council or
- body or investment scheme of "high credit quality"

The Council's 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. Overseas subsidiaries of foreign banking groups will normally be assessed according to the country of domicile of the parent organisation.

Non-specified Investments: Any investment that does not fall into the criteria detailed above under the Specified definition. The Council does not intend to make any investments denominated in foreign currencies. Non-specified investments will therefore be limited to:

- long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement,
- those that are defined as capital expenditure by legislation, such as shares in money market funds and other pooled fund, and
- investments with bodies and schemes not meeting the definition on high credit quality .

All investments longer than 364 days will be made with a cautious approach to cash flow requirements and will only be entered into with prior advice from the Council's Treasury Management Advisers.

The WG Guidance requires the Council's Investment Strategy to set an overall limit for non-specified investments which is currently set at £25m. Table 3 below shows the non-specified categories and the relevant limits – the total of the individual limits exceed £25m, however at any one point in time a maximum of £**25m** of investments could be in one of the following non-specified categories with the following category limits:

Table 3: Non-Specified Investment Limits

	Category Total Cash limit
Total long-term investments	£15m
Total Money Market Funds and other pooled funds	£10m
Total investments without credit ratings or rated below A-	£ 6m
Total investments with institutions domiciled in foreign countries rated below AA+	£ 3m

Investment Limits:
The combined values of specified and non-specified investments with any one organisation are subject to the investment limits detailed below in Table 4, the approved counterparties and limits shown in Table 2 above and also the non-specified limits in Table 3 above. A group of banks under the same ownership will be treated as a single organisation for limit purposes.

Table 4: Investments Limits

	Cash limit
Any single organisation, except the UK Central and Local Government	£4m
UK Central Government	unlimited
UK Local Authorities	£15m
Any group of organisations under the same ownership	£4m per group
Any group of pooled funds under the same management	£4m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£4m per country
Registered Providers	£5m in total
Unsecured investments with Building Societies	£5m in total

6.0 Treasury Management and Prudential Indicators

The 2011 Treasury Management Code and Prudential Code require the Council to set and report on a number of Treasury Management and Prudential Indicators. **Schedule A** revises some of the indicators for 2014-15, 2015-16, 2016-17, 2017-18 and introduces new indicators for 2018-19 to be consistent with the principles contained in the Medium Term Financial Strategy. The indicators either summarise the expected activity or introduce limits upon the activity, and reflect the underlying capital programme.

7.0 Annual Minimum Revenue Provision Statement 2015-16

Where a Council finances capital expenditure by debt, it must put aside revenue resources to repay that debt in later years. This amount charged to revenue is called the Minimum Revenue Provision (MRP). Under the Local Authority (Capital Finance and Accounting) (Amendment) (Wales) Regulations 2008, an Annual Minimum Revenue Provision (MRP) Statement needs to be produced that details the methodology for the MRP charge. There is not a statutory minimum for the amount set aside. It needs to be considered a prudent provision to ensure that the debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits or in the case of borrowing supported by Welsh Government's Revenue Support Grant reasonably commensurate with the period implicit in the determination of that grant. This is detailed in **Schedule B.**

8.0 Performance Indicators

The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators as opposed to the treasury management and prudential indicators which are predominantly forward looking. One debt performance indicator is where the average portfolio rate of interest is compared to an appropriate average available such as the average PWLB Debt for Welsh and UK Local Authorities. The rate of return on investments can be monitored against the benchmark of the average 7 day London Inter - Bank rate (LIBID rate) and will also be benchmarked against the average Bank Rate.

9.0 Other Items

The Council is required by CIPFA or WG to include the following additional items:

Policy on Use of Financial Derivatives: The Localism Act 2011 includes a general power competence that removes the uncertain legal position over English local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). These instruments are used by organisations to manage exposure to interest rate or exchange rate fluctuations. Although this change does not apply to Wales, the latest CIPFA Code requires authorities to clearly state their policy on the use of derivatives in the annual strategy. In the absence of any legislative power, the Council's policy is not to enter into standalone financial derivatives transactions such as swaps, forwards, futures and options. Embedded derivatives within loans and investments including pooled funds may be used and the risks they present will be managed in line with the overall treasury risk management strategy.

Investment Advisers: The Council has appointed Arlingclose Limited as treasury management advisers to provide advice and information relating to its borrowing and investment activities. The quality of this service is controlled by having regular meetings with the advisers and regularly reviewing the service provided.

Investment of Money Borrowed in Advance of Need: The Welsh Government maintains that the borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity. This Council's borrowing is not linked to the financing of specific items of expenditure. The Council's Capital Financing Requirement (CFR) as at 1 January 2015, was in excess of the actual debt of the Council. This indicates that there was no borrowing in advance of need.

Investment Training: The Treasury Management Team receives training from the Council's Treasury Management advisers. The Council also supports personal development so individuals enhance their own knowledge through reading CIPFA guidance, publications and research on the internet.

Schedule A

TREASURY MANAGEMENT INDICATORS

The following indicators (which are forward looking parameters) form part of the CIPFA Code of Practice on Treasury Management. They enable the Council to measure and manage its exposure to Treasury Management risks using the following indicators.

The Council needs to set the upper limits to its **Interest Rate Exposure** for the effects of changes in interest rates. There are two treasury management indicators that relate to both fixed interest rates and variable interest rates. These limits have been calculated with reference to the net outstanding principal sums and are set to control the Council's exposure to interest rate risk.

No.	Interest Rate Exposure	2014-15 Proj £m	2015-16 Est. £m	2016-17 Est. £m	2017-18 Est. £m	2017-18 Est. £m
	Total Projected Principal Outstanding on Borrowing 31 March	**96.87**	101.87	106.87	111.87	116.87
	Total Projected Principal Outstanding on Investments 31 March	9.00	8.00	7.00	6.00	5.00
	Net Principal Outstanding	**87.87**	**93.87**	**99.87**	**105.87**	**111.87**
1.	**Upper Limit on fixed interest rates (net principal) exposure**	130.00	140.00	145.00	150.00	155.00
2.	**Upper Limit on variable interest rates (net principal) exposure**	50.00	50.00	50.00	50.00	50.00

The Section 151 Officer will manage interest rate exposures between these limits.

A further indicator for Treasury Management measures the **Maturity Structure of Borrowing** and is the amount of projected borrowing that is fixed rate, maturing in each period as a percentage of total projected fixed rate borrowing. This indicator is set to control the Council's exposure to refinancing risk and has been set to allow for the possible restructuring of long term debt where this is expected to lead to an overall saving or reduction in risk.

No	Maturity structure of fixed rate borrowing during 2015-16	Upper limit	lower limit
3.	Under 12 months	50%	0%
	12 months and within 24 months	25%	0%
	24 months and within 5 years	50%	0%
	5 years and within 10 years	60%	0%
	10 years and above	100%	40%

The Upper Limit for **Total Principal Sums Invested over 364 days** indicator controls the amount of longer term investments which mature beyond the period end. This is set to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments.

No.		2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m
4.	**Upper Limit - Total Principal Sum Invested more than 364 day days**	15	10	8	6

2.0 PRUDENTIAL INDICATORS

The Prudential Indicators are required to be set and approved by Council in accordance with CIPFA's *Prudential Code for Capital Finance in Local Authorities.*

Council is required to formally adopt CIPFA's Treasury Management Code and the revised version of the 2011 code was adopted by Council on 22 February 2012.

Prudential Indicators for Prudence

The following Prudential Indicators are based on the Council's capital programme which is subject to change.

The Council's capital expenditure plans are summarised below and this forms the first prudential indicator for Prudence. The total capital expenditure is funded from capital grants and contributions, capital receipts and revenue with the remainder being the **Net Financing Need for the Financial Year** to be met from borrowing.

No.	Prudential indicators For Prudence	2014-15 £'000 Proj.	2015-16 £'000 Est.	2016-17 £'000 Est.	2017-18 £'000 Est.	2018-19 £'000 Est.
1	**Estimates of Capital Expenditure**					
	Non – HRA	31,350	34,983	23,509	12,315	6,575
	Total Capital Expenditure	**31,350**	**34,983**	**23,509**	**12,315**	**6,575**
	Financed by :-					
	Capital Grants and Contributions	10,153	14,715	14,538	5,104	2,414
	Capital Receipts	10,322	9,159	3,949	3,302	252
	Revenue	419	0	0	0	0
	Net Financing Need for Year	**10,456**	**11,109**	**5,022**	**3,909**	**3,909**

The second Prudential Indicator is the **Capital Financing Requirement (CFR)** for the Council. This shows the total outstanding capital expenditure that has not been funded from either revenue or other capital resources. It is derived from the actual Balance Sheet of the Council. It is essentially a measure of the underlying need to finance capital expenditure and forms the basis of the charge to the General Fund under the Prudential Code system.

The process for charging the financing of capital expenditure to revenue is a statutory requirement and is called the Minimum Revenue Provision (MRP).The actual MRP charge needs to be prudent – as detailed in the Council's MRP policy in **Schedule B.**

No.	Prudential indicators For Prudence	2014-15 £'000 Proj.	2015-16 £'000 Est.	2016-17 £'000 Est.	2017-18 £'000 Est.	2018-19 £'000 Est.
2	**Capital Financing Requirement (CFR)**					
	Opening CFR (1 April) excluding PFI	155,429	159,092	163,460	161,935	159,118
	Opening PFI CFR	19,776	19,300	18,787	18,235	17,640
	Opening Finance Lease CFR	41	0	0	0	0
	Opening Innovation Centre	816	769	719	663	603
	Opening HALO	971	1,150	1,033	917	800
	Total Opening CFR	**177,033**	**180,311**	**183,999**	**181,750**	**178,161**
	Movement in CFR excluding PFI & other liab	3,662	4,368	(1,525)	(2,817)	(2,751)
	Movement in PFI CFR	(476)	(512)	(552)	(595)	(640)
	Movement in Finance Lease CFR	(41)	0	0	0	0
	Movement in Innovation Centre CFR	(47)	(51)	(55)	(60)	(65)
	Movement in HALO CFR	180	(117)	(117)	(117)	(117)
	Total Movement in CFR	**3,278**	**3,688**	**(2,249)**	**(3,589)**	**(3,573)**
	Closing CFR (31 March)	**180,311**	**183,999**	**181,750**	**178,161**	**174,588**
	Movement in CFR represented by :-					
	Net Financing Need for Year (above)	10,456	11,109	5,022	3,909	3,909
	Adjustment for Halo	296	0	0	0	0
	Minimum and Voluntary Revenue Provisions*	(7,474)	(7,421)	(7,271)	(7,498)	(7,483)
	Total Movement	**3,278**	**3,688**	**(2,249)**	**(3,589)**	**(3,574)**

*Minimum Revenue Provision (MRP) and Voluntary Revenue Provision (VRP) represent the revenue charge for the repayment of debt and includes MRP for the Public Finance Initiative (PFI), Finance Leases, Innovation Centre and HALO

Limits to Borrowing Activity

The Council's long term borrowing at the 29 December 2014 was £96.87m as detailed in section 3 of the Strategy. External Borrowing can arise as a result of both capital and revenue expenditure and timing of cash flows. Because the Council has an integrated Treasury Management Strategy there is no association between individual loans and particular types of expenditure. Therefore, the Capital Financing Requirement and actual external borrowing can be very different.

The **Gross Debt** position (Borrowing and Long Term Liabilities) is shown below:

No.	Prudential indicators For Prudence Gross Debt 31 March	2014-15 £'000 Proj.	2015-16 £'000 Est.	2016-17 £'000 Est.	2017-18 £'000 Est.	2018-19 £'000 Est.
3	External Borrowing	96,867	101,867	106,867	111,867	116,867
	Long Term Liabilities (including PFI)	21,219	20,539	19,815	19,043	18,220
	Total Gross Debt	**118,086**	**122,406**	**126,682**	**130,910**	**135,087**

Within the Prudential Indicators, there are a number of key indicators to ensure the Council operates its activities within well-defined limits. One key control is to ensure that over the medium term, debt will only be for a capital purpose. The Council needs to ensure that external debt does not, except in the short term, exceed the Capital Financing Requirement for 2014-15 (i.e. the preceding year) plus the estimates of any additional capital financing requirement for the current and next three financial years, however 2018-19 has also been included to be consistent with the Medium Term Financial Strategy.

No.	Prudential indicators For Prudence	2014-15 £'000 Proj.	2015-16 £'000 Est.	2016-17 £'000 Est.	2017-18 £'000 Est.	2018-19 £'000 Est.
4	**Gross Debt & the CFR**					
	Total Gross Debt	118,086	122,406	126,682	130,910	135,087
	Closing CFR (31 March)	**180,311**	**183,999**	**181,750**	**178,161**	**174,588**

As can be seen from the above table, the Council does not have any difficulty meeting this requirement in 2014-15 and does not envisage any difficulties in the current and future years. This view takes into account current commitments, existing plans and the proposals for next year's budget.

A further two Prudential Indicators control the Council's overall level of debt to support Capital Expenditure. These are detailed below:-

- The **Authorised Limit** for External Debt – this represents the limit beyond which borrowing is prohibited. It reflects a level of borrowing that could not be sustained even though it would be affordable in the short term. It needs to be set and approved by Members.

- The **Operational Boundary** for External Debt – this is not an actual limit and actual borrowing could vary around this boundary during the year. It is based on the probable external debt during the course of the year.

No.	Prudential indicators For Prudence	2014-15 £m	2015-16 Est. £m	2016-17 Est. £m	2017-18 Est. £m	2018-19 Est. £m
5	**Authorised limit for external debt**					
	Borrowing	140	140	140	140	140
	Other long term liabilities	30	30	30	30	30
	Total	**170**	**170**	**170**	**170**	**170**
6	**Operational Boundary**					
	Borrowing	115	105	110	115	120
	Other long term liabilities	25	25	25	25	25
	Total	**140**	**130**	**135**	**140**	**145**

Prudential Indicators for Affordability

The Prudential Code Indicators Numbered 1 to 6 above cover the overall controls on borrowing and financing of capital expenditure within the Council. The second suite of indicators detailed below assesses the affordability of capital investment plans and the impact of capital decisions on the Council's overall finances.

The indicator the **Ratio of Financing Costs to Net Revenue Stream** demonstrates the trend in the cost of capital against the Total Revenue amount to be met from local taxpayers and the amount provided by the Assembly in the form of Revenue Support Grant. The estimates of capital financing costs include interest payable and receivable on Treasury Management activities and the Minimum Revenue Provision charged to the Comprehensive Income and Expenditure Statement. The revenue stream is the amount to be met from government grants and local taxpayers.

No.	Prudential Indicators for Affordability	2014-15 Proj.	2015-16 Est.	2016-17 Est.	2017-18 Est.	2018-19 Est.
7.	Estimate - Ratio of Financing Costs to Net Revenue Stream					
	Ratio	5.00%	5.05%	5.15%	5.45%	5.60%

The indicator of the **Incremental Impact of Capital Investment Decisions on Council Tax** identifies the estimate of the incremental impact to the Council Tax from the capital expenditure proposals, particularly changes in borrowing requirements that have occurred since the Capital Programme was approved for the year. This is a purely notional calculation designed to show the effect of changes in capital investment decisions

No.	Incremental Impact of Capital Investment Decisions on Council Tax	2014-15	2015-16 Est.	2016-17 Est.	2017-18 Est.	2018-19 Est.
8.	Estimate - Increase in Band D Council Tax as per Capital Programme	£ 2.96	£ 3.85	£ 3.85	£ 3.85	£ 3.85

ANNUAL MINIMUM REVENUE PROVISION STATEMENT 2015-16

The Annual Minimum Revenue Provision Statement needs to be approved by Council before the start of each financial year. The MRP charges for 2015-16 will be on the following bases:-

i. Capital expenditure incurred before 1 April 2008 and any capital expenditure after 1 April 2008 that is government supported expenditure and does not result in a significant asset will be based on the Capital Financing Requirement after accounting adjustments at 4% of the opening balance. This charge was supplemented by voluntary MRP (based on the useful asset life) in respect of those assets which were financed by unsupported borrowing before 1 April 2008.
ii. all unsupported capital expenditure, exercised under the Prudential Code, and supported capital expenditure that results in a significant asset (based on an internal assessment) incurred on or after 1 April 2008, the MRP charge will be based on the Asset Life Method. The minimum revenue provision will be at equal annual instalments over life of asset. The first charge can be delayed until the year after the asset is operational but this will be at the discretion of the Section 151 Officer;
iii. for assets reclassified as finance leases under International Financial Reporting Standards (IFRS) or resulting from a Private Finance Initiative, the MRP charge will be regarded as met by a charge equal to the element of the rent/charge that goes to write down the balance sheet liability for the year;
iv. Where loans are made to other bodies for their capital expenditure with an obligation for the bodies to repay, no MRP will be charged. The capital receipts generated by the annual repayments on those loans will be put aside to repay debt instead.

The MRP Charge 2015-16 based on the estimated capital financing requirement is detailed below:-

	Options	Estimated Capital Financing Requirement 01-04-15 £'000	2015-16 Estimated MRP £'000
Capital expenditure before 01-04-2008 and any after 01-04-2008 that does not result in a significant asset	(i)		
(Supported)		125,390	4,855
Capital Expenditure before 01-04-2008 (Unsupported)		1,631	271
Unsupported capital expenditure, exercised under the Prudential Code, and supported capital expenditure that results in a significant asset, incurred on or after 1 April 2008	(ii)		
(Supported)		3,932	131
(Unsupported)		28,139	1,484
PFI, Finance Leases and other arrangements	(iii)		
PFI School		19,300	512
Innovation Centre		769	51
Halo Leisure		1,150	117
TOTAL		180,311	7,421

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE

15 JANUARY 2015

REPORT OF THE CORPORATE DIRECTOR - RESOURCES

THE CORPORATE RISK ASSESSMENT 2015 - 16

1. Purpose of Report.

1.1 The purpose of the report is to explain the outcome of the annual risk assessment and inform the Committee of the proposed risk management timeline contained in Appendix 2 of the Risk Management Policy.

2. Connection to Corporate Improvement Objectives/Other Corporate Priorities.

2.1 Effective risk management is an essential part of the framework for ensuring good corporate governance and supports delivery of the Council's improvement objectives.

3. Background.

3.1 Good governance requires the Council to develop effective risk management processes, including an assessment of corporate risks.

3.2 The Audit Committee's Terms of Reference requires the Committee to review, scrutinise and issue reports and recommendations on the appropriateness of the Authority's risk management, internal control and corporate governance arrangements.

3.3 The Corporate Risk Assessment is considered and reviewed by Corporate Management Board, Cabinet and Audit Committee. It is used to inform the budget setting process and contributes to the Council's quarterly Corporate Performance Assessment framework.

3.4 The 2015-16 Corporate Risk Assessment is fully aligned with the Council's Medium Term Financial Strategy and Corporate Plan.

3.5 The Council has always recognised the importance of risk management. A formal policy, outlining the risk assessment process was adopted in 1998 and this was revised in 2004, 2006 and again in 2012 and 2013.

4. Current situation / proposal.

4.1 The risk assessment has been reviewed in consultation with Corporate Directors, Business Managers and Heads of Service and was considered by Corporate Management Board on 22 December 2014. It is attached as **Appendix 1**. It identifies the main risks facing the Council, the likely impact of these on Council services and the wider County Borough, what is being done to manage the risks and allocates responsibility for the Council's response.

4.2 A scoring matrix is used which takes into account both the likelihood of the risk taking place and the impact if it did. The inherent risk is measured and then the residual risk; after the risk mitigation measures are applied. The scoring matrix is within the Risk Management Policy. For information, **Appendix 2** contains a summary of how the residual risk scores have changed over the last three years.

