



**Telford & Wrekin**  
**C O U N C I L**

**Addenbrooke House Ironmasters Way Telford TF3 4NT**

**AUDIT COMMITTEE**

Date **Tuesday, 23 July 2019** Time **6.00 pm**  
Venue **Meeting Rooms G3/G4, Addenbrooke House, Ironmasters Way, Telford, TF3 4NT**

**Enquiries Regarding this Agenda**

Democratic Services	Jayne Clarke	01952 383205
Media Enquiries	Corporate Communications	01952 382406
Lead Officer	Jonathan Eatough, Assistant Director: Governance, Procurement & Commissioning	01952 383200

<b><u>Committee Membership:</u></b>	Councillors	P Watling (Chair),	C F Smith (Vice-Chair),
	N A M England,	V J Holt,	A Lawrence, K S Sahota and
	W L Tomlinson		

**AGENDA**

1. **Apologies for Absence**
2. **Declarations of Interest**
3. **Minutes of the Previous Meeting** 3 - 8  
To confirm the minutes of the previous meeting.
4. **Treasury Management Outturn 2018/19 and Update 2019/20** 9 - 22
5. **Report to those Charged with Governance 2018/2019** To Follow
6. **Audited Annual Statement of Accounts 2018/19** To Follow
7. **Publication of Information on Councillors who Traded with the Council during 2018/19** 23 - 24
8. **Strategic Risk Register Update** To Follow
9. **2019/20 - Internal Audit Activity Update Report** 25 - 30
10. **Exclusion of the Press and Public**  
It is recommended that the press and public be excluded from the meeting for the remaining item of business on the grounds that it may involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.



## AUDIT COMMITTEE

### Minutes of a meeting of the Audit Committee held on Thursday, 30 May 2019 at 6.00 pm in Meeting Rooms G1 /G2, Addenbrooke House, Ironmasters Way, Telford, TF3 4NT

**Present:** Councillors P Watling (Chair), C F Smith (Vice-Chair), N A M England, V J Holt, A Lawrence, K S Sahota and W L Tomlinson

**In Attendance:** J Eatough (Assistant Director: Governance, Procurement & Commissioning), P Harris (Finance Manager: Corporate & Capital), E Rushton (Group Accountant), R Montgomery (Audit & Governance Team Leader), T Drummond (Principal Auditor)

**Also In Attendance:** E J Mayne (Grant Thornton, External Auditors)

#### **AU1      Apologies for Absence**

None.

#### **AU2      Declarations of Interest**

None.

#### **AU3      Minutes of the Previous Meeting**

**RESOLVED** – that the minutes of the meeting of the Audit Committee held on 29 January 2019 be confirmed and signed by the Chairman.

#### **AU4      Review of the Audit Committee Terms of Reference**

The Committee received the updated Terms of Reference outlining the responsibility of the Committee on behalf of the Council to oversee the Council's audit, governance and financial processes. There were no changes from previous years to note.

**Recommended** – that the Terms of Reference attached to the report at Appendix A be agreed and RECOMMEND its adoption by Council at its meeting in May 2019.

#### **AU5      External Audit Interim Report 2018/19**

E Mayne, Grant Thornton, presented the External Audit Plan for the Year ending 31 March 2019. Members were advised on the significant risks to the Council which were areas where there would be greater focus and scrutiny. Members were advised that the audit would begin on 10 June.

**RESOLVED** – to note the content of the report.

**AU6      External Audit Fee Letter and Plan for 2019/20**

E Mayne, Grant Thornton, presented the Fee Letter which outlined Grant Thornton's audit