4.3 The risk assessment will be subject to review on a quarterly basis by Corporate Management Board, as part of the Corporate Performance Assessment and twice yearly by Audit Committee.

4.4 During 2015-16 the Risk Management Policy (**Appendix 3**) will be subject to a fuller review in conjunction with Corporate Management Board and consideration will be given to how it can better capture risks as they change throughout the year.

5. Effect upon Policy Framework & Procedure Rules.

5.1 None.

6. Equality Impact Assessment.

6.1 Equality issues permeate many of the risks identified and where appropriate equality impact assessments are undertaken within the process of approving the mitigating actions.

7. Financial Implications.

7.1 There are no financial implications directly associated with the risk assessment. Actions planned to mitigate each risk are required to be progressed within approved budgets.

8. Recommendation.

8.1 It is recommended that Members consider the annual risk assessment and updated risk management timeline contained within Appendix 2 of the Risk Management Policy.

Ness Young
Corporate Director - Resources
6 January 2014

Contact Officer: Roger Martin
Risk Management & Insurance Officer

Telephone: (01656) 643318

E-mail: roger.martin@bridgend.gov.uk

Postal Address Raven’s Court, Brewery Lane, Bridgend CF31 4AP

Background documents

None

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Appendix 1 - December 2014 Risk Assessment

Key Outcome	Corporate Improvement Priority	Risk Description	Potential Impact	Inherent Risk Score	Risk Reduction Measures	Risk Owner	Residual Risk Score
Links to all key outcomes	Links to all Corporate Improvement Priorities	**Welfare reform:** The UK Government is introducing a number of significant welfare reforms over the next four years. There is still great uncertainty about the implications of the changes on citizens and staff as well as concern that the changes will put extra demands on council services and budgets that support vulnerable people.	Changes being made by the UK Government to benefit entitlements mean that demands on some services are likely to increase at the same time as the council's resource base reduces. Since 15 July 2013 there has been a limit on the total benefit a working age person can receive. BCBC will impose the cap through Housing Benefit deductions as and when notified by the Department for Works and Pensions (DWP). This currently affects around 83 households in Bridgend. From April 2013, maximum rent has been reduced in the social sector depending on the number of bedrooms required. About 1,250 households are affected. The Council will need to manage the Council Tax Reduction (CTR) scheme within its budget. Welsh Government (WG) has renewed the Regulations and the scheme will be based on 100% liability. Provision has been made in the Council's annual revenue budget 2015-16 to fund the projected additional budget requirement of £1m. Universal Credit (UC) commenced in October 2013 with full implementation now expected to be in 2019. The benefit will be primarily administered by DWP although the Council may have a role in face to face support for claimants. UC is to be rolled out nationally for single job seekers from February 2015 to March 2016.	Likelihood - 6 Impact - 4 Total - 24	The Welfare Reform Task and Finish Group have developed an issues log with mitigating actions to minimise the impact of the reforms. This will be updated as new risks are identified. The Local Service Board (LSB) has developed a proposal to deal with Welfare Reform as a partnership arrangement. The Skills and Economy Programme Board reporting to the Communities Board is leading on the Co-ordination of activities. A key stakeholder steering group has been established and has: • Arranged a series of awareness raising workshops aimed at frontline staff and volunteers • Developed an on-line resource (the moodle) which provides links to a wide range of support, including job search sessions, financial inclusion advice, credit unions, fuel poverty advice, foodbanks and DWP information sheets. • Secured funding to provide support in libraries and community venues with digital applications, eg Universal Jobmatch and Universal Credit (when introduced) • Developed a draft directory of training, employment and other support The Council will monitor the impact of welfare reforms on citizens in terms of their needs across the range of council services including housing and will develop proposals for dealing with changes in demand. The Benefits Service will continue to work closely with families who are hardest hit to ensure they are adequately equipped to deal with the reduction in their income. Officers will be fully apprised of UK Government and WG plans to ensure that the council understands and can deal with the staff implications of moving from Housing Benefit (etc) to Universal Credit. As part of the Medium Term Financial Strategy (MTFS), the Council has an earmarked reserve specifically for welfare reform. The Council's Housing Section has agreed a protocol with registered social landlords for dealing with existing tenants who fall in arrears specifically due to the application of the bedroom cap.	Corporate Director Resources	Likelihood - 6 Impact - 4 Total – 24

Key Outcome	Corporate Improvement Priority	Risk Description	Potential Impact	Inherent Risk Score	Risk Reduction Measures	Risk Owner	Residual Risk Score
					Bridgend Housing Partnership meets quarterly and discusses the impact as an Agenda Item.		
Links to all key outcomes	Working together to make the best use of resources	**Using resource effectively:** In the final Local Government Settlement 2014-15, local government funding declined with a further likely decrease on an all-Wales average of -1.57% forecasted for 2015-16. The MTFS approved by Council in February 2014 was however based on an assumption of a -3% reduction as the figures were still indicative. No indicative figures were provided for 2016-17 or 2017-18. In July 2014 WG indicated that authorities should plan for a cut in funding of -4.5% for each of the years 2015-16 to 2018-19. This equates to a savings target of £50m over the 4 year period. The Provisional Local Government Settlement was announced on 8 October, and the proposed funding for Bridgend was a reduction of -3.4%. However, this did not recognise the transfer in of funding for social care, which was previously funded through grant, giving a	The Council has to consider its resources very carefully and make difficult spending decisions. This will carry on over the next few years as the public finance outlook continues to be bleak. If there is a shortfall in savings the Council might fail to achieve its MTFS. This could necessitate the unplanned use of reserves to bridge the funding gap or unplanned cuts to services which would put vulnerable people at risk. In addition other specific revenue grants are likely to be reduced, but these have not yet all been quantified. In the draft WG budget there is also an indication that the Supporting People grant will reduce by 7.5% and education grants will reduce overall. Further town centre regeneration, office accommodation rationalisation projects and the schools modernisation programme are at risk if there is any reduction in the capital programme. WG has indicated that the capital allocation to local authorities is likely to reduce slightly in 2015-16 but no indications have been received beyond that. Savings proposals will have implications for the workforce given that 68% of the net revenue budget is staff costs. Failure to meet the savings plans would also damage the reputation of the Council with citizens, particularly if the level or quality of services was affected as a result.	Likelihood - 6 Impact - 4 Total - 24	The Council reviews its Corporate Plan each year to ensure that it continues to reflect its priorities and key risks. The links between the Corporate Plan and the MTFS have been strengthened so that the relationship between resources and service priorities are more clearly understood. To achieve this, an integrated business and budget planning process has been introduced. The MTFS for the period 2015-16 to 2018-19 has been developed and target savings of £48.8m have been set. The MTFS takes into account projected future demand for services in areas such as Looked After Children, Special Education Needs and Adult Social Care. Cabinet and CMB have agreed that for 2015-16 Directorates must meet savings proposals of about 8% of their 2014-15 controllable budgets. The Council has established a Strategic Change Management Programme, known as the Bridgend Change Programme, supported by strong political leadership, which will be incorporated into the Corporate Performance Assessment and Overview and Scrutiny processes. The Council's pump priming budget of £200,000 has been used to establish the core staff capability to deliver the programme. In addition an earmarked reserve of £1.5m will be maintained over the life of the MTFS to support its delivery. Potential areas for savings have been identified and include: • Maximising the use of space and technology • Improving procurement and commissioning • Streamlining systems processes • Modernising the school estate • Integrating health and social care • Integrating council transport services • Further collaboration in education • Maximising partnership working and reviewing funding models and delivery of services with the Third Sector. The Council has a capital funding strategy in which prudential borrowing will only be used where it is affordable. Also decisions on the treatment of surplus assets will be based on an assessment of their	Corporate Director Resources	Likelihood - 6 Impact - 4 Total - 24

Key Outcome	Corporate Improvement Priority	Risk Description	Potential Impact	Inherent Risk Score	Risk Reduction Measures	Risk Owner	Residual Risk Score
		real reduction of -3.6%. Again, no indicative figures were provided for 2016-17 to 2018-19. The revised savings targets are: 2015-16: £11.225m 2016-17: £13.566m 2017-18: £12.263m 2018-19: £11.763m Not all the planned savings for 2014-15 will be achieved and this has increased the savings requirement for future years. The final Local Government Settlement for 2015-16 may impact on the level of savings required in future years. Directorates are currently developing alterative achievable savings proposals based on a number of scenarios for 2016-17 onwards.			potential contribution. Reductions in staff will be managed where possible by using different employment models, and the application of voluntary early retirement. Some compulsory redundancies might be necessary.		
Links to all key outcomes	Links to all Corporate Improvement Priorities	**Local Government Reorganisation:** Geographically Bridgend straddles both East and West Wales. The Williams Commission recommended a merger with NPT and perhaps Swansea, but because of economic and other benefits BCBC has made an expression of interest	Delivering the transformative change required to make MTFS savings, at a time when demand for some services is up, is already challenging. Without specific funding Local Government Reorganisation will add to these cost pressures and mean that larger savings will be required to balance the budget. This will make it harder to provide good quality public services. A proposed voluntary merger with	Likelihood - 6 Impact - 4 Total - 24	Whilst WG endorsed the Williams Commission, it has also stated that it wishes to develop an approach that allows for negotiation and joint development between WG and councils who are willing to engage on shaping future arrangements. BCBC believes that the most advantageous merger for the population of Bridgend County Borough is with VoG. Consequently, it is seeking to implement this option rather than passively awaiting a merger with NPT and perhaps Swansea. The principal anticipated benefit is that being part of the Cardiff City Region will be positive for the economy and consequently for the citizens of the County Borough. In addition BCBC and VoG have similar schools systems at tertiary Level	Chief Executive	Likelihood - 6 Impact - 4 Total - 24

Key Outcome	Corporate Improvement Priority	Risk Description	Potential Impact	Inherent Risk Score	Risk Reduction Measures	Risk Owner	Residual Risk Score
		for a merger with Vale of Glamorgan (VoG). The costs of Local Government Reorganisation are unknown, but will be high. These costs have not been factored into the 2015-16 to 2018-19 MTFS which already requires savings of £48.8m. The MTFS is also at risk because greater demands will be placed on senior management as they plan for Local Government Reorganisation, whilst bringing about the transformative change required to deliver services within reduced budgets. In the longer term there are also other risks as two workforces and sets of financial arrangements are brought together necessitating harmonisation of pay and conditions and council tax.	VoG will take place before the expiry of the MTFS and consequently there is uncertainty about the MTFS savings for 2018-19. Whilst the council has made an expression of interest for merger with VoG there remains uncertainty about the eventual outcome. If senior management are focussed on reorganisation whether it is to the west or east they may fail to deliver the required services to the public in conjunction with the savings needed for the MTFS. There is also a danger of inertia as managers feel unable to make decisions required now because of a merger that is due to take place in the future. The precise mechanism for harmonisation of council tax and pay and conditions between authorities is unknown. However, this may increase costs which would make it harder to realise benefits from reorganisation.		and are both part of the Central South Consortium. Having similar education systems is a powerful argument to merge with VoG because education is the council's single biggest spend. Merger with VoG would mean that the new Authority would straddle two Health Boards. Also the impact on European funding in the longer term is unknown. A business case outlining the opportunities and costs of a merger with VoG is being prepared; The merger would only proceed if this showed clear advantages of financial viability and enhanced services.		
People in Bridgend County Borough are healthier. People and their families are empowered and informed to live healthy and independent	Working together to help vulnerable people stay independent.	**Supporting vulnerable people:** If the Council in partnership with the NHS, Western Bay and other partners do not change how services are delivered, they will not be able to meet the challenges brought	The number of people over the age of 75 will have grown 13% by 2015 and by 77% in 2030 when compared to 2010. At the same time there are more young people with complex health needs living into adulthood. Whilst this is good, it means that more citizens are living with long term health problems that lead to an increasing need for support.	Likelihood - 6 Impact - 4 Total - 24	Demographic and financial pressures require alternative models of service delivery. Modernisation is being driven forward as the Council works with a range of partners to deliver a broad range of support and services, across adult social care. There is a continued effort to change the emphasis from a model of "caring" to a more preventative approach of working with partners such as the NHS and third sector organisations to assist and support adults as they live independently in their	Corporate Director Wellbeing	Likelihood - 5 Impact - 4 Total - 20

Key Outcome	Corporate Improvement Priority	Risk Description	Potential Impact	Inherent Risk Score	Risk Reduction Measures	Risk Owner	Residual Risk Score
lives and our communities are stronger, cohesive and sustainable, with appropriate access to services for all.		about by high public expectations, a significantly worsening budget and a population that is both older and has more complex health needs. Demand for services is increasing at the same time as resources are decreasing. This makes the MTFS challenging. There is currently a shortfall in the savings identified. It is imperative that the council continues to identify further savings to meet the MTFS. Transformation is significant and is within the context of managing demand as well as making savings. The market is changing which impacts on the ability of the council to transfer services as originally planned. The Council will have to demonstrate both flexibility and innovation in order to drive through proposals for change. It is important that in a period of change, the emphasis remains on safeguarding vulnerable people. A competent and skilled workforce is required in order to deliver on the significant change	This increasing demand leads to extra costs. For example, demographic change will cost an additional £400,000, Mental Health £70,000, direct payments £400,000 and Learning Disabilities £300,000. Failure to remodel services will: • Restrict the Council's ability to safeguard people and respond to assessed needs as set out in the Social Services Act. • Result in longer lengths of stay in acute hospital services. • Result in a greater need for expensive hospital treatment. • Mean that vulnerable people lead less fulfilled lives. • Mean that the Council and the NHS do not meet the public's expectations and consequently the reputation of the organisations will suffer.		own communities. The Remodelling Adult Social Care (RASC) Programme Board continues to oversee the transformation of services. The MTFS is linked to the RASC programme so that the savings are in line with service developments. Projects are progressing well but the conclusion of the tendering of homecare was that none of the tenders were able to achieve the MTFS saving requirements and because of this the council was unable to award the contracts. The council is now making a gradual transfer of packages of generic care to the Independent sector over a period of time. The Learning Disability project is working to deliver a sustainable model of supported accommodation that promotes independence in the community. Partnership agreements will have robust outcome specifications and arrangements for monitoring of contract delivery to ensure the safeguarding of vulnerable people. Services will support independence and promote positive risk taking. They include: • The development of a new assessment framework which concentrates on a strength based approach in line with the Social Services Act • Enablement focused homecare • The continued successful promotion of telecare • The continued development of the Community Resource Team to enable greater choice of health and social care within a community setting • The implementation of a falls prevention service with Public Health Wales • Further integration and service remodelling where access is via an integrated referral centre • Further development of short term residential reablement placements • The development of two Extracare housing facilities Further work is now taking place to move on to the next stage of integration.		

Key Outcome	Corporate Improvement Priority	Risk Description	Potential Impact	Inherent Risk Score	Risk Reduction Measures	Risk Owner	Residual Risk Score
		agenda. The Council must ensure that there is effective support and training for staff and on-going robust management of sickness absence.			• A Service Level Agreement (SLA) has been established with Age Concern to support people being discharged earlier from hospital. • A Regional Community Services Project Board has been set up. • The promotion of preventative services that help keep people healthy. This will reduce the need for current and future care and mean people lead more fulfilled lives. • Assist the third sector in developing and expanding their services. • Continue to provide support to Carers. The directorate senior management team and managers across the service will continue to pro-actively manage absence levels in line with corporate policies and monitor the sickness absence process. Managing down absence levels is a challenge.		
People in Bridgend County Borough are engaged and empowered to achieve their own potential. People are active citizens in society, equipped with the skills, qualifications and confidence needed to live and work and that there are equal opportunities so people are supported and equally valued.	Working with children and families to tackle problems early.	**Supporting vulnerable children, young people and their families:** If the number of Looked After Children, the complexity of cases and the length of stay in care continue to increase, then the demand on resources will outstrip the council's ability to meet needs.	Between 2007/08 and 2012/13 the number of Looked After Children increased by 40%, from 292 to 412. The wellbeing and safety of children might be compromised. They may be unable to • Thrive and make the best use of their talents • Live healthy and safe lives • Be confident and caring throughout their lives • Know and receive their rights Patterns of behaviour, such as poor parenting, will be repeated in subsequent generations. A potential increase in the proportion of young people identified as not in education, employment or training (NEET). A less skilled and flexible workforce.	Likelihood - 6 Impact - 4 Total - 24	Communicate the "Looked After Children Placement and Permanency Strategy" throughout the council, and to statutory partners and stakeholders. Share responsibility with other agencies for the development of the strategy and its implementation. Promote targeted early intervention and prevention services via the Early Intervention Strategy published in the summer of 2014. This will lead to a reduction in the numbers of families developing more complex needs which require intensive costly interventions. Data sharing with NHS and other partners will be enhanced if there is agreement to the implementation of a common platform for information sharing via the Community Care Information Solution (CCIS). The DRAIG system continues to be supported until the end of March 2016. Focus on supporting families with complex and acute needs through the Intensive Family Support Service and Connecting Families. Have a workforce which works proactively delivering interventions at an early stage. Where necessary this will involve transforming social work practice and using evidence and strength based practices and outcome focussed methodologies.	Corporate Director Children	Likelihood - 5 Impact - 4 Total - 20

Key Outcome	Corporate Improvement Priority	Risk Description	Potential Impact	Inherent Risk Score	Risk Reduction Measures	Risk Owner	Residual Risk Score
			Increased social and economic costs. A loss of reputation to the Council. An increase in the need to commission expensive placements with independent fostering and adoption providers. Increased demands on social work teams, reviewing officers and support teams.		Striving for stability and permanence for Looked After Children. This will include using increased numbers of adoptions, special guardianship orders, residence orders and other long term arrangements with Foster Carers or extended family. The Western Bay Regional Adoption Service will help make the best use of resources so that improvements can be made to ensure that children requiring adoptive placements are speedily and appropriately matched with adopters who can meet their needs for their entire childhood. Robust self-evaluation to ensure that we know and understand the Looked After Children population. Take a multi-agency partnership approach to increase prevention and early intervention services that focus on particular vulnerable groups including teenage pregnancies, substance and alcohol misuse and domestic abuse.		
People in Bridgend County Borough are engaged and empowered to achieve their own potential. People are active citizens in society, equipped with the skills, qualifications and confidence needed to live and work, and that there are equal opportunities so people are supported and equally valued.	Working together to raise ambitions and drive up educational attainment.	**School modernisation:** Budget pressures may reduce or delay the 21st Century school programme. Welsh Government has confirmed that it will use the LGBI to fund 25% of its share of match funding. For BCBC this amounts to £5.562m. Funding to meet the cost of borrowing will be paid to the council by specific grant. However the availability of these monies depends on the ability of the Council to release sufficient land for sale to support the programme through match funding. If the council is unable to do	• Insufficient progress may have a negative impact on pupils' learning and wellbeing. • There is a link between attendance, attainment and the school environment. • It may affect the range of educational opportunity for pupils. • There may be inefficient use of resources, due to a mismatch in the supply and demand for places in different schools. • Deterioration in the state of school buildings will result in increased running costs and the need for emergency repairs. This could result in potential health and safety issues. Resources that could be better spent on direct support to children (BCBC schools are relatively poorly funded) will be diverted to less productive use. • New schools are designed as community facilities and in the	Likelihood - 6 Impact - 4 Total - 24	Continue to implement a phased schools modernisation programme but within a revised timetable. School modernisation is part of the Council's capital programme. The Council will submit detailed business cases for each project. Match funding will be met from core funding allocations of £5m with an extra £2m coming from general capital receipts, anticipated Section 106 funding of £4m and projected sale of school sites of £11.135m. The funding from these sales is ring fenced. Maintain strong programme and project management arrangements. There is a track record of delivering projects to time, cost and quality. Procurement through the South East Wales Schools & Capital Programme Contractor Framework. However the current framework expires at the end of March 2015 and the new one is not yet agreed. There may be different contractors on the panel and some costs may increase. Maintain good links with Welsh Local Government Association and WG. Review catchment area boundaries to ensure supply	Corporate Director Children	Likelihood - 4 Impact - 4 Total - 16

Key Outcome	Corporate Improvement Priority	Risk Description	Potential Impact	Inherent Risk Score	Risk Reduction Measures	Risk Owner	Residual Risk Score
		so there may be a delay in new builds which may prejudice the Council's ability to provide for sufficient school places. Demand for disabled adaptations and repairs and maintenance are outstripping the budget. Failure to provide for disabled learners may result in litigation or tribunals.	case of Coleg Cymunedol Y Dderwen is also a multi-agency hub. • Inadequacies in buildings maintenance have been identified, including fire safety within schools.		meets demand. Provide temporary accommodation. Regular health and safety audits and condition surveys will enable the council to prioritise improvement works and respond to emerging issues. Property services are currently managing a project to look at the risks around fire safety within Bridgend schools. The Safe, Dry and Warm project has commenced as has condition surveys of all school buildings.		
People in Bridgend County Borough benefit from a stronger and more prosperous economy. People are increasingly active in the local economy and support local businesses, and our communities are sustainable with the appropriate infrastructure to support business growth and thriving town centres.	Working together to develop the local economy	**The economic climate and austerity:** If the economy continues to perform badly the quality of life for residents will suffer. There will be no positive long lasting economic, environmental and social change as our towns, local businesses and deprived areas suffer decline. Individuals, particularly young people, may be unable to secure employment because they lack the basic skills and confidence necessary and suitable jobs are not available in the economy. Severe cuts in Welsh Local Government spending will happen over the MTFS period 2015-16 to 2018-19. These cuts will impact	There will be cuts in the public sector and these will disproportionately affect regeneration activities as spending on other services are protected. Reductions in regeneration funding have a disproportionate affect because each £1 of Council funding leverages between £8 and £13 from other sources. There could be further job losses and business failures in the local economy if the UK and European economies don't get stronger The quality of life within the County Borough may decline. Pressure will be placed on diminishing Council services which support local businesses and employment. Town centres continue to suffer, predominantly the retail sector. Without regeneration they will not be attractive places to visit or able to compete with retail developments in neighbouring centres such as Talbot Green and Neath. Even with regeneration,	Likelihood - 5 Impact - 4 Total - 20	Three Communities First teams are in place. The new programme is focused on fighting poverty and seeks to achieve three main outcomes. These being healthy, learning and prosperous communities. Applications have been submitted to WG to continue the programme in the 3 Cluster areas for 2015-16 and a decision is expected in December 2014. The Council supports the business community via the Business Forum, Bridgend Tourism Association, the Destination Management Partnership, Coastal Partnership, and town centres, through the Town Centre Manager, BID Partnership (Bridgend) and THI Programmes. The Council has an apprenticeship programme in operation. Increasing footfall in town centres through strategic, high quality events, supported by proactive marketing. The target is to increase footfall by 15% over the usual during event days. The quarter 2 figure indicates a 25.71% increase for the Mash up and the Feastival. Implementation of the current rural development programme and development of the successor programme which is being submitted to WG. The current rural development programme is scheduled to end in December 2014, with the successor scheduled to start in January 2015.	Corporate Director Communities	Likelihood - 4 Impact - 4 Total - 16

Key Outcome	Corporate Improvement Priority	Risk Description	Potential Impact	Inherent Risk Score	Risk Reduction Measures	Risk Owner	Residual Risk Score
		on the local economy disproportionately because the Council is one of the key local employers. The current Convergence Programme is coming to an end, with key schemes that support local economic development and employment ending shortly. There will be significant gaps in the Council's mitigation strategies unless replacement schemes are funded and approved.	competition and resilience will be difficult, as the nature of town centres is changing. The proposed regeneration programme assumes £2.6m of capital receipts. This includes an anticipated receipt from Porthcawl Regeneration Phase 1. Existing capital schemes will be affected if there are cost over-runs on regeneration projects. There is no provision to fund unforeseen works. At a time when regeneration is being asked for more solutions and more input, budgets are being cut.		Implement the Youth Engagement And Progression Framework. **Bridgend** All four construction lots are complete. A bid for Vibrant & Viable Places has been approved to support projects in Bridgend town centre. The £5.978m grant was confirmed in June as part of a £11 million investment programme which includes bringing a residential core to the town and creating added footfall and vitality **Maesteg/Llynfi Valley** A development land programme for key sites in the Llynfi valley is being discussed with WG. Funding for the Llynfi Valley has been agreed by WG subject to finalisation of heads of Terms. **Porthcawl** The new marina was officially launched in April 2014. An operational and business review will be carried out at the end of first full year. The project remains on target. The Jennings building is being marketed. The Porthcawl THI launch has been postponed to coincide with the Jennings announcement. WG funding for a new town centre partnership and action plan has also been approved. Project management principles are in place to ensure the delivery of the funding remains effective.		
Bridgend County Borough is a great place to live, work and visit. People take pride in the county, their communities, the heritage and	Working together to make the best use of our resources.	**Disposing of waste:** The EU Waste Framework Directive promotes waste prevention and increased recycling. WG's waste strategy 'Towards Zero Waste' sets challenging	Failure to achieve recycling/composting targets could result in: • Inefficient use of resources as waste goes to landfill sites • Penalties of £200 per tonne if we fail to achieve landfill allowance targets	Likelihood - 5 Impact - 4 Total - 20	The Kier contract has delivered a stable recycling performance and this is likely to continue until the end of the current contract term in March 2017. Any extension to this contract or alternative delivery model will need to build in the requirement to meet the targets set by WG in their policy document "Towards Zero Waste". A long term waste strategy was presented to Cabinet in November 2011. Shanks, the preferred bidder for the anaerobic digestion plant, have notified the South West Wales	Corporate Director Communities	Likelihood - 4 Impact - 4 Total - 16

Key Outcome	Corporate Improvement Priority	Risk Description	Potential Impact	Inherent Risk Score	Risk Reduction Measures	Risk Owner	Residual Risk Score
natural environment and our communities are clean and safe and have a good range of leisure, tourism and cultural activities.		targets. Since 2012-13 there has been an obligation to recycle / compost 52% of waste and this will rise to 70% by 2025. If new services do not deliver improved performance the environment will be affected and fines will be imposed on the Council.	Increased recycling has a knock on effect to the contract requirements of MREC.		Regional Hub that they have decided not to proceed with the procurement. The way forward is being discussed with WG and Hub members. Neath Port Talbot CBC has commenced a procurement process for the sale of Neath Port Talbot Recycling who operate the MREC, with a guaranteed contract for Neath Port Talbot and Bridgend councils to dispose of their residual waste. This will allow Neath Port Talbot and Bridgend councils to participate in the procurement of a regional residual waste facility by 2019-20, although some uncertainties remain. In the short term, improved recycling rates will be achieved by education and communication to increase participation, but difficult decisions will have to be made about how improved services are funded.		
People in Bridgend County Borough are healthier. People and their families are empowered and informed to live healthy and independent lives and our communities are stronger, cohesive and sustainable, with appropriate access to services for all.	Working together to tackle health issues and encourage healthy lifestyles.	**Healthy Life Styles:** There are significant health inequalities within the County Borough. Many people in Bridgend live unhealthy lifestyles and this might deteriorate as welfare reform continues and some people become poorer. If the Council does not promote healthy living the emotional and physical wellbeing of citizens will suffer.	Unhealthy lifestyles have many affects. These include: • Shortened life expectancy. Life expectancy in the County Borough is below the Welsh average. • Shortened healthy life expectancy. Some areas of the County Borough have a healthy life expectancy which is 20 years longer than others. • Higher rates of obesity resulting in significant costs to the economy, health and social Services. • Worse emotional health. • Less fulfilled lives as people lose their independence due to ill health. These result in greater demand upon expensive medical and care services provided by ABMU and the Council.	Likelihood - 5 Impact - 4 Total - 20	Five key actions have been identified: • Improve healthy living programmes in leisure facilities, schools and communities to encourage participation in physical activity. The £4.2m investment in Bridgend Life centre was completed and facilities have been enhanced at Heronsbridge School and Garw Valley Life Centre. The number of physical activity based visits to leisure facilities is increasing. The total was 85,735 higher in 2013-14. The National School Sport Survey identifies good levels of participation and the gap in participation between girls and boys is narrowing. The national free swimming initiative for those over 60 also shows encouraging levels of engagement. The scheme supported 84,904 visits by persons over 60 and 18,451 junior free swims. The Sport and Physical Activity Service has led on the action plan to ensure that there are sufficient quality opportunities for children and young people to play. • Work with Public Health and other parties to further develop targeted projects to help tackle health issues and live healthy lifestyles including: weight management, harmful drinking and smoking	Corporate Director Wellbeing	Likelihood - 4 Impact - 4 Total - 16

Key Outcome	Corporate Improvement Priority	Risk Description	Potential Impact	Inherent Risk Score	Risk Reduction Measures	Risk Owner	Residual Risk Score
					New programmes have been rolled out to help reduce harmful drinking. This includes the development of a Substance Misuse Policy for Comprehensive Schools with consideration being given to a similar policy for primary schools. Information is provided to the parents of children and young people found drinking in the community. Healthy lifestyles are promoted via the Corporate Health Standard and Small Workplace Health Award. • Enhance the role of libraries in helping citizens to improve their emotional and physical wellbeing by providing more joined up services, Halo Leisure operates library facilities at the Ogmore Valley and Garw Valley Life Centres. These facilities have registered 418 new borrowers. The new Bridgend Library has opened and is the latest example of the co-location model. • Reduce level of tobacco consumption The multi-agency Tobacco Control Steering Group developed an action plan for partnership working across the County Borough. There are various awareness raising initiatives across the County Borough and Trading Standards inspects premises and enforces legislation concerning sales to those who are underage. • Reduce harmful drinking Inspections and enforcements against premises selling alcohol to those underage. Support for initiatives via Neighbourhood Networks and local partnership working. • Working together to reduce the number of teenage pregnancies The Youth Service worked with LSB partners to tackle the teenage conception issue via programmes such as the Llynfi Valley Project, the Empower to Choose Programme and the Healthy Schools Scheme. These		

Key Outcome	Corporate Improvement Priority	Risk Description	Potential Impact	Inherent Risk Score	Risk Reduction Measures	Risk Owner	Residual Risk Score
					have resulted in a fall in the rate of teenage conceptions.		
Bridgend County Borough is a great place to live, work and visit. People take pride in the county, their communities, the heritage and natural environment and our communities are clean and safe and have a good range of leisure, tourism and cultural activities.	Working together to develop the local economy.	**Maintaining infrastructure:** If there is further harsh weather, there may be an increase in the number of roads in poor condition, more repairs being required in the future and the Council might fail to meet its statutory obligations.	Failure to maintain infrastructure will result in the Council not meeting its statutory obligations and the % of roads that are in overall poor condition increasing. A poor quality highway network leads to increased third party liability claims, a loss of reputation, a possible adverse impact on economic activity and reduced quality of life for citizens. Further budgetary pressures could occur due to unpredictable weather patterns and the worsening condition of the infrastructure. This will lead to an increased requirement for emergency repairs.	Likelihood - 5 Impact - 4 Total - 20	Additional maintenance has been undertaken in the past 5 years as a result of increased revenue budget and grants from WG. Funds have been targeted at Principal (A) roads. The Highways maintenance budget has increased by £800,000 since 2009 and further growth of £100,000 in 2013-14 resulted in investment in street furniture (lighting, traffic signals etc). However 2014-15 is the last scheduled year of the WG Local Government Borrowing Initiative (LGBI). The LGBI has provided funding of around £6.8m over the period 2012-15 for highway infrastructure improvements. The principal adopted for the programme of works was to provide good quality resurfacing which will be sustainable in the long term rather than quick overlay which requires higher maintenance in future years. The Council's Highways Asset Management Plan provides information to assist the Council in considering the highway asset risk and apportion funding from the Council's budget strategy and LGBI.	Corporate Director Communities	Likelihood - 4 Impact - 4 Total - 16
Corporate Governance	Working together to make the best use of our resources.	**Equal Pay Claims:** The result of the Abdulla Group case involving former employees of Birmingham City Council means that there is a risk of further equal pay claims against the Council. The courts are reviewing rulings on male dominated claims which have been listed. To date the Council has refused to settle these as they are outside the scope of the Memorandum of Understanding. The court decision remains outstanding.	The ruling has created the possibility that employees who left the Council up to six years ago might claim under equal pay legislation. Previously, to make a claim, the person had to be either employed by the Council or have left its employment within the last six months. Claims for compensation can now be made through the Civil Courts rather than via an Employment Tribunal. This will increase Legal Costs. The estimated cost, if all male dominated listed claims were settled, is £1.5M.	Likelihood - 5 Impact - 4 Total - 20	The Council is aware of the issues and is monitoring developments. Following the initial equal pay exercise, the Council is in a good position to be able to respond to any further claims in an appropriate manner.	Corporate Director Resources	Likelihood - 4 Impact - 4 Total - 16

Key Outcome	Corporate Improvement Priority	Risk Description	Potential Impact	Inherent Risk Score	Risk Reduction Measures	Risk Owner	Residual Risk Score
People in Bridgend County Borough are healthier. People and their families are empowered and informed to live healthy and independent lives and our communities are stronger, cohesive and sustainable, with appropriate access to services for all	Working with children and families to tackle problems early.	**The impact of homelessness:** Homelessness may increase because of the current economic climate and austerity measures and welfare reform. This may result in a greater dependence on the Council to provide temporary accommodation for residents. At the same time the Supporting People Programme is going through significant change as a result of the national review. The risk may be exacerbated when the Housing Act is enacted in April 2015, placing a duty on the Council to 'take all reasonable steps' for a period of 56 days to prevent homelessness. There will be uncertainty about what this means until WG Guidance is issued and cases come before the courts. In addition the duty to 'take all reasonable steps' for any former prisoner who is potentially homeless from Parc Prison, regardless of local connection, may increase the use of temporary accommodation until a solution is found or a	Homelessness is often a culmination of several problems, such as debt, relationship difficulties, mental health issues and substance misuse. For many, homelessness leads to increased stress, depression, and isolation. It can lead to a need for other costly service interventions. The impact is greater on some groups e.g. 16/17 year olds and people with a chaotic housing history. The use of bed and breakfast accommodation results in high costs both in terms of finance for the Council and the wellbeing of individuals. Properties are standing empty and deteriorating because they cannot be sold. Changes to Housing Benefits might result in increased rent arrears and evictions leading to an increase in the number of homelessness cases. This would impact on the welfare of citizens, the Council's Housing Options Team, the homelessness budget and other welfare services. Unless resources can be reallocated within the Supporting People Programme there might be increased repeat homelessness. Fewer properties are being improved because the Housing Renewal Area programme is reducing. The WG grant has reduced from £1m to £600,000 per year. In 2010-11 there were 501 homelessness presentations. This reduced to 448 in 2011-12	Likelihood - 5 Impact - 3 Total - 15	The Council is taking a proactive prevention approach to the issue of homelessness by helping residents find solutions to their housing needs and getting to the root cause of why people become homeless. The Council, in conjunction with Registered Social Landlords, have implemented a Common Housing Register and Social Housing Allocations Policy. This will help ensure the best use of available social rented property. A Supporting People review is currently underway and work has commenced on commissioning the provision of structured, professional floating support to vulnerable groups which will help support tenancies and prevent homelessness and repeat homelessness. The Just Ask + (16-25) service has been operational since April 2012 providing advice to homeless young people and their parents. Following the national review of the Supporting People Programme, Regional Collaborative Committees have been set up to support greater collaborative working. Raising awareness of Housing Benefit changes via landlord forums, information leaflets, and letters to customers and open days. Three Communities First teams are delivering advice on financial inclusion. Working with partners to improve private sector housing conditions and bring empty homes back into use. This will be done via the Houses into Homes Scheme, Empty Homes Grants and the implementation of Phase 7 of the Caerau Housing Renewal Area. The increased risk of homeless presentations and their associated costs, caused by the geographical location of Parc Prison will be raised with the WLGA, Assembly Members and WG. The Council have approved the redistribution of expenditure for Supporting People Grant from Learning Disabilities to under-represented groups.	Corporate Director Communities	Likelihood - 5 Impact - 3 Total - 15

Key Outcome	Corporate Improvement Priority	Risk Description	Potential Impact	Inherent Risk Score	Risk Reduction Measures	Risk Owner	Residual Risk Score
		homeless investigation is instigated.	and 346 in 2012-13. This slightly increased in 2013-14 to 369. This needs to be considered in conjunction with the number of prevention cases.				
Corporate Governance	Working together to make the best use of our resources.	**Collaboration with partners:** If the Council does not undertake collaboration projects where they offer enhanced service quality, increased resilience or significant cost savings, it will not maximise cost effective, tangible, improvements to services. Budget reductions have the potential to affect collaboration where they result in restrictions of spend to single-agency priorities. There are potential risks associated with collaborative projects such as the Regulatory Services initiative, the Western Bay Adoption Service, Youth Offending Service and other areas such as the roll out of Universal Credit for new single claimants, the closure of 20+ work club and the end of funding to "Get Bridgend On Line".	In a period of stretched budgets, successful collaborative working is even more essential for the efficient and effective delivery of quality public services. If the Council fails to collaborate successfully some of the most vulnerable people in the community will not have their needs met. This would lead to a loss of reputation with the public and WG. As the Council moves towards multi-agency working, there is potential for service instability whilst transformation takes place. Reduction in other public sector partners' budgets may have an impact on their capacity for partnership working. If the collaborative Regulatory Services project is not adequately supported the Service may not be as effective as the proposals would suggest. Even with the innovative approach there will still be a need to make service savings, therefore if there are new statutory duties (ie under the Public Health Bill) being introduced, the Council may find it difficult to deliver them. There needs to be a period of change where performance may dip or will be affected as the Council moves towards the new operating model.	Likelihood - 6 Impact - 4 Total - 24	The Council works in partnership with other councils, public sector and third sector bodies based upon different geographical and service footprints. There is evidence that partnership working and good collaborative arrangements permeate all the main risk areas. Corporate Directors understand the challenges of collaborative working and the importance of recognising different organisational cultures and approaches (e.g. towards data sharing). The Bridgend Local Service Board (LSB) is led by the Council and has a strong and positive record of facilitating collaborative working. The LSB "Bridgend County Together" partnership plan was published in April 2013 and sets out the priorities aimed at improving the lives of people in the County, Borough focussing on issues such as health, education, employment, the local economy, tourism, crime and the environment. The LSB is also working to mitigate some of the negative effects of Welfare Reform with Valleys to Coast, registered social landlords and other partners. The Welfare Reform Steering Group is currently working on refunding GBOL and financial inclusion support. BCBC partners with ABMU, Swansea and NPT Councils to deliver a model of integrated care across a range of services including care for older people, adults with disabilities and mental health provision. The Memorandum of Understanding with Vale of Glamorgan council facilitates collaboration in many areas. There is also the joint working agreement with the Vale of Glamorgan and Cardiff. The Central South Consortium will drive school improvement. The Data Centre collaboration project with Rhondda	Assistant Chief Executive, Legal & Regulatory Service	Likelihood - 3 Impact - 4 Total - 12

Key Outcome	Corporate Improvement Priority	Risk Description	Potential Impact	Inherent Risk Score	Risk Reduction Measures	Risk Owner	Residual Risk Score
					Cynon Taff council increases the resilience of service provision. Collaboration in the provision of Leisure Services reduces cost and will improve quality. The motor fleet depot project with South Wales Police will increase efficiency. There are partnership agreements to support the management of those collaborative projects.		
People in Bridgend County Borough are engaged and empowered to achieve their own potential. People are active citizens in society, equipped with the skills, qualifications and confidence needed to live and work, and that there are equal opportunities so people are supported and equally valued	Working together to raise ambitions and drive up educational attainment.	**Educational attainment:** If school standards and pupil attainment do not continue to improve there are significant risks to the emotional wellbeing of young people and their future employment prospects, the local economy and a range of council services as young people leave education ill-equipped for employment.	A possible increase in the number of young people not in education, employment and training (NEET). Greater deprivation as young people are unable to sustain a livelihood in the future. More young people with worse emotional health. More schools identified as requiring monitoring and intervention through inspection, with concern and eventual special status. Potential for a decline in KS attainment results, PISA scores and other accreditation. Less capacity for provision for pupils with learning difficulties. Potential for parents to complain and/or take cases to SEN Tribunal. Possible intervention by WG. Continued Estyn monitoring.	Likelihood - 4 Impact - 4 Total - 16	The Central South Consortium (CSC) is going through a review to implement the Hill report recommendations. The implementation of the School Effectiveness Framework and in particular the work of System Leader will ensure more rigorous monitoring and challenge. Poor attendance leads to a serious loss of learning which is likely to affect achievement and life chances. An Attendance Strategy has been drafted and will be presented to Cabinet in January 2015. Fixed penalty notices have been available for Headteachers to use as a sanction since September 2014. This is supported by the CSC absence management toolkit, Callio. The post Estyn inspection action plan is being actively used to drive up standards in schools through better standards of challenge as has training for members in the use of data to support the challenge and scrutiny of Local Authority performance. A new Performance Management framework has been implemented across CSC for Headteachers. The new School Improvement Strategy will define outcomes for learners. The implementation of the Youth Engagement and Progression Framework is ensuring that an increasing number of 16 year olds remain in education. Implement an improvement plan with Band 4 Comprehensive Schools and the development of a ‘good to great’ programme as an integral part of the CSC School Improvement Strategy.	Corporate Director Children	Likelihood - 3 Impact - 4 Total - 12

Key Outcome	Corporate Improvement Priority	Risk Description	Potential Impact	Inherent Risk Score	Risk Reduction Measures	Risk Owner	Residual Risk Score
					"Team Around The School" continues to support schools which are under performing. Raise standards of literacy and numeracy through a structured and strategic programme including • Identifying underperforming English and Maths Departments and support action to improve • Provide training for staff • Develop a whole school approach to basic skills • Utilise CSC pupil tracking model • CSC literacy and numeracy plans Carry out Additional Learning Needs analysis and ensure the training and development programme is delivered to schools. On-going review of school funding formula. Federated schools guidance from WG is being considered. School Improvement Groups have been set up where a group of schools share best practice and learn from each other.		

Appendix 2 - The movement of residual risk scores over time

	2015-16 Score			2014-15 Score	2013-14 Score	2012-13 Score
	Likelihood	**Impact**	**Total**	**Total**	**Total**	**Total**
Welfare Reform	6	4	24	24	24	24
Using resource effectively	6	4	24	20	20	20
Local Government Reorganisation	6	4	24	N/A	N/A	N/A
Supporting vulnerable people	5	4	20	20	20	20
Supporting vulnerable children	5	4	20	16	16	16
School modernisation	4	4	16	20	20	20
The economic climate and austerity	4	4	16	20	20	20
Disposing of waste	4	4	16	16	16	16
Healthy lifestyles	4	4	16	16	16	N/A
Maintaining infrastructure	4	4	16	16	16	16
Equal pay claims	4	4	16	16	16	12
Impact of homelessness	5	3	15	15	15	15
Collaboration with partners	3	4	12	12	12	12
Educational attainment	3	4	12	16	16	16
New pay and grading system	N/A	N/A	N/A	12	15	20
Reconfiguring leisure services	N/A	N/A	N/A	N/A	N/A	8

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Bridgend County Borough Council

Corporate Risk Management Policy

December 2014

Index

Bridgend County Borough Council
Corporate Risk Management Policy

Introduction

Good corporate governance structures are essential if the Council is to achieve its vision of working together to improve lives within the County Borough. An essential part of governance is the mechanisms for the control and management of risk. There must be a clear focus on the significant risks that could prevent the Council achieving its corporate improvement priorities and this policy seeks to address those risks.

Good governance requires that risk management is embedded into the culture of the Council with Members, managers and staff at all levels recognising that risk management is part of their job. It is important that the changing nature of how we deliver services is acknowledged. In particular, the increasing use of partnerships, shared services and business transformation programmes provide fresh risks to manage.

This policy facilitates the management of corporate risk within the Council; it focuses attention on key areas and its outcomes will inform the budget process and the Medium Term Financial Strategy.

Definition of Risk

The definition of risk the Council uses is:

Any potential development or occurrence which, if it came to fruition, would jeopardise the Council's ability to:

- achieve its corporate improvement priorities
- provide services as planned
- fulfil its statutory duties, including the duty to make arrangements to secure continuous improvement.

Aims and Objectives

The aim of the policy is to facilitate effective corporate risk management throughout the Council so that risks are identified, evaluated, managed and monitored to enable the Council to achieve its corporate improvement priorities.

This will be done by:

- Managing corporate risk via a process that is integrated into usual business planning and is aligned to budget setting and the Medium Term Financial Strategy.

- Monitoring key corporate risks at the highest level within the Council, including:

  - Cabinet
  - Corporate Management Board/Programme Management Board
  - Corporate Performance Assessment meetings, which are part of the 'informal' management arrangements involving Corporate Management Board/Heads of Service/Cabinet and Scrutiny
  - Overview and Scrutiny Committees
  - Audit Committee.

- Working closely with partner organisations and other bodies such as the Wales Audit Office and external auditors.

- Managing corporate risk via a process that is compatible with any guidance provided by regulatory bodies.

Strategy

Risk will be managed by:

- Providing for risk identification within the business planning process

- Assessing risks against a common understanding of the Council's risk appetite set by Cabinet and Corporate Management Board

- Establishing appropriate control measures or other actions to manage risks to appropriate levels

- Maintaining a register of corporate risks which enables them to be recorded and regularly reviewed

- Establishing clear accountabilities and roles

- Ensuring that the risk assessment is considered within the budget setting process and the Medium Term Financial Strategy

- Making the link to corporate improvement priorities

- Having arrangements to monitor risks involving elected Members and senior management. (Corporate Performance Assessment Meetings and Corporate Working Groups are examples of these)

Accountabilities and Roles

A key part of the strategy is to establish clear roles, responsibilities and reporting lines within the Council.

Audit Committee

The Audit Committee will monitor the effective development and operation of risk management and corporate governance within the Council. The Committee will consider the report on the annual risk assessment in January and a further interim report in November detailing changes in the course of the year.

Cabinet

Together with the Corporate Management Board the Cabinet will set the Council's risk appetite. They will also work with Corporate Management Board and Heads of Service to provide oversight and information on the management of risk and opportunities arising from the various options facing the Council.

Cabinet Members

Cabinet Members provide risk management oversight of service provision in the Directorates aligned with their portfolio.

They must be made aware of the key risks within their portfolio of services and within any projects or partnerships related to these.

Chief Executive

The Chief Executive leads the Corporate Management Board and the wider corporate governance agenda of which risk management is a part. The Chief Executive will review an annual governance statement and together with the Leader consider this and sign it off as appropriate.

Corporate Directors

Together with the Chief Executive they are integral to the risk management process providing leadership to achieve cultural and organisational change. They are involved in the management of risks arising from corporate initiatives, business transformation, major projects, external environment, partnership working and assessing the wider implications of risk assessments associated with service provision.

They also need to make arrangements to embed risk management within the services that they have responsibility for, in order to provide assurance to the Chief Executive. They have responsibility for the delivery of Directorate plans, including service improvements and efficiencies and the delivery of corporate priorities.

Corporate Management Board

Together with the Cabinet the Corporate Management Board will set the Council's risk appetite. They will also "scan the horizon" for new risks to the Council and the County Borough. They will provide a view of the medium to long term impacts of Government policy, financing, business transformation and partnership working.

Corporate Management Board will work with Cabinet to produce an annual risk assessment which should be approved by them in December. They will review the effectiveness of actions put in place by Corporate Directors and Heads of Service to mitigate risk at other meetings though out the year.

Corporate Management Board will endeavour to ensure that the resources of the Council are utilised efficiently so that the objectives of the Council are delivered.

Corporate Performance Assessment Meetings

Led by the Chief Executive; Cabinet, Corporate Management Board and Overview and Scrutiny Chairs will consider the extent to which business plans are being delivered and challenge senior officers about progress towards the achievement of improvement priorities. This will include review of the risks which are relevant to each priority.

Directorate and Service Management Teams

Managers and management teams have responsibility for delivering services. For successful delivery, many factors such as objectives, people, budget etc must be considered. Risk management is just one aspect of the overall management task. Risks which threaten the successful delivery of services must be identified through the business planning process. Managers will put in place actions to reduce the risks. These will be monitored and reviewed to ascertain the effectiveness of actions taken.

Heads of Service

Heads of Service develop and implement service plans to deliver agreed objectives. They should ensure that risks and the management of those risks has been explicitly considered in framing these plans.

Internal Audit

Internal Audit is an assurance function that primarily provides an independent opinion on the control environment comprising risk management, internal control and governance by evaluating its effectiveness in achieving the Council's improvement priorities. It examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper economic and effective use of resources.

Members

Members collectively are the ultimate policy makers. They will represent their communities and bring their views into the Council decision making process being advocates of and for their communities. They contribute to the continual improvement of Council services and directly to risk management via membership of the Audit and Overview and Scrutiny Committees.

Overview and Scrutiny Committees

Overview and Scrutiny Committees develop a forward work programme having regard to the Council's corporate priorities and risk management framework. They review and scrutinise the decisions made by and the performance of Cabinet and Council officers. They scrutinise the performance of the Council in relation to its policy objectives and performance targets. They make recommendations to the Cabinet and Council arising from the outcome of the scrutiny process.

Programme Management Board

The Programme Management Board will ensure that programmes contribute to delivering the aims and objectives of the Council. The Board will ensure that assessments of risk are kept under review and risk mitigation plans monitored.

Risk Management & Insurance Officer

The Risk Management and Insurance officer will co-ordinate work on the annual risk assessment and subsequent reviews and act as a point of reference and support.

Section 151 Officer

The Section 151 Officer is responsible for the proper administration of the Council's financial affairs and oversees the production of the risk register prior to its consideration by Corporate Management Board. They must ensure that risks are fully considered and aligned with the Council's Medium Term Financial Strategy.

Staff

All staff have responsibility for identifying opportunities as well as risks in performing their day to day duties, and for taking appropriate action to take advantage of opportunities or limit the likelihood and impact of risks.

Risk Management Methodology

The risk management methodology describes the way in which risks are managed within the Council.

Part 1 - Identifying Risk

Risk identification is not a stand alone activity which is completed in isolation from the management of service delivery. It is part of the strategic business planning and performance management processes.

It is concerned with identifying events and their consequences which could impact on the Council's corporate improvement priorities. Consequently, the starting point is understanding what these are; they are set out within the Corporate Plan.

It can help to use prompts which identify different sources of risk. These include:

- Customer/citizens: Failure to deliver services of a required standard or misunderstanding their needs
- Strategic: doing the wrong things as an organisation; missing opportunities
- Finance: losing monetary resources or incurring unacceptable liabilities
- Reputation: the Council's image, loss of public confidence
- Legal and regulatory: claims against the Council, non-compliance, new regulations resulting in new or more severe risks
- Information: loss or inaccuracy of data, systems or reported information
- Environmental: things outside of our control; environmental impact
- People: risks associated with employees, management and Members
- Political: political embarrassment, not delivering local or national policies
- Partnerships: the risks the Council is exposed to as a result of partnerships

These categories can be used in discussion to identify events that could prevent or hinder the council from achieving its objectives.

The ideas from these discussions need to be grouped into common themes and developed into the actual risk.

The risk description should have an event which leads to a consequence which then has an impact. Eg. A loss of xxxxxxx, will lead to xxxxxxx, resulting in xxxxxxx.

When will risks be identified?

Risk identification is not a stand alone activity. It forms part of good governance, business planning, decision making and performance management. A key opportunity to identify risk is during the budget process, when the Medium Term Financial Strategy is being agreed and when Directorate business plans are considered.

Part 2 - Assessing the inherent risk

Once the risks that threaten the achievement of the Council's corporate improvement priorities have been identified, the next step is to assess them in terms of the likelihood that they will occur and the impact if they do. This information will then be used as a tool to inform professional judgements as to the significance of the risks to the Council.

The Council has agreed criteria for the levels of likelihood and impact. These are shown in Tables 1 and 2 below. The definitions for likelihood of occurrence are quite short. However, because the impact of the risk, should it occur, can be much wider, there is a more comprehensive set of definitions.

When considering likelihood and impact you should not take into consideration any existing controls that are in place. The risk score you have will be an inherent or uncontrolled score.

When both the likelihood and impact have been considered, multiply the likelihood by the impact to get the overall risk score. This should be mapped on to the matrix in Table 3. The colours of the matrix are a traffic light system that denotes the risk appetite of the Council. High risks are the red zone, medium risks are the amber zone and low risks are the green zone.

The risk score should be used to inform your judgement, rather than dictate how risks compare and what the priorities should be. The scores help you to identify the most serious threats and to make decisions about the significance of those risks to the Council and how, or whether, they should be treated.

Table 1: Description and definitions of LIKELIHOOD of the RISK occurring

Score	Description
6	Almost certain - More than a 90% chance
5	Highly likely – 70% to 90% chance
4	More likely than not – 50% to 70% chance
3	Might happen, but probably not – 30% to 50% chance
2	Unlikely to happen - A 10% to 30% chance
1	Very unlikely - Less than a 10% chance

Table 2: Description and definitions of IMPACT of the RISK

Impact	Example Detail Description
4	Medium term loss of service capability Adverse UK wide publicity Litigation almost certain and difficult to defend Corporate budget realignment Breaches of law punishable by imprisonment
3	Short term loss of service capability Adverse Wales wide publicity Litigation to be expected Budget adjusted across service areas Breaches of law punishable by fines only
2	Short term disruption to service capability Adverse local publicity High potential for complaint, litigation possible Financial implications contained within the Directorate Breaches of regulations/standards
1	No significant disruption to service capability Unlikely to cause any adverse publicity Unlikely to cause complaint or litigation Financial implications contained within service area Breaches of local procedures or standards.

Now that the inherent risk score has been calculated, you can plot the risks on to the risk prioritisation matrix in Table 3. This will be a guide of their relative significance to the Council, and how they will be managed.

Table 3: Risk Prioritisation Matrix

	Impact			
Likelihood	**6**	**12**	**18**	**24**
	5	**10**	**15**	**20**
	4	**8**	**12**	**16**
	3	**6**	**9**	**12**
	2	**4**	**6**	**8**
	1	**2**	**3**	**4**

Part 3 - Managing and controlling risks

Having considered how corporate risks should be identified and assessed for likelihood and impact, it is necessary to consider how risks can be managed and controlled. The risk score should not dictate the level of management required, however it should be taken into consideration as it does point to matters that will require managing.

This involves:

Assessing the inherent risk against the Council's risk appetite

The degree to which an inherent risk is tolerable should be considered against the Council's risk appetite. Table 3 identifies which risks are high (red zone), medium (amber zone) or low (green zone).

Assigning ownership to manage the inherent risk to specific officers

The following is a guide to what level ownership should be at.

Red Risks – These are high impact/high likelihood risks that require active management by senior officers. The risk owner will be a member of and report to the Corporate Management Board

Amber Risks – These risks should be closely monitored by the risk owner who will be a Director or Head of Service

Green Risks – These risks will be managed and monitored within the service.

Assessing the method of control

The Council could tolerate the risk, treat it, terminate it or transfer it to a third party.

The cost and effectiveness of controls is a key consideration and needs to be balanced against the potential consequences (reputational, financial or otherwise) if the event occurred. The cost of implementing and operating the control should not normally exceed the maximum potential benefit.

Depending on the circumstances controls will probably fall under one of four basic approaches

- **Tolerate the risk.** The risks arising from an activity will be scored as part of a risk assessment process. If the score is low, the correct response might be to recognise that the activity brings risk, but still continue with it. You would typically take this approach when it is not cost effective to take action, because the likely impact of the risk, should it occur, is minimal. When a decision is made to tolerate a risk, the reason should be documented. In addition, you should continue to monitor the risk so that you can ensure that your decision remains sound.

- **Treat the risk.** This is the most widely used approach. The purpose of treating a risk is to continue with the activity, but at the same time take action to bring the risk to an acceptable level. This is done through either:

  containment actions. These lessen the likelihood or consequences and are applied before the risk materialises
  or
  contingent actions. These are pre planned responses that will reduce the impact after the risk has happened.

- **Terminate the risk.** This involves stopping an activity altogether, or doing things differently so that the risk is removed.

- **Transfer some aspects of the risk to a third party.** The transfer of risk to another organisation can be used to reduce the financial exposure of the Council and/or pass the risk to another organisation which is more capable of effectively managing it. An example would be the transfer of a risk through the terms of a legal contract, such as an insurance policy. The Council has an Insurance Strategy which is shown in Appendix 1.

The cost of management and control should be understood and be proportionate to the risk being addressed. Resources should be expended on the higher level risks that need active management.

The reasons why a particular course of action has been taken should be documented and the decision implemented by the risk owner.

Part 4 – Assessing the residual risk

By this stage the risks have been identified and analysed and each has an inherent or uncontrolled risk score. In addition you have assessed the available controls and made decisions about which are appropriate and will be put in place. These controls will either make the likelihood that the risk will come to fruition less or they will reduce the impact of the risk in the event that it takes place.

As the likelihood or impact of the risk has changed you now need to rescore the risk, taking these changes into consideration. The resulting number is the residual risk score.

The mapping of the score on to the matrix in Table 3 should be repeated to record the residual risk. This will show what influence the controls have had. The residual risk score should be lower than the inherent risk score. If it isn't, the mitigation measures are just having the effect of stopping the risk from deteriorating. The residual risk score needs to be at an acceptable level when considered against the Council's risk appetite. If the score does not reduce the risk to an acceptable level you should consider the effectiveness and adequacy of the controls.

Part 5 - Recording and Reviewing Risks

It is necessary to monitor action plans to regularly report on the progress being made in managing risk. Alternative action will be needed if those actions initially taken prove ineffective.

All the information relating to the identified risks should be recorded in a risk register. This information should, as a minimum, include: the link to the corporate improvement priorities, a description of the risk; its impact; the inherent risk score, the controls in place or being put in place; the residual risk score and the risk owner. This document needs to be formally approved by the Council and this will be done by the Audit Committee in January each year following prior review by Corporate Management Board and Cabinet in December.

Circumstances and business priorities can change, and therefore risks need to be regularly reviewed. The higher the risk, the more frequent the review. The corporate risk register will be reviewed quarterly by Corporate Management Board and at Corporate Performance Assessment meetings. This is required because:

- Previously identified risks will change over time.

- New risks arising will need to be added.

- It might be appropriate to delete risks. However, when this is done a record of the reasons for this should be kept.

Prior to review at Corporate Management Board, the Risk Management & Insurance Officer will contact the Directorate Business Managers and ascertain what changes to the risk assessment are proposed by the Directorate. These proposals will be included within the report to Corporate Management Board for their consideration.

A timeline for the review process is shown as Appendix 2.

Whilst there is no prescribed process for review, the following is an example of how it could be approached.

Go through the risks listed in the register to consider:

- Are the risks still relevant?
- Have circumstances surrounding the risks changed?
- What progress has been made in managing the risk?
- Given the progress made, do the risk scores need revising?
- Are any further controls needed? If so, what should these be?
- Have any new risks arisen. Perhaps arising out of an adverse event or a new partnership or legislation.

The risk register should then be updated to reflect these changes. A report will be made to the Audit Committee each November.

Appendix 1 - Insurance Strategy

What is Insurance?

All activities involve a certain degree of risk, for example of fire or accident. If these risks come to fruition they will have a financial impact. Insurance is a risk mitigation measure whereby one organisation can transfer the financial impact of the risk to another.

This transfer is achieved when a business which provides insurance agrees to take on some of the risks of another organisation in exchange for a fee, known as a premium. It does this by providing an insurance policy, which is a legally binding contract. The premium, and the terms and conditions of the policy are based on the likelihood of the risk happening and its value. The insurer collects premiums on a number of policies and pools these funds, which it then invests to increase the amount of money held. Should the insured make a claim on a policy; the insurer will meet the claim from the pool of funds. The insurer will seek to make a profit and will be planning for the total premiums it receives in any one year, together with any money it can make through investments, to exceed the total claims it has to pay out.

The benefits of Insurance to Bridgend County Borough Council

Insurance provides the council with many benefits:

1) It protects it against the financial consequences of unexpected incidents.
2) It encourages the council to undertake activities, and invest with confidence, knowing that losses will be shared with the Insurer. This will benefit the local economy and the community.
3) Insurance companies provide expert advice about how the council can prevent or control losses.
4) The council does not need to maintain such significant sums of money in reserve to fund future possible losses. Funds can be released for more productive use.
5) There are social benefits. If someone is injured and it is as a result of the council's negligence, insurance provides them with compensation for their injuries.
6) We have access to external claims handling expertise.

However, Insurance does not provide a panacea to all issues around risk of loss. This is because it rarely provides full financial compensation for the loss, it may be considered uneconomic, there are exclusions and there will be some delays in the restoration of assets to full use.

What risks can be insured?

Not all risks are insurable. To be insurable, the risk must have certain characteristics:

1) The loss must be fortuitous. It can't be inevitable and must be unexpected.
2) It must be possible to allocate a financial value against the results of the incident.
3) The council must have an "insurable interest". This exists if the council would suffer a loss if an event happened. Typically, insurable interest is established by ownership, possession, or a direct relationship.
4) The only possible result of the event happening must be a loss rather than a profit.
5) The loss must be tied in to a specific identifiable event having happened.

What risks will the council insure?

The council's activities result in a certain amount of predictable financial loss. There is no point in insuring these losses because the Insurance Company will want a pound in premium for each pound it anticipates it will pay in claims. In addition it will charge a further amount for its administrative expenses, profit and insurance premium tax. In these circumstances the purchase of insurance is uneconomic.

The council will insure losses which would have a significant impact on budgets and the provision of services. This is generally achieved by purchasing insurance with a deductible. The overall exposure to financial loss is controlled by an aggregate deductible. This caps losses incurred in any one year to a certain amount.

The council will also buy insurance when it has to by law or where the provision of the insurance provides additional benefits which enable the activity to take place.

The pitfalls of purchasing insurance

The council will seek to keep its insurance arrangements in order so that if a loss occurs they respond in the way intended. In particular the council will:

1) Undertake a quinquennial review of its buildings sums insured. Between reviews sums insured will be amended in line with indices provided by the Royal Institute of Chartered Surveyors.
2) Be aware of the policy wordings and understand what they mean.
3) Keep insurers appraised of changing risk features which will have a material impact on the way Insurers perceive risk.
4) Maintain comprehensive records of insurance including Insurance Policy documentation.
5) Employ the services of a professional insurance broking company who can provide expert advice
6) Only transfer risks to Insurance Companies which are financially strong.

Appendix 2 - Risk Management Timeline 2014/15 & 2015/16

Timeline	Responsibility	Action
December 2014	CMB	Consider draft 2015/16 risk assessment and agree proposed changes to the risk management policy
January 2015	Audit Committee	Considers the 2015/16 risk assessment
February 2015	Cabinet/Council	Considers the 2015/16 risk assessment in conjunction with the Medium term Financial Strategy
March 2015	CMB CPA	Review of the 2015/16 risk assessment Risk assessment considered at quarter 3 2014/15 CPA
April 2015		
May 2015		
June 2015	CMB CPA	Review of the 2015/16 risk assessment Risk assessment considered at quarter 4 2014/15 CPA
July 2015		
August 2015		
September 2015	CMB	Review of the 2015/16 risk assessment
October 2015		
November 2015	CPA Audit Committee	Risk assessment considered at quarter 2 2015/16 CPA Audit Committee considers the changes made to the 2015/16 risk assessment
December 2015	CMB	Consider draft 2016/17 risk assessment and agree proposed changes to the risk management policy
January 2016	Audit Committee	Considers the 2016/17 risk assessment
February 2016	Cabinet/Council	Considers the 2016/17 risk assessment in conjunction with the Medium term Financial Strategy
March 2016	CMB CPA	Review of the 2016/17 risk assessment Risk assessment considered at quarter 3 2015/16 CPA

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE

15th January 2015

REPORT OF THE CORPORATE DIRECTOR – RESOURCES

INFORMATION AND ACTION REQUESTS BY COMMITTEE

1. Purpose of Report

1.1 To summarise for Members the actions and information requests made by the Audit Committee at its last meeting on 20th November 2014.

2. Connection to Corporate Improvement Objectives / Other Corporate Priorities

2.1 Internal Audit's work impacts on all of the Corporate Improvement Objectives and other Corporate Priorities.

3. Background

3.1 Internal Audit conducts reviews according to an annual audit plan and reports findings to Audit Committee.

4. Current situation / proposal

4.1 A summary of actions and information provided is contained in the following table:

Audit Committee Date	Action /Request	Officer Responsible	Comment	Current Status
20th November	A Member referred to page 5 (84) of the minutes of the previous meeting, and the third paragraph of Minute no 138 on this page where she had requested detailed information on the dispute between the Authority and the contractor over the final costs of the Bridgend Resource Centre's capital contract.	Corporate Director - Resources	Update to be provided at the April Committee meeting.	Outstanding
20th November	A Member also asked for an update	Corporate Director - Communities	Report scheduled on the Agenda for 15th January Committee meeting	Complete

	at the next meeting on disposal of waste/aerobic digestion			

5. Effect upon Policy Framework& Procedure Rules.

5.1 None

6. Equality Impact Assessment.

6.1 There are no equality implications.

7. Financial Implications.

7.1 There are no financial implications regarding this report.

8. Recommendation.

8.1 That the Committee notes this report.

Ness Young
Corporate Director - Resources
15th January 2015

Contact Officer: **Helen Smith**
Chief Internal Auditor

Telephone: **(01656) 754901**

Email: **internalaudit@bridgend.gov.uk**

Postal address: Bridgend County Borough Council
Internal Audit
Innovation Centre
Bridgend Science Park
Bridgend
CF31 3NA

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE

15th JANUARY 2015

REPORT OF THE CORPORATE DIRECTOR - RESOURCES

COMPLETED AUDITS

1. Purpose of Report.

1.1. To summarise for members the findings of the audits recently completed by Internal Audit Shared Service.

2. Connection to Corporate Improvement Objectives / Other Corporate Priority.

2.1. Internal Audit's work impacts on all the Corporate Improvement Objectives/other Corporate Priorities.

3. Background

3.1. Internal Audit conducts reviews according to an annual audit plan and reports findings to Audit Committee.

4. Current situation / proposal.

4.1. Recently completed audits are summarised in **Appendix A** attached to this report.

4.2 Members are invited to raise any issues on these audits or to request the production of a fuller report at the next meeting.

5. Effect upon Policy Framework & Procedure Rules.

5.1. None

6. Equality Impact Assessment.

6.1 There are no equality implications.

7. Financial Implications.

7.1. None

8. Recommendation.

8.1. That Members give due consideration to the completed audits report to ensure that all aspects of their core functions are being adequately reported.

Ness Young
Corporate Director - Resources
15th January 2015

Contact Officer: **Helen Smith**
Chief Internal Auditor

Telephone: **(01656) 754901**

E-mail: **internalaudit@bridgend.gov.uk**

Postal Address
Bridgend County Borough Council
Internal Audit
Innovation Centre
Bridgend Science Park
Bridgend
CF31 3NA

Background documents

Internal Audit reports relating to the above audits held within the Internal Audit Division

Appendix A

Completed Audits

Report	System Overview	Work Finalised	Audit Days	Key Messages	Audit Opinion	Key Action Plan Dates
Debtors	An audit review of the Miscellaneous Income function was undertaken as part of the 2014/15 audit plan. For the period January to July 14, a total of 17,371 invoices were raised through the Sundry Debtors system, with a total value of £13,620,048. For this same period 764 credit notes were raised, with a total value of £1,150,704.	Nov 14	26	During the Audit a number of strengths and areas of good practice were identified as follows: Invoices reviewed were supported with adequate backing documentation to evidence the reason behind the issuance of a credit note. There was an adequate segregation of duties in the write off process. The Income Team is knowledgeable and experienced with each officer being responsible for a certain directorate ensuring that queries are dealt with and resolved efficiently. The following minor issues were identified during the Audit which need to be addressed: In some cases sampled, credit notes had been raised to counter act errors made when raising invoices. In 2 instances write offs had been performed on COA prior to the appropriate authorisation being obtained.	Substantial	Immediate
Staff Expenses	In April 2014 a new expenses system was implemented. The control environment was therefore revisited to ensure previous controls had migrated with the	Nov 14	15	During the Audit a number of strengths and areas of good practice were identified: The number of rejections occurring from the data conversion process has significantly reduced since the last audit review.	Reasonable	April 15

Appendix A

	new system and that any issues identified in the 2013/14 audit had been addressed. Audit testing therefore focused primarily on expenses processed after 7th April 2014. The total amount of expenses claimed between April and July of the 2014/15 financial year, for the APT&C Monthly Payroll 010 is as follows: Mileage £296,558 Subsistence £16,395			Most individuals advised the Auditor that consideration had been given to sourcing the most efficient method of travel prior to the journey being undertaken. The following key issues were identified during the Audit which need to be addressed. There has been no corporate expenses policy available since the commencement of the new system in April 2014. Some duplicate claims identified had been input twice in error and therefore paid twice. Managers authorising mileage claims do not appear to be conducting adequate checks before authorising claim forms resulting in duplicate payments of journeys. There is no guidance to managers who are responsible for authorising expense claims.		
Telecare Follow Up	The objective of the audit was to ensure that adequate steps have been taken by the team to address recommendations made in a "limited assurance" audit report issued in April 2014. Concerns were raised in the areas of business continuity and obtaining assurance from third party operators regarding their staff DBS checks. This follow up review primarily focussed on those areas, though did also seek assurance that the recommendations relating to other control weaknesses	Nov 14	5	Overall the auditor recognises that whilst changes are still being made in this area many beneficial changes to the service have already taken place to improve the control environment which has culminated in an overall audit opinion of reasonable assurance. This is encouraging and is recognised as a positive move forward to enhance efficiency and productivity in a quickly growing service area.	Reasonable	December 14

	identified at the time of the original audit were also being addressed.					
Lone Worker System	The BCBC Lone Worker System is operated by Customer and Community Support Unit (CCSU) staff and is available on a 24 hour basis to ensure that employees who have a requirement to lone work have the security of a backup system should something happen that requires urgent assistance. Once registered, staff will log their visits via a mobile phone on the system using an individual pin code that requires them to call into the system at a predetermined future time. Should this call not be made by the member of staff, the CCSU will implement a response that will escalate depending on the severity of the situation. The system software was purchased in October 2013 and after an initial period of training, completion of risk assessments, input of data, etc., it became fully operational in April 2014 and currently has 156 users registered.	Dec 14	28	During the Audit a number of strengths and areas of good practice were identified as follows: The system was appropriately monitored. There are good access controls in place. The following key issues were identified during the Audit which need to be addressed: ICT Business Continuity Processes requires implementation. Following the completion of risk assessments and subsequent high initial uptake, there is now a relatively low use of the system (less than20%). The overall limited assurance opinion has predominantly been based on the concerns raised regarding Business Continuity planning and the low use of the system following initial risk assessments and uptake. It is acknowledged that this latter concern is outside of the control of the CCSU Manager.	Limited	March 15
Cash Control	The functions of the Cash Control section include: Monitoring of income and	Dec 14	10	During the current audit no control weaknesses were identified within the cash control system. However as a result of	Substantial	N/A

	E.returns received from all collection points throughout the Authority in order to identify discrepancies between collections and bankings. Liaising with the collectors and the bank in order to resolve discrepancies. Processing items of income received via the main bank accounts and daily postal remittances. Processing cheques returned 'unpaid' from the bank. Investigation and transfer of items costed to the suspense account. Ordering, storage and issue of controlled stationery.			audit testing involving the retrieval of scanned documents, the method of scanning and indexing of documents a recommendation has been made to improve these processes.		
Purchasing Cards	From 1st April 2014, Barclaycard replaced Natwest as the Authority's commissioned Purchasing Card Provider. At the start of the Audit (August 2014) there were 92 Purchasing Cards as part of the Authority's Purchasing Card Programme. Cards are used by Primary schools, Fleet Services, Corporate Cleaning, Families First, Flying Start, Adoption, Safeguarding, Foster Care, Building Maintenance, Library Services, Legal and Regulatory Services, Highways, Planning, Property Services and Planning. It should be noted that	Dec 14	15	During the Audit a number of strengths and areas of good practice were identified as follows: Clear processes were evidenced for the issue of cards and the management of accounts by the Administrators (Procurement). Information was retained by Procurement in an organised manner which evidenced actions taken and records held. Non-review of transactions was being monitored and escalated as necessary. The following key issues were identified during the Audit which need to be addressed: Non-compliance of procedures within Building Maintenance which causes	Reasonable	December 14

	Comprehensive schools are not covered as part of the corporate monitoring process. They are on a separate Barclaycard Spend Management (BSM) system because they have their own bank account therefore have responsibility for completing their own reconciliation via SIMS. Purchasing Cards used by Comprehensive Schools are therefore not tested as part of this audit.			inefficient practices, lack of control and possible income losses for jobs undertaken. Blanket training on the BSM system had not been provided and training gaps were identified. VAT receipts were not obtained and retained in all cases and VAT anomalies were identified with regard to BM invoices.		
Electoral Registration and Elections Management System	The Electoral Registration and Elections Management System was reviewed from an ICT perspective. The system is used for: • Updating and approving elector details and transfers, including the production and flagging of registers. • Implementing and monitoring periodic routines (including response tracking and young voter information) to maintain the integrity of the electoral register. • Assisting in the sale of registers by way of organisation logging, pricing and set-up. • Organising the canvass workflow process and	Dec 14	16	During the Audit a number of strengths and areas of good practice were identified as follows: • A full log of changes can be viewed by running the Database Changes Audit Trail report. This includes information on the date, time, table altered and the action performed. • There is an agreement in place between BCBC and Halarose Limited to Provide Network Access, thus limiting the Council's liability in the event of any data loss. • Previous registers in the system are retained in accordance with the Records Management Society of Great Britain's General Disposal Guidelines for Local Authorities. The following key issues were identified during the Audit: • Implementation of password controls for	Reasonable	March 15

	allocating staff members. • Direct scanning of elector and house batches. • Election management of staff, candidates, premises and polling stations. The review included • Identity & Access Management. • Information Security & Integrity. • Audit Logging. • Reporting. • Application & Database Management. • Business Continuity.			user accounts within the application does not comply with BCBC ICT password criteria. • Ability to delete user access log files does not comply with best practice on audit logging. • The ICT Business Continuity Plan has omissions concerning data resilience, alternatives and recovery. • Some reports allow access to information that is restricted within the application by normal security permissions.		
Benefits – Free School Meals	Free school meals (FSM) are awarded where the parent or pupil meets the eligibility criteria and a request has been made by, or on behalf of the parent or pupil for FSM. The objective of the audit was to review the effectiveness of the assessment process to support management of risks through appropriate controls. To ensure that the Free School Meals process for claimants and schools is accurate, efficient and compliant with WG guidance.	Dec 14	6	The administration of free school meals within the Benefits Section ensures accuracy of entitlement. The main issue identified during the Audit which needs to be addressed relates to there being no policy and procedural documents to govern the Free School Meals process.	Reasonable	March 15

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE
15th JANUARY 2015

REPORT OF THE CORPORATE DIRECTOR - RESOURCES

INTERNAL AUDIT'S ANNUAL REPORT ON SCHOOLS

1. Purpose of Report.

1.1 To present to Members a copy of the report issued to the Corporate Director Children, summarising the findings made by Internal Audit in relation to the school based audits conducted in the 2013/14 audit year.

2. Connection to Corporate Improvement Plan / Other Corporate Priority.

2.1. The work of audit is intended to assist in the achievement of all corporate and service objectives.

3. Background

3.1. On an annual basis the Internal Audit Section visits a proportion of the Authority's Primary, Secondary and Special Schools in order to carry out a pre-determined programme of work, with a view to giving the school, their Governing Body and the Authority assurance that controls are operating effectively.

3.2. In 2013/14 over £91 million was delegated to the Authority's Secondary, Primary and Special Schools.

3.3. Internal Audit aims to audit every school at least once every three years, with increased visits if necessary, on the basis of a risk assessment. The risk assessment will incorporate schools who were deemed to provide limited or no assurance in controlling risks in the past, schools where there have been changes in key personnel such as the Head Teacher or Clerk, schools due to amalgamate or having just amalgamated and any other concerns brought to Internal Audit's attention.

3.4. In 2013/14 all schools subject to an audit visit were issued a pre audit questionnaire and required to submit selected documentation prior to the visit. This information was then reviewed and the audit programme tailored to focus on the high risk areas identified. Thus, not all areas of the schools programme were subject to review during the audit visit as assurance was gained from the pre audit questionnaire responses.

4. Current situation / proposal

4.1. For 2013/14, a total of 24 audit visits were conducted, this included; 4 Secondary school, 16 Primary schools and 2 infant schools. This also included 2 additional schools – a junior school that was closing and a Comprehensive School that was audited in 2012/13 but due to amalgamation and split site, 2 audit areas were outstanding. The report presented in **Appendix A** provides Members with details of the key findings made during these audits.

4.2. In summary, the four Comprehensive schools visited were all graded as providing Substantial Assurance. Of the 16 Primary schools visited; 11 were graded as providing substantial assurance and 5 graded as reasonable.

4.3. Based on the Audit Opinions assigned to each of the schools visited, 77% achieved a rating of substantial assurance and 23% achieved reasonable assurance. As for 2012/13, there were no limited assurance reports issued within the year.

4.4. Any recommendations relating to Internal Audit's findings will have been presented in a report directly to the school and Governing Body concerned.

5. Effect upon Policy Framework& Procedure Rules.

5.1. There is no effect upon the policy framework and procedure rules

6. Equality Impact Assessment.

6.1. There are no equality issues.

7. Financial Implications.

7.1. Effective audit planning and monitoring are key contributors in ensuring that the Council's assets and interests are properly accounted for and safeguarded.

8. Recommendation.

8.1. That the Committee gives due consideration to the Internal Audit annual report on schools to ensure that all aspects of their core functions are being adequately reported.

Ness Young
Corporate Director - Resources
15th January 2015

Contact Officer: Helen Smith – Chief Internal Auditor

Telephone: (01656) 754901

E-mail: internalaudit@bridgend.gov.uk

Postal Address
Bridgend County Borough Council
Internal Audit
Innovation Centre
Bridgend Science Park
Bridgend
CF31 3NA

Background Documents

Schools Annual Report
Individual Audit reports relating to each school visited.

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Bridgend & Vale
Internal Audit
Shared Service

Internal Audit Report

Authority	Bridgend County Borough Council
Directorate	Children
Audit Title	Summary of Schools Report 2013/14
Audit Year	2014/15

To	Deborah McMillan, Corporate Director
CC	Nichola Echanis, Head of Strategy Partnerships & Commissioning Colin Turner, Safeguarding & Family Support
Auditor	Laura Barnes, Filippa Daniels, Sian Press, Craig Hopkins, Anne Sloman & Nathan Smith
Report Date	9TH October 2014
Audit Ref	AA421

1. Introduction

1.1 The Internal Audit Section carries out an assurance function that provides an independent and objective opinion to the organisation on the control environment which encompasses the systems of governance, risk management and internal control, by evaluating its effectiveness in achieving the organisation's objectives. It examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources and in accordance with the Public Sector Internal Audit Standards (PSIAS) effective from 1st April 2013.

1.2 Since the introduction of the Internal Audit Shared Service arrangement and subsequent implementation of the combined audit work programme, it can be established, as evidenced through completed Client Satisfactory Surveys as detailed in section 5 below and verbal comments received, that processes have been favourably received.

1.3 This combined work programme incorporates a risk strategy which takes into account the result of any previous audit work, the results of the Control Risk Self-Assessment Questionnaires (CRSA) submitted within interim years and completion of a Pre-audit Questionnaire (PAQ), in order to inform the individual risk assessment process undertaken for each school. This enables Internal Audit to recognise controls in place at each school and highlight any possible risks when determining the frequency of visits and scope of audit coverage, therefore ensuring that resources are targeted effectively. Thus, not all areas of the schools work programme will be subject to review during the audit visit as assurance will be gained from previous audit work, CRSA and PAQ.

1.4 This process allows the Chief Internal Auditor to obtain assurance that internal controls are operating effectively at schools and contributes to the overall Head of Audit's annual audit opinion which is reported to the Council's Audit Committee and upon which the Council's External Auditors will place reliance.

1.5 In 2013-14 there were 61 schools in Bridgend County Borough Council (9 Comprehensive, 44 Primary, 2 Junior, 3 Infant, 1 Nursery and 2 Special Schools). During the financial year CRSAs were issued and completed by 31 schools not scheduled for an audit visit. Audit visits were limited to those schools deemed high risk due to changes in management structure or having assurance issues in the previous financial year, as well as those due for review under the usual 3 yearly rolling programme of school visits. A total of 24 audit visits were conducted during 2013-14, which included 16 Primary schools, 2 Infant Schools and 4 Comprehensive schools. This included 2 additional schools - a Junior school that was closing and a Comprehensive School that was audited in 2012-13 but due to amalgamation and spilt site, 2 audit areas were outstanding.

1.6 This report sets out a summary of the work undertaken and includes details of financial resources available, the analysis of CRSA received, outcomes of audit visits undertaken, the results of Client Satisfaction Surveys and also any other associated areas within schools covered by Internal Audit during the financial year.

2. Financial Information

2.1 School budgets are delegated to the control of School Governors under the BCBC Financial Scheme for Schools (FSS) which includes Financial Regulations and Procurement Rules. The Individual School Budgets for 2013-14 and comparative figures for 2012-13, as recorded on the Council's financial system, were as follows:

Table 1 – School Budgets 2012/13 and 2013/14

	2013/14	**2012/13**
Comprehensive Schools Budget	£42,224,875	£40,405,502
Primary & Nursery Schools Budget	£41,789,592	£40,852,675
Special Schools Budget	£7,100,235	£6,953,314
Total	**£91,114,702**	**£88,211,491**

The schools also obtain additional income in the form of various Welsh Government (WG) grants and initiatives.

2.2 In September 2010 the School Funding (Wales) Regulations 2010 came into force. The Regulations provide local authorities with powers to direct spending or claw back monies where surplus budgets held by schools exceed £50k for

Primary and £100k for Comprehensive and Special schools. The FSS currently states:

Schools will be required to complete a proforma at the end of each financial year, detailing how they intend to make use of their school balances over the coming financial year if they exceed 5% of the school budget share or £10,000, whichever is the greater The proforma will identify the following main areas:

- *General Contingency*
- *Retrospective Adjustment*
- *School Planned Initiatives*
- *Demographic Change*
- *Unexpected Income/Expenditure*
- *Deficit*

Consequently, once the accounts are closed, schools with balances in excess of these amounts will be required to provide a more detailed breakdown of how they intend to use these balances. These surpluses will only be allowed to be carried forward with the approval of the Corporate Director Children and the Assistant Chief Executive (or his or her representatives). Any surpluses not approved will be clawed back and returned to the overall Schools Budget for that financial year.

2.3 Table 2 below sets out the cumulative surplus and deficit balances identified and carried forward into 2014/15.

Table 2 – Cumulative Surplus and Deficit Balances Carried Forward to 2014/15

Category	Total Number of schools	Cumulative Surplus	Number of schools with Surplus	Deficit Balance	Number of schools with Deficit
Comprehensive Schools	9	£984,258	8	£154,895	1
Primary Schools	49	£1,288,633	40	£143,394	9
Special Schools	2	£492,866	2	£000	0
Nursery Schools	1	£000	0	£19	1
Total	**61**	**£2,765,757**	**50**	**£298,308**	**11**

2.4 From analysis, it was established that, as at 31st March 2014, 50 schools had a surplus balance of which 9 primary schools had a surplus in excess of £50K, 6 comprehensive and 2 special schools having a surplus in excess of £100K. According to information provided by the Principal Finance Officer claw back will be exercised for 5 schools. Table 3 below details those schools and the amounts to be clawed back.

Table 3 – Claw Back Details

School Name	Claw back amount
Betws Primary School	£5,000
Brackla Primary School	£10,000
Caerau Primary	£15,500
Cefn Glas Infants School	£3,000
Ysgol Bryn Castell	£96,587
Total	**£130,087**

2.5 The total of deficit balances of £298,308 related to 1 nursery, 9 primary schools and 1 comprehensive school as listed in Table 4 below.

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Table 4 - Deficit Balances as at 31st March 2014

Name of School	Deficit Balance
Pontycymmer Nursery School	£19
Coety Primary School	£47,245
Corneli Primary School	£2,110
Coychurch (Llangrallo) Primary School	£2,806
Garth Primary School	£12,286
Mynydd Cynffig Junior School	£11,156
Nantymoel Primary School	£11,990
St Marys & St Patricks Primary Catholic School	£20,656
Tynyrheol Primary School	£7,689
Ysgol Y Ferch O'r Sger Corneli	£27,456
Brynteg School	£154,895
Total	**£298,308**

2.6 As part of the Internal Audit plan for 2014/15 a review of schools surplus and deficit balances will be undertaken to evaluate compliance with Welsh Government Regulations and BCBC Policy.

3. Control Risk Self-Assessment (CRSA)

3.1 The CRSA is issued to schools in the interim years between audit visits. The aim of the CRSA is to enable Head Teachers to review and ensure that they undertake and comply with requirements of the Financial Scheme for Schools (FSS) which is based on the legislative requirements of the Schools Standards and Framework Act 1998. The questionnaire also covers a number of other operational risks and controls which come under the management of the school. The CRSA provides both a tool for Internal Audit to evaluate the financial and other related controls in operation at schools, thus providing assurance on the internal control environment and reducing the need for more frequent audit visits and as a basis upon which Head Teachers and Governors will also be able to place degrees of reliance on the systems for which they are responsible.

3.2 The CRSA is based on areas covered within the school audit work programme and assists schools in the identification and self-evaluation of risks and internal controls. Schools are also required to submit supporting documentation for certain areas to demonstrate compliance. The CRSA and supporting documentation is then assessed by the evaluation of the responses received. An overall % score is then applied as follows, greater than 80% = very good, 65 – 79% = good, 50 – 64% = fair and below 50% = poor.

3.3 In 2013/14 CRSAs were received from 31 schools that were not scheduled for an audit visit. Of these, 23 were Primary Schools, 2 were Junior Schools, 1 was an Infant Schools 1 Nursery School, 3 Comprehensive Schools and 1 Special School. 100% of the schools achieved greater than 80% positive scores therefore deeming them to have ‘very good’ internal controls in operation.

4. School Audit Visit Findings

4.1 Each school, prior to the visit, completes a Pre Audit Questionnaire (PAQ) based on the responses received; the outcomes/findings of previous audit work, and the result of the previous CRSA forms the basis of a risk assessment process to determine the areas that will be included and covered at the visit. Therefore each school has a unique programme designed to target areas of the highest risk within that school. A more detailed review is undertaken at Comprehensive schools to reflect the size and nature of their operations.

4.2 During 2013/14 and 2012/13 the programme of visits incorporated the following number of schools:

Table 5 – The Number of Schools Visited

	2013/14	2012/13
Comprehensive Schools	4	3
Primary, Infant & Nursery Schools	18	17
Special Schools	0	2

Follow Up/Special Audits	2	2
Total	**24**	**24**

4.3 The following details the complete list of possible areas that could be covered during an audit visit at both Primary and Comprehensive schools:

- Imprest Account/Petty Cash
- Cash & Deposits/School Meals Income
- Free Meal Allocation
- Procurement and Payments
- Budgetary control
- Child Protection
- Private Funds
- Assets and Inventories
- IT security and Data Protection
- School Transport
- Governance
- PLASC
- Main bank account reconciliation (where applicable)

4.4 To minimise any inconvenience to the staff at the School, Auditors typically spend one day on site at a primary school and 2 to 3 days on site at Comprehensive Schools and Special schools.

4.5 At the conclusion of an audit visit a formal report is produced which makes recommendations for any improvements necessary and gives an overall audit opinion as to the adequacy and effectiveness of the internal control environment. Audit opinions range from Substantial Assurance, where controls were operating well, to No Assurance where fundamental weaknesses have been identified which compromises the overall control environment. The audit report includes a Management Implementation Plan (MIP) of recommendations to address identified weaknesses that the Head Teacher is required to complete.

The table below presents comparative results of audit opinions for those schools visited between 2012/13 and 2013/14:

Table 6 – Audit Opinions 2012/13 & 2013/14

Audit Opinion	2013/14	2012/13
Substantial Assurance	17	16
Reasonable Assurance	5	8
Limited Assurance	0	0

No Assurance	0	0
No opinion given	2	0
Total Schools (Nursery, Primary, Comprehensive & Special Schools)	**24**	**24**

4.6 When comparing the two years and number of schools given an audit opinion; it can be identified that in 2013/14, 77 % of those schools visited resulted in Substantial Assurance whereas in 2012/13 67% resulted in the same. There were no schools with Limited or No Assurance in either 2013/14 or 2012/13.

4.7 Recommendations made to schools during the course of the 2013/14 year were categorised according to their significance of the weaknesses identified as Fundamental, Significant or Merits Attention. Those that were Fundamental or Significant required immediate attention to mitigate risks identified whereas those categorised as Merits Attention relate to suggestions for improvement or are deemed to be of low risk.

4.8 Due to the risk assessment process prior to the commencement of the audit visit, not all areas as set out in 4.3 above were examined during the audit. Table 7 below represents the results from the areas examined within those schools tested and a summary of recommendations made during the audit reviews of primary and nursery Schools in 2013/14.

Table 7 – Areas Examined & Summary of Recommendations 2013/14 Primary & Nursery Schools

Area of review within Primary & Nursery Schools	Number & Type of Recommendations made				
	Number of schools with area tested	F	S	M A	Total
Imprest/Petty Cash Account	5	0	0	0	**0**
School Meal Income & Free Meals	18	0	7	11	**18**
Procurement & Payments	18	0	3	15	**18**
Procurement Card	3	0	1	3	**4**
Budgetary Control	16	0	3	8	**11**
School Income	5	0	4	3	**7**
Private Fund	5	0	0	4	**4**
PLASC	8	0	0	0	**0**
Asset and Inventories	4	0	1	1	**2**
IT & Data Protection	10	0	2	3	**5**
Child Protection & Staffing	18	0	6	22	**28**
Governance	8	0	0	4	**4**
Total recommendations		**0**	**27**	**74**	**101**

Primary Infant & Nursery School visits	**18**				
Average Recommendations per school	**5.6**				

Key: F= Fundamental
S= Significant
MA= Merits Attention

4.9 The above table shows that Internal Audit resources were focussed on the high risk areas of School Meal income, Procurement & Payments and Child Protection & Staffing with these areas being covered in all 18 of the schools audited. The area with the highest amount of recommendations was Child Protection & Staffing with 6 Significant and 22 Merits Attention, an average of 1.56 recommendations per school with this area covered.

4.10 5 of the 6 Significant recommendations in regards to Child Protection & Staffing were due to schools allowing new employees to commence their roles without CRB/DBS clearance or a Risk Assessment being in place. This high number of recommendations coincides with a change in Government systems in relation to how safeguarding checks are processed and notified. In December 2012 the Disclosure & Barring Service (DBS) was introduced with 28th February 2013 seeing the end of CRB checks being completed and them replaced by DBS checks. Despite DBS checks being introduced for Child Protection from this date the policy and guidance was not completed, approved or issued by HR for over a year after its introduction meaning Head Teachers along with other Line Managers in the Authority have had little guidance in this area.

4.11 Procurement card was introduced to the school programme for 2013/14 having previously been covered as part of Procurement & Payments. Due to an increase in the number of cards held by individual schools and therefore transactions this has become an area of increased risk.

4.12 One Comprehensive school had a partial audit of 2 specific areas that were not completed in the full audit visit conducted at the end of 2012/13. Recommendations made during audit reviews of the other 4 Comprehensive Schools visited in 2013/14 are summarised in Table 8 below:

Table 8 – Areas Examined & Summary of Recommendations 2013/14 Comprehensive Schools

Area of review within Comprehensive & Special Schools	Number & Type of Recommendations made				
	Number of schools	F	S	MA	Total

	with areas tested				
Petty Cash Account	3				**0**
Till Income & Banking – Comprehensive schools	4				**0**
Free School Meals	3				**0**
School Meal Income for Special Schools	0				**0**
Orders & Payments	4			2	**2**
Procurement Card	2				**0**
Budgetary Control	4			1	**1**
School Income	4			5	**5**
Private Fund	1				**0**
PLASC (Pupil Level Annual School Census)	1				**0**
Asset and Inventories	1			2	**2**
IT & Data Protection	4			1	**1**
Child Protection & Staffing	4		2		**2**
Governance	2			1	**1**
Bank Reconciliations & cheque control (If Applicable)	4				**0**
Transport	2				**0**
Total Recommendations			**2**	**12**	**14**
School visits	**4**				
Average Recommendations per school	**3.5**				

4.13 Substantial assurance was provided to the 4 Comprehensive schools visited.

4.14 14 recommendations were made in total with the two Significant recommendations made in regards to Child Protection & Staffing. Similar to the primary sector, recommendations for Child Protection & Staffing were due to 2/4 schools allowing new employees to commence their roles without CRB/DBS clearance or a Risk Assessment in place prior to the start date.

4.15 Neither of the County Borough's Special Schools were scheduled for an audit during 2013/14

4.16 In addition to the regularity audits mentioned above, an investigation was also carried out at a junior school that was closing due to concerns regarding the disposal of assets at the school.

5. Client Satisfaction Surveys

5.1 Following the audit visit and a debriefing session with the Head Teacher, a draft report on the audit findings and recommendations is sent to each school for agreement and response by the Head Teacher. A subsequent agreed final report is issued to the school and a copy forwarded to the Chair of Governors for presentation to the Governing Body.

5.2 It is at this stage that Head Teachers are asked to complete a Client Satisfaction Survey (CSS) as a means of expressing their opinion on the audit process. Responses are utilised by Internal Audit to gain assurance on delivery of services provided or make improvements where it is deemed necessary. It was pleasing to note that 19 Primary schools and 4 Comprehensive schools visited returned their completed Client Satisfaction Survey.

5.3 The CSS covers 10 aspects of the audit process including; planning, conduct and reporting, culminating in the overall agreement of the audit opinion provided. Responses range from Very Satisfied to Unsatisfactory for each of the 10 areas, as well as an overall agreement with the audit opinion. 22 schools (95%) of schools gave an overall rating of Very Satisfied or Satisfied.

5.4 There was one Primary School who felt that their audit assurance rating of 'Reasonable' was not a true reflection of their school and processes.

6. Conclusion

6.1 From analysis of the 2013/14 outturns it was established that 51/61 schools achieved a surplus, with a cumulative total of £2,765,757 being carried forward into the 2014/15 financial year. In line with regulations claw back was exercised for 5 schools with a total of £130,087 being reclaimed centrally. The cumulative deficit for 11 schools was £298,308 with 1 comprehensive school having a deficit balance of £154,895. There continues to be close monitoring centrally to ensure recovery is achieved and that schools spend their surplus in line with completed returns.

6.2 CRSA continues to be a reliable self-evaluation process for schools and an effective method for Internal Audit to determine controls in place in the interim years between audit visits. A review of the content of the CRSA is currently underway to ensure that the form remains up to date and relevant.

6.3 Based on the Audit Opinions assigned to each of the schools where an opinion was given, 17/22 (77%), achieved substantial assurance, whilst 5/22 (23%) achieved reasonable assurance. As for 2012/13, there was no limited assurance reports issued within the year which is pleasing.

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE

15th January 2015

REPORT OF THE CORPORATE DIRECTOR - RESOURCES

INTERNAL AUDIT – OUTTURN REPORT – APRIL TO DECEMBER 2014

1. **Purpose of Report.**
   1.1 The purpose of this report is to inform the Audit Committee of actual Internal Audit performance against the nine months of the audit plan year April to December 2014.

2. **Connection to Corporate Improvement Plan / Other Corporate Priority.**

   2.1. The work of audit is intended to assist in the achievement of all corporate and service objectives.

3. **Background**

   3.1. The 2014/15 Internal Audit Plan was submitted to the Audit Committee for consideration and approval on the 10th April 2014. The Plan outlined the assignments to be carried out and their respective priorities.

   3.2. The Plan provided for a total of 1,310 productive days to cover the period April 2014 to March 2015.

4. **Current situation / proposal**

   4.1. A summary of audits commenced and completed during the period April to December 2014 are detailed in both **Appendix A and B.**

   4.2. The following table shows an analysis of work done in relation to the plan (1,310 available days).

Directorate	2014-15 Full Year Plan Days	Proportion of Plan Days available for April to Dec. 2014	2014-15 April to Dec. Actual Days
Resources	365	274	351
Legal and Regulatory Services	85	64	69
Children's (Including Schools)	215	161	93
Communities	125	94	134
Wellbeing	125	94	46
Cross Cutting	255	191	186

External	20	15	19
Contingency - Unplanned	70	52	54
Contingency – Fraud and Error	50	37	24
TOTAL PRODUCTIVE DAYS	**1,310**	**982**	**976**

4.3. The figures show that 976 actual days have been achieved, which represents 99% of that expected.

4.4. At the end of the period 43 reviews / jobs have been completed and closed, 39 of which have provided management with an overall audit opinion on the internal control environment for each of the systems examined. So far to date, significant weaknesses in the system of internal control have been identified in 6 reviews, 5 of which only limited assurance could be placed on the control environment and one where no assurance could be provided. The Internal Audit Section is in the process of following ups on these reviews. Of the remaining 33 closed reviews; the effectiveness of the internal control environment in 18 was deemed good and therefore substantial assurance was provided in 15 reviews the control environment was deemed to be satisfactory and therefore the assurance provided was that of reasonable.

5. Effect upon Policy Framework& Procedure Rules.

5.1. There is no effect upon the policy framework and procedure rules.

6. Equality Impact Assessment.

6.1. There are no equality implications.

7. Financial Implications.

7.1. Effective audit planning and monitoring are key contributors in ensuring that the Council's assets and interests are properly accounted for and safeguarded.

8. Recommendation.

8.1. That Members give due consideration to the Internal Audit Outturn Report and appendices covering the period April 2014 to December 2014 to ensure that all aspects of their core functions are being adequately reported.

Ness Young
Corporate Director - Resources
15th January 2015

Contact Officer: Helen Smith – Chief Internal Auditor

Telephone: (01656) 754901

E-mail: internalaudit@bridgend.gov.uk

Postal Address
Bridgend County Borough Council
Internal Audit
Innovation Centre
Bridgend Science Park
Bridgend
CF31 3NA

Background Documents

None

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APPENDIX A

BRIDGEND COUNTY BOROUGH COUNCIL

THE CHIEF INTERNAL AUDITOR (AS THE HEAD OF INTERNAL AUDIT) – ONGOING OPINION REPORT FOR THE PERIOD APRIL TO DECEMBER 2014

1. Introduction

1.1 This report details the work undertaken by the Internal Audit Shared Service for the period April to December 2014 in accordance with the Annual Risk-Based Plan presented to the Audit Committee on 10th April 2014. It summarises the work performed by internal audit for the period stated and highlights any issues identified if applicable.

1.2 It is the duty of the Head of Internal Audit to give an opinion, at least annually, on the adequacy and effectiveness of the system of internal control. This is based on the adequacy of control observed from completing a selection of audit reviews as documented in the annual Audit Plan and other advice work completed on control systems. The results of our investigation work and the work of other internal reviews with Bridgend County Borough Council also informs my opinion.

1.3 This report covers the nine month period April to December 2014. An overall opinion on the adequacy and effectiveness of the system of internal control has been provided within the body of the report. The sections to be covered in this report where applicable are as follows:

- A summary of the role of the Internal Audit Shared Service;
- An account of Internal Audit resourcing for 2014/15;
- An update on the Partnership arrangement;
- A summary of the effectiveness of the Internal Audit Shared Service – Quality assurance and Performance;
- Statement on the continued conformance with the Public Sector Internal Audit Standards;
- Confirm the organisational independence and objectivity of Internal Audit;
- A summary of the performance / outturn during the year 2014/15;
- An opinion on the adequacy of management responses to Internal Audit advice and recommendations made during the year;
- A summary of the issues the Head of Audit judges particularly relevant to be included in the Annual Governance Statement;
- An opinion on the overall adequacy and effectiveness of the Council's internal control environment (where appropriate).

2. The Role of the Internal Audit Shared Service at the Council

2.1 Internal Audit is an independent assurance function that provides objective opinion to the Council on the control environment comprising risk management, internal control and governance, by evaluating its effectiveness in achieving the organisation's objectives. It independently and objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

2.2 The control environment comprises the organisation's policies, procedures and operations in place to:

- Establish, and monitor the achievement of, the organisation's objectives.
- Identify, assess and manage the risks to achieving the organisation's objectives.
- Facilitate policy and decision making.
- Ensure the economical, effective and efficient use of resources.
- Ensure compliance with established policies, procedures, laws and regulations.
- Safeguard the organisation's assets and interests from losses of all kind, including those arising from fraud, irregularity or corruption.

2.3 One of the main aims of the Section is to provide assurance on the Council's overall system of internal control. This is achieved in part through the delivery of the Annual Audit Plan which is designed to address:-

- Requirements of the Audit Committee;
- Delivery of a scheduled programme of audits on a risk based needs assessment;
- Support the Chief Executive as Head of Paid Service and the Corporate Director of Resources as the Section 151 Officer in discharging their statutory duties.

2.4 Internal Audit Shared Service also investigates any potential or identified internal frauds and irregularities that may arise within the Shared Service.

2.5 The service is delivered by the Bridgend and Vale Internal Audit Shared Service (IASS) which is part of a joint collaboration between Bridgend County Borough Council (BCBC) and the Vale of Glamorgan Council (VOG) under a partnership agreement. The Vale of Glamorgan Council is the host authority which provides an internal audit service to Bridgend. This gives the service an opportunity to network, benchmark and discuss best practice to ensure the service can provide the Councils with the best advice.

3. An Account of Internal Audit Resourcing for 2014/15 and Going Forward

3.1 The Vale of Glamorgan Council leads the Bridgend and Vale Internal Audit Shared Service and provides all internal audit services to its partner Bridgend County Borough Council. As at the 1st April 2014 the staffing structure is listed in the table 1 below.

Table 1

2014-15 Staffing Structure	**FTE**
Chief Internal Auditor (Head of Audit)	1
Principal Auditor	2
Group Auditor	2
Group Auditor (Information Systems)	1
Auditor (Three posts are vacant at present)	10
Trainee Auditor	1

Trainee Auditor (Information Systems	1
Administrative Assistant	0.5
Total	**18.5**

3.2 The total resource of 18.5 Full Time Equivalents (FTE's) provides for a comprehensive Internal Audit Service. The Head of Audit aims to achieve best practice but continues to take account of the issues of affordability at a time when both Councils are looking to make substantial reductions in costs. The service has already been vastly streamlined and continues to apply lean auditing risk based methodologies to its plan of work.

3.3 During the latter part of 2013/14 and the early part of 2014/15; the team has been affected by long term sickness absence and maternity leave. In addition, since last reporting to the Audit Committee in November 2014, the section has been affected by two further resignations; therefore the service is carrying three vacant posts at present. Added to this, one member of staff is still on Maternity leave and one member of staff is on long term sickness absence. Another member of staff has only just recently returned after a period of long term sickness absence due to having to undergo surgery; and is currently working on a phased returned for the month of January. Up until now, the Section has managed to sustain a high level of coverage of the Plan for the nine months of this Financial Year with 99% of the overall planned productive time available being achieved for BCBC. However, the recent loss of a further two members of staff will have a significant impact for the remainder of this year.

3.4 Resources will be monitored for the remainder of the year and reports provided to the Audit Committee, Corporate Management Board and the Section 151 Officer as required; ensuring that Internal Audit resources remain adequate and effective.

4. Update on the Internal Audit Shared Service Arrangements

4.1 2013-14 proved to be a successful year for both Internal Audit Partners. The Partnership has enabled each Council to call upon a far wider base of skills and knowledge and provides audit staff with a unique opportunity to use their particular expertise at both Councils and to assist their professional development and broaden their knowledge and skills base.

4.2 2013-14 proved to be another year of achievements, particularly in terms of the annual audit plans. Overall the Section met its expectation with 101% of the Vale's Plan being achieved and 99% of Bridgend's.

4.3 For 2014/15 both Risk Based Plans have been presented to and approved by the relevant Audit Committees with a commitment to deliver 1,478 productive days for the Vale and 1,310 for Bridgend.

4.4 In relation to the period covered by this report, the Section has achieved 101% of the Vale's expected plan days and 99% of Bridgend's. However, as outlined in 3.3 above the impact of the loss of a further two members of staff will have a significant effect on the delivery of the service going forward. The Internal Audit Shared Service (IASS) formal Partnership Agreement has been in effect since February 2013 and therefore the Service has been fully operational for 23 months. The IASS

Board oversee the governance arrangement of the Partnership and meet regularly to ensure an efficient and effective service delivery is being provided.

5. The Effectiveness of Internal Audit Services (Quality Assurance and Improvement Programme).

5.1 During 2013/14 both Audit Committees endorsed the adoption of the new Quality Assurance and Improvement Programme (QAIP); the aim of which is to:-

Drive Improvements;
Ensure that the activities of Internal Audit are in accordance with Public Sector Internal Audit Standards (PSIAS);
Assess the efficiency and effectiveness of Internal Audit;
Provide for a mechanism by which the performance of staff can be measured;
Identification of Training needs.

5.2 The assessment process included within the QAIP has been in operation for thirteen months; the results of which are listed below in Table 2:

Table 2

Definition	**Score**	**No of Assessments Completed**
All key criteria met and exceeded expectation by identifying areas of improvement in terms of efficiency and effectiveness and has identified measurable savings for the client (VFM).	5	14
Achieved key criteria, budget achieved or reduced and report issued in a timely manner.	4	120
Achieved key criteria but budget exceeded for no valid reason and/or report untimely.	3	20
Elements of the key criteria have been met but significant number of review points.	2	4
None of the key criteria have been achieved. Scope and objectives either not understood by the Auditor or not met, Over budget, poor quality working papers, insignificant testing and poor feedback from client.	1	
TOTAL		**158**

5.3 As can been seen from the table above, the majority of post audit assessments completed (representing 76%) have identified that staff are producing work of a high standard whereby: - the scope and objectives of the review have been met; working papers and evidence are of a good standard and relevant; testing supports the findings and conclusion drawn; the report produced is of a good standard, timely and accurate and finally the appropriate assurance level has been applied.

5.4 It is also pleasing to note that 9 assessments (9%) have scored 5 whereby the Auditor(s) have, as a result of their work, also identified areas of improvement in terms of efficiency and effectiveness resulting in measurable savings for the client.

6. Organisational Independence and Objectivity of the Internal Audit Shared Service.

6.1 In accordance with the Public Sector Internal Audit Standards (PSIAS) the internal audit activity must be independent and internal auditors must be objective in performing their work. An interpretation of independence can be described as the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the Head of Audit has direct and unrestricted access to senior management and the Audit Committee.

6.2 The Council's Constitution, Financial Procedure Rules, Audit Charter and the positioning of the Internal Audit Shared Service within the Council demonstrates the independence of the Service along with the practical application of its independence within the organisation.

7. A Summary of the Performance / Out-turn 2014/15

7.1 The 2014/15 Internal Audit Strategy and Annual Risk Based Plan was submitted to the Audit Committee and approved on 10th April 2014. The Plan outlined the assignments to be carried out, their respective priorities, an estimate of resources needed and differentiated between assurance work and other work.

7.2 The plan is monitored on an on-going basis and all changes to work included in the plan are based on an assessment of risk at the time. Inevitably, changes have occurred since preparing the original plan, these changes focus around the increase in unplanned work.

7.3 The actual position for the nine months compared against the Plan is detailed in table 3 below:

Table 3

Directorates	2014-15 Full Year Plan Days	Proportion of Plan Days Available for April to Dec. 2014.	*2014-15 April to* Dec. *Actual Days*
Resources	365	274	351
Legal and Regulatory Services	85	64	69
Children's (Including Schools)	215	161	93
Communities	125	94	134
Wellbeing	125	94	46
Cross Cutting	255	191	186

External	20	15	19
Contingency - unplanned	70	52	54
Contingency - Fraud & Error	50	37	24
TOTAL PRODUCTIVE DAYS	1,310	982	976

7.4 The figures show that 976 actual productive days have been achieved, which equates to 99% of the overall planned productive time available for the period.

7.5 Detailed reports are issued to the relevant service managers on the results of individual audits and where significant weaknesses are identified these will be followed up to ensure high priority recommendations are implemented. To date, there have been six reviews completed which have identified significant control weaknesses so much so that for five of these reviews only limited assurance could be placed on the internal control environment and one where no assurance could be provided.

8. Implementation of Recommendations

8.1 Following each audit, report recipients are asked to complete an action /implementation plan showing whether they agree with the recommendations made and how they plan to implement them. The classification of each recommendation made assists management in focusing their attention on priority actions. For the year, Internal Audit has made a total of 87 recommendations, of which management has given written assurance that all of these will be implemented.

8.2 Although Merits Attention (Priority Three) recommendations are made where it is deemed appropriate to do so; by their very nature they relate specifically to an action that is considered desirable but does not necessarily have an impact on the control environment. To this end, these recommendations are not included on the Management Implementation Plan or logged on the Internal Audit Management Information system. Therefore a formal written response is not required from the client or included in the table below.

Recommendation Priority	**No. Made**	**No. Agreed / Implemented**
Fundamental (Priority One) Rating - D and E (+ to -) Action – Immediate Implementation	5	5
Significant (Priority Two) Rating – C (+ to -) Action – Implementation within 6 – 12 months	82	82
Total	**87**	**87**

Table 4

8.3 The recommendations made are graded according to their importance (Fundamental and Significant – Priority One and Two). In addition, each recommendation will be grouped by risk. The risk categories are as follows:

A – Accomplishment of Objectives;

C – Compliance;

E – Value for Money;

R – Reliability and Integrity of Information;

S – Safeguarding Assets;

X – Governance.

8.4 Table 5 below details the number of recommendations made grouped by risk.

Description	No of Fundamental **Priority One** Recommendations	No of Significant **Priority Two** Recommendations
A – Accomplishment Of Objectives	0	14
C – Compliance	2	26
E – Value for Money	0	6
R – Reliability and Integrity of Information	0	22
S – Safeguarding Assets	3	7
X – Governance	0	2
Y – Corporate Impact	0	5
Total	**5**	**82**

Table 5

9. Audit Client Satisfaction Questionnaires

9.1 At the completion of each audit, all recipients of our reports are asked to comment on their satisfaction with the audit process, by way of a survey questionnaire ranging from a score of 1 for very satisfied to a score of 5 very unsatisfied. The results so far this Financial Year are summarised in table 4 below.

Responses to Questionnaires

No.	***Question***	***Average Score of responses April to December 2014***	***Average Score of responses 2013/14***
1.	Where appropriate, briefing of client and usefulness of initial discussion.	1.320	1.420
2.	Appropriateness of scope and objectives of the audit.	1.480	1.450
3.	Timeliness of audit.	1.620	1.490
4.	Response of Officer to any requests for advice and assistance.	1.210	1.300
5.	General helpfulness and conduct of auditor (s).	1.070	1.150
6.	Discussion of findings / recommendations during or at the conclusion of audit.	1.000	1.000
7.	Fairness and accuracy of report.	1.340	1.600
8.	Practicality and usefulness of recommendations.	1.500	1.570
9.	Standard of report.	1.310	1.380
10.	Client agreement with overall audit opinion.	1.280	1.560

Table 6

9.2 The survey results are excellent and we hope to sustain this level of customer satisfaction throughout the year. In addition to the above, a number of clients have commented separately on the professionalism and helpfulness of the Auditors they dealt with.

9.3 The overall response rate of 74% for Client Satisfaction Surveys (CSS) is pleasing, particularly when compared with other authorities. The 22 Welsh Authorities participate in an annual benchmarking exercise which is co-ordinated via the Welsh Chief Auditors Group. One of the Performance Indicators captured is the percentage of CSS's returned, with the average for those authorities who responded being 54%.

10. Performance

10.1 As stated in 9.3 above the Section participates annually in the Welsh Chief Auditors Group benchmarking exercise. The results for 2013/14 have just been released and the table below provides a comparison of performance with the overall average for the responding authorities.

Performance Indicator	IASS Performance For BCBC 2013/14	Overall Average Performance 2013/14
% of planned audits completed	96%	80%
Number of Audits completed	133	126
% of audits completed within planned time	92%	71%
% of directly chargeable time,		

Actual versus planned	99%	94%
Average number of days from audit closing meeting to issue of draft report.	10 days	9.5 days
% of directly chargeable time Versus total available.	68%	68%
% of staff leaving during the Financial Year	0%	22%

Table 7

10.2 As can be seen from the table above, the Section is performing well. This, together with our overall performance indicators for the service provided to the Vale places us in the top quartile.

11. Qualifications and Experience

11.1 The Head of Internal Audit requires appropriate resources at their disposal to undertake sufficient work to offer an independent opinion on the Council's internal control environment. This is a fundamental part of BCBC's governance arrangements. The Internal Audit Annual Plan was presented to the Audit Committee in April 2014; based on a provision of 1,310 productive days.

11.2 In accordance with the Public Sector Internal Audit Standards (PSIAS); the Head of Audit must ensure that Internal Auditors possess the knowledge, skills and competencies needed to perform their individual responsibilities. Internal Auditors are therefore encouraged to study for and obtain professional qualifications. In addition, it is a requirement of the standard that the Head of Audit must hold a professional qualification and be suitably experienced. The following information outlined in table 8 below demonstrates the experience and qualification mix for the Internal Audit Shared Service as at the date of this report.

Table 8

Auditing Experience	All Auditing	%	In Local Government	%
Up to 1 year	**1**	**5.5%**	**1**	**5.5%**
1 to 2 years	**2.5**	**13.5%**	**0**	**0%**
2 to 5 years	**4**	**27%**	**4**	**27%**
5 to 10 years	**3**	**27%**	**4.5**	**35%**
Over 10 years	**5**	**27%**	**6**	**32.5%**
Total Staff	**15.5**		**15.5**	

Qualifications

Accountants (CIPFA; FCCA; ICAEW)	3
Certified Information Systems Auditor (CISA)	1
Institute of Internal Auditors – full membership	0
Institute of Internal Auditors – part qualified or audit certificate	2
Association of Accounting Technicians (AAT)	4
Studying (AAT, IIA, CIPFA etc.)	3

Total	**13**

11.3 All staff are encouraged to attend relevant courses and seminars to support their continual professional development. All staff have the opportunity to attend courses run by the Welsh Chief Auditors Group on a diverse range of topics. Individuals keep records of their continuing professional development based on their professional body requirements.

12.0 Financial and Governance Implications

12.1 Internal Audit recommendations and advice strive to support a robust corporate governance framework. Delivering the Internal Audit Risk Based Annual Plan in addition to any reactive work performed during the year, are essential elements in mitigating the risk of losses arising from error, irregularity and fraud. The work of the Internal Audit Shared Service represents a fundamental function in delivering the Council's Corporate Governance responsibilities.

12.2 For the 2013/14 year, the Head of Internal Audit's Annual Opinion stated that reasonable assurance could be placed upon the adequacy and effectiveness of the Council's internal control environment. The report also highlighted the significant governance issue surrounding the unavailability of the Council's Section 151 Officer and the imminent departure of the Deputy Section 151 Officer. Interim arrangements were put in place by the Chief Executive to cover this statutory role in the short term and the Council has now been successful in attracting an external candidate to undertake the combined role of Head of Finance and ICT. The successful candidate has now taken up his position and in addition, the Director of Resources /Section 151 Officer has returned to resume her duties.

12.3 The Internal Audit reviews undertaken so far this year have identified internal control weaknesses in six areas examined; five of which only limited assurance could be placed on the internal control environment and one where no assurance could be provided. As set out in Appendix B, the significant control issues identified have tended to relate to specific service areas rather than an across the board breakdown in controls. The relevant managers have agreed with and are working toward implementing the recommendations made to address the weaknesses identified. Follow up reviews in these areas has already commenced to ensure that significant progress is being made to address the issues identified.

12.4 In addition to this; the Council has proactively responded to central government's austerity drive that has created a period of unprecedented financial pressures in the public sector. Substantial savings are necessary and the latest Medium Term Financial Strategy estimates this to be in the region of £50million for the next four years on top of the £11.2million already identified for 2014/15.

12.5 It is clear that the scale of the challenges to come will mean that "business as usual", however well managed, will not be enough. The challenge will be to consider alternative delivery models for services across the Council and this will be essential to mitigate the impact of cuts and assist in continuing to provide priority services. Therefore, as the Council continues to experience reduced resources, increased demands on services and new and innovative forms of delivery; there is a need to ensure that the control environment; including governance and risk management; remains robust, proportionate and is as efficient and effective as possible.

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Cod	Job	Job Name	Days	Budget	Date Commenced	Date Closed	Opinion
ASSURANCE							
	Directorate	**RESOURCES**					
B	390	BCBC - DBS	29.74	30.00	01/04/2014	26/09/2014	Limited
	391	BCBC - Agency Contract	16.81	15.00	04/04/2014	19/08/2014	Reasonable
	418	BCBC - COA Business Continuity C/Fwd	6.76	5.00	01/04/2014	03/09/2014	Limited
	439	BCBC - Debtors	26.08	27.00	24/06/2014	04/11/2014	Reasonable
	441	BCBC - Staff Expenses	14.80	15.00	24/06/2014	06/11/2014	Reasonable
	447	BCBC - Cash Control	9.66	10.00	21/07/2014	11/12/2014	Substantial
	451	BCBC - Main Accounting	8.34	15.00	21/07/2014		
	452	BCBC - Treasury Mgt	9.26	10.00	21/07/2014		
	453	BCBC - Leasing	9.80	10.00	28/07/2014		
	460	BCBC - Taxation	17.91	15.00	04/09/2014		
	462	BCBC - Financial Assessments Reviews	11.89	15.00	01/09/2014		
	467	BCBC - HB Free School Meals	6.08	7.00	25/09/2014	18/11/2014	Reasonable
	468	BCBC - HB CT Reduction Scheme	16.96	10.00	25/09/2014		
	477	BCBC - Creditors	1.52	20.00	06/10/2014		
	482	BCBC - Payroll	2.45	25.00	10/11/2014		
Total	**Directorate**	**RESOURCES**	**188.06**	**229.00**			
	Directorate	**RESOURCES - ICT & PROPERTY**					
B	396	BCBC - CRC Return	16.72	15.00	01/04/2014	22/08/2014	Reasonable
	397	BCBC - Lone Worker Monitoring	27.57	30.00	02/04/2014	04/12/2014	Limited
	398	BCBC - Microsoft Enterprise Agreement	1.01	15.00	28/04/2014	02/07/2014	N/A
	404	BCBC - Building Maintenance	22.26	20.00	01/04/2014	10/07/2014	Reasonable
	415	BCBC - CRM Application	4.73	5.00	01/04/2014		
	416	BCBC - EDRM Application	6.93	7.00	01/04/2014		
	417	BCBC - SIMS Application	5.74	5.00	01/04/2014		
	420	BCBC - Info Governance Board	4.46	5.00	01/04/2014		
	423	BCBC - Non Operative Estates	15.34	15.00	05/05/2014		
	430	BCBC - CAAT's	8.89	20.00	07/04/2014		
	437	BCBC - Electoral System	16.79	17.00	09/06/2014	18/12/2014	Reasonable
	438	BCBC - ICT Asset Mgt	28.89	30.00	27/06/2014		
	442	BCBC - IT Health Checks	1.15	10.00	02/06/2014		
	454	BCBC - UK Mail	1.49	5.00	07/07/2014		
	481	BCBC - ICT Business Continuity	0.44	15.00	17/11/2014		
B	484	BCBC - Central Pupil Database	0.98	3.00	17/11/2014		

Total	**Directorate**	**RESOURCES - ICT & PROPERTY**	**163.38**	**217.00**			
	Directorate	**LEGAL & REGULATORY SERVICES**					
B	429	BCBC - Taxi Licensing	12.74	10.00	26/05/2014	19/08/2014	Substantial
	444	BCBC - Legal Expenditure	12.84	13.00	01/07/2014	10/10/2014	Substantial
	445	BCBC - Purchasing Cards	15.39	16.00	10/07/2014	23/12/2014	Reasonable
	456	BCBC-Procurement & Mgt Consultants Spend	26.38	40.00	11/08/2014		
Total	**Directorate**	**LEGAL & REGULATORY SERVICES**	**67.34**	**79.00**			
	Directorate	**CHILDREN**					
B	409	BCBC Brynmenin Primary	3.31	4.00	01/04/2014	12/05/2014	Substantial
	410	BCBC Coety Primary	4.22	4.00	01/04/2014	02/06/2014	Substantial
	411	BCBC St Roberts Primary	1.96	4.00	01/04/2014	07/05/2014	Substantial
	421	BCBC - School Summary Report	6.01	8.00	01/04/2014	09/10/2014	N/A
	431	BCBC - Archdeacon John Lewis Primary	5.20	4.00	11/06/2014	11/07/2014	Substantial
	432	BCBC - Newton Primary	6.68	4.00	02/06/2014	06/10/2014	Limited
	434	BCBC Schools CRSA	2.60	9.00	02/06/2014		
	436	BCBC Pen y Bont PS	3.24	4.00	25/06/2014	16/09/2014	Substantial
	446	BCBC School Uniform Grant	3.99	5.00	24/07/2014	25/09/2014	Substantial
	459	BCBC - Basic Skills	17.64	20.00	01/09/2014		
	461	BCBC - Ffaldau	3.72	4.00	08/09/2014	22/12/2014	Substantial
	464	BCBC - Inter Authority Placements F/Up	10.74	15.00	08/09/2014		
	473	BCBC - St Marys & St Patricks Primary	3.95	4.00	17/10/2014	18/12/2014	Substantial
	474	BCBC - Porthcawl Primary	3.28	4.00	17/10/2014		
	476	BCBC- School Deficit and Balances	9.56	10.00	06/10/2014		
Total	**Directorate**	**CHILDREN**	**86.10**	**103.00**			
	Directorate	**COMMUNITIES**					
B	394	BCBC - Waste Management	16.30	17.00	08/04/2014	28/10/2014	Reasonable
	405	BCBC - Park Income	12.09	12.00	21/04/2014	19/08/2014	Substantial
	406	BCBC - Highway Maintenance Potholes	18.34	19.00	07/04/2014	28/10/2014	Reasonable
	408	BCBC - Sign Shop	12.67	13.00	07/04/2014	25/09/2014	Substantial
	424	BCBC - Supporting People Pol /Proc Audit	19.86	20.00	12/05/2014	14/10/2014	Substantial
	425	BCBC - Home to School Transport	12.03	12.00	01/05/2014	26/08/2014	Reasonable
	427	BCBC - Houses to Homes Grant	5.14	5.00	19/05/2014	18/09/2014	Substantial
B	449	BCBC Supptng People Grant Verification	8.95	10.00	14/07/2014	26/09/2014	Substantial
	458	BCBC - Homelessness	8.92	15.00	02/09/2014		
	463	BCBC - Regeneration Funding	5.37	10.00	01/09/2014		
Total	**Directorate**	**COMMUNITIES**	**119.68**	**133.00**			

	Directorate	**WELLBEING**					
B	407	BCBC - Section 117 Process	20.34	21.00	01/04/2014	26/09/2014	No Assurance
	414	BCBC - SEWTA Grant 13.14	6.66	4.00	01/04/2014	01/07/2014	Reasonable
	478	BCBC - Bus Operator Grants Qtr 1&2 14.15	3.61	5.00	11/11/2014		
Total	**Directorate**	**WELLBEING**	**30.61**	**30.00**			
	Directorate	**BCBC CROSS CUTTING**					
B	389	BCBC - Audit Committee	43.07	50.00	01/04/2014		
	392	BCBC - Close Down 2013-14	23.23	25.00	01/04/2014	19/12/2014	Substantial
	399	BCBC - Advice & Guidance Resources	19.63	20.00	01/04/2014		
	400	BCBC - Advice & Guidance Legal & Reg	2.13	20.00	01/04/2014		
	401	BCBC - Advice & Guidance - Communities	3.51	5.00	01/04/2014		
	402	BCBC - Advice & Guidance Children	3.34	5.00	01/04/2014		
	403	BCBC - Advice & Guidance Wellbeing	0.74	4.00	01/04/2014		
	443	BCBC - Telecare F/Up	4.70	5.00	09/07/2014	18/11/2014	Reasonable
	471	BCBC - General Follow ups	3.58	5.00	29/09/2014		
	479	BCBC Assurance from External Inspections	0.14	10.00	10/11/2014		
Total	**Directorate**	**BCBC CROSS CUTTING**	**104.08**	**149.00**			
	Directorate	**EXTERNAL**					
B	440	BCBC - County Borough Supplies	10.21	11.00	24/06/2014	07/10/2014	Substantial
	469	BCBC - Crematorium	8.72	10.00	22/09/2014		
Total	**Directorate**	**EXTERNAL**	**18.93**	**21.00**			
Total	**Function**	**ASSURANCE**	**778.19**	**961.00**			
ANTI-FRAUD & CORRUPTION							
	Directorate	**BCBC CROSS CUTTING**					
B	413	BCBC - National Fraud Initiative NFI	16.25	15.00	01/04/2014		
	448	BCBC - Home Improvement Grant allegation	8.07	10.00	30/07/2014	04/12/2014	N/A
Total	**Directorate**	**BCBC CROSS CUTTING**	**24.32**	**25.00**			
Total	**Function**	**ANTI-FRAUD & CORRUPTIO**	**24.32**	**25.00**			
GOVERNANCE							
	Directorate	**CHILDREN**					
B	426	BCBC - Learner Transport Project	6.76	10.00	01/05/2014	22/08/2014	Reasonable
Total	**Directorate**	**CHILDREN**	**6.76**	**10.00**			
	Directorate	**COMMUNITIES**					

B	412 BCBC - Section 106 Agreements		14.73	15.00	07/04/2014		
Total	**Directorate**	**COMMUNITIES**	**14.73**	**15.00**			
	Directorate	**WELLBEING**					
B	455 BCBC - Referral Mgt Social/Health Care		15.24	15.00	01/08/2014		
Total	**Directorate**	**WELLBEING**	**15.24**	**15.00**			
	Directorate	**BCBC CROSS CUTTING**					
B	395 BCBC - Business Continuity Management		9.75	10.00	08/04/2014		
	433 BCBC - Corporate Management Board		10.51	20.00	01/04/2014		
	465 BCBC - Corporate Governance Framework		3.04	20.00	25/09/2014		
Total	**Directorate**	**BCBC CROSS CUTTING**	**23.30**	**50.00**			
Total	**Function**	**GOVERNANCE**	**60.02**	**90.00**			
RISK & PERFORMANCE MANAGEMENT							
	Directorate	**LEGAL & REGULATORY SERVICES**					
B	483 BCBC - Money Laundering		1.18	10.00	17/11/2014		
Total	**Directorate**	**LEGAL & REGULATORY SERVICES**	**1.18**	**10.00**			
	Directorate	**BCBC CROSS CUTTING**					
B	393 BCBC - Capital Projects		55.74	60.00	01/04/2014		
	485 BCBC - VVP Capital Project		2.40	20.00	01/12/2014		
Total	**Directorate**	**BCBC CROSS CUTTING**	**58.14**	**80.00**			
Total	**Function**	**RISK & PERFORMANCE MAN**	**59.32**	**90.00**			
CONTINGENCY							
	Directorate	**LEGAL & REGULATORY SERVICES**					
B	419 BCBC - Data Protection C/Fwd		7.84	8.00	01/04/2014	11/09/2014	Limited
Total	**Directorate**	**LEGAL & REGULATORY SERVICES**	**7.84**	**8.00**			
	Directorate	**BCBC CROSS CUTTING**					
B	428 BCBC - Internal Audit PI's		2.15	3.00	29/05/2014	04/07/2014	N/A
	435 BCBC - School Buildings		1.28	5.00	09/06/2014		
	457 BCBC - School Meal Money		15.16	10.00	01/09/2014		
	466 BCBC - ETCI		0.07	5.00	25/09/2014		
	470 BCBC - Civil Parking (Joint see AU616)		17.80	20.00	30/09/2014	19/11/2014	Reasonable
	475 BCBC - ICT Advancements		0.61	5.00	01/10/2014		
	480 BCBC - WAO Performance Evaluation		0.07	5.00	04/11/2014		

486	BCBC - DBS F/Up		4.66	5.00	01/12/2014
487	BCBC -Performance Focus Groups		2.23	5.00	09/12/2014
489	BCBC - S117 Follow Up		2.03	5.00	15/12/2014
Total	**Directorate**	**BCBC CROSS CUTTING**	**46.05**	**68.00**	
Total	**Function**	**CONTINGENCY**	**53.89**	**76.00**	
		Grand Total	**975.75**		

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BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE

15th January 2015

REPORT OF THE CORPORATE DIRECTOR - RESOURCES

FORWARD WORK PROGRAMME – 2014-15

1. Purpose of Report.

1.1 To present to Members an update on the 2014 – 2015 Forward Work Programme for the Audit Committee.

2. Connection to Corporate Improvement Objectives / Other Corporate Priorities.

2.1. Internal Audit's work impacts on all of the Corporate Improvement Objectives /other Corporate Priorities.

3. Background

3.1. The core functions of an effective Audit Committee are:-

- To consider the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and corruption arrangements.
- Seek assurance that action is being taken on risk-related issues identified by auditors and inspectors.
- Be satisfied that the Council's assurance statements properly reflect the risk environment and any actions required to improve it.
- Oversee the work of internal audit (including the annual plan and strategy) and monitor performance.
- Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.
- Receive the annual report of the Chief Internal Auditor.
- Consider the reports of external audit and inspection agencies, where applicable.
- Ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.
- Review the financial statements, external auditor's opinion and reports to Members, and monitor management action in response to the issues raised by external audit. To be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies, in accordance with the Treasury Policy Statement and Treasury Management Prudential Indictors.

3.2 Effective audit committees help raise the profile of internal control, risk management and financial reporting issues within an organisation, as well as providing a forum for the discussion of issues raised by internal and external auditors. They enhance public trust and confidence in the financial governance of an Authority.

4. Current situation / proposal

4.1. In order to assist the Audit Committee in ensuring that due consideration has been given by the Committee to all aspects of their core functions an updated forward work programme is attached at **Appendix A.**

5. Effect upon Policy Framework& Procedure Rules.

5.1. None

6. Equality Impact Assessment.

6.1. There are no equality issues.

7. Financial Implications.

7.1. None

8. Recommendation.

8.1. That Members give due consideration to the updated 2014 -15 forward work programme to ensure that all aspects of their core functions are being adequately reported.

Ness Young
Corporate Director - Resources
15th January 2015

Contact Officer: Helen Smith – Chief Internal Auditor

Telephone: (01656) 754901

E-mail: internalaudit@bridgend.gov.uk

Postal Address
Bridgend County Borough Council
Internal Audit
Innovation Centre
Bridgend Science Park
Bridgend CF31 3NA

Background Documents

None

AUDIT COMMITTEE
SCHEDULE OF MEETINGS AND FORWARD WORK PROGRAMME
2014 – 2015

DATE OF MEETING	FORWARD WORK PROGRAMME	OFFICER RESPONSIBLE	UPDATE
2014			
18th June	**Information and Action Requests (if applicable).**	**Chief Internal Auditor (CIA)**	**Complete**
	Updated Forward Work Programme.	**CIA**	**Complete**
	Approval of the draft Annual Governance Statement 2013-14.	**Head of Finance & Performance**	**Complete**
	Pre-audited Statement of Accounts 2013/14.	**Head of Finance & Performance**	**Complete**
	Complete Audits (if applicable).	**CIA**	**Complete**
	Head of Audit's Annual Opinion Report 2013/14.	**CIA**	**Complete**
	External Auditors / Inspection Reports (where applicable). **WAO Annual Improvement Report**	**Head of Finance & Performance / WAO / KPMG**	**Complete**
	IASS Outturn Report April and May 2014.	**CIA**	**Deferred**
	Implementation of Recommendations (if applicable).	**CIA**	**Deferred**
Additional Items	**Anti -Money Laundering Policy.**	**Head of Finance & Performance**	**Complete**
25th September	**Information and Action Requests**	**CIA**	**Complete**
	Updated Forward Work Programme	**CIA**	**Complete**
	Final Annual Governance Statement and summary of assurance 2013/14	**Head of Finance and Performance**	**Complete**
	Statement of Audited Accounts	**Head of Finance and Performance / KPMG**	**Complete**
	Treasury Management Outturn 2013/14	**Head of Finance and Performance**	**Complete**
	Internal Audit 5 months Outturn Report April to August 2014.	**CIA**	**Complete**
	Completed Audits Report (where applicable)	**CIA**	**Complete**
	Implementation of Recommendations Report (where applicable)	**CIA**	**Complete**
	External Auditors / Inspection Reports (where applicable). - **Audit of Financial Statement Report 2013/14 (ISA 260).** **Improvement Programme update**	**Head of Finance & Performance / WAO / KPMG**	**Complete**
20th November	**Up dated Forward Work Programme**	**CIA**	**Complete**
	Information and Action Requests (where applicable)	**CIA**	**Complete**
	Review of the Annual Governance Statement 2013/14	**Head of Finance & ICT**	**Complete**
	Fraud update	**Benefits Manager**	**Complete**
	Corporate Risk Assessment Review 2014/15.	**Head of Finance and ICT**	**Complete**
	Completed Audits Report (if applicable)	**CIA**	**Complete**
	Internal Audit Outturn Report – April 2014 to October 2014; including update on IASS Performance and Client Satisfaction Survey Results.	**CIA**	**Complete**

	External Auditors / Inspection Reports (where applicable). – Annual Audit Letter 2013/14	Head of Finance & ICT / WAO / KPMG	Complete
2015			
15th January	Up dated Forward Work Programme	CIA	Submitted
	Information and Action Requests (if applicable)	CIA	Submitted
	Internal Audit 9 months Outturn Report April 2014 – December 2014	CIA	Submitted
	Completed Audits (where applicable)	CIA	Submitted
	Report on the work undertaken on School Audits.	CIA	Submitted
	External Auditors / Inspection Reports (where applicable)	Head of Finance & ICT / WAO/ KPMG	N/A
	Corporate Risk Assessment 2015-16	Head of Finance & ICT	Submitted
	Treasury Management Half Year Report 2014-15 and Treasury management strategy 2015-16	Head of Finance & ICT	Submitted
16th April	Information and Action Requests (where applicable)	CIA	
	Updated Forward Work Programme	CIA	
	Proposed Forward Work Programme 2015-16.	CIA	
	Internal Audit proposed Annual Strategy and Audit Plan 2015-2016.	CIA	
	Governance – Compliance with Public Sector Internal Audit Standards for 2014-15	CIA	
	Audit Committee – Terms of Reference	CIA	
	Internal Audit Shared Service Charter and Terms of Reference	CIA	
	Completed Audits (where applicable)	CIA	
	Head of Audit's Annual Opinion Report and outturn for the Year 2014/15	CIA	
	External Auditors / Inspection Reports (if applicable): -	Head of Finance & ICT / WAO/ KPMG	

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By virtue of paragraph(s) 14 of Part 4 of Schedule 12A
of the Local Government Act 1972.

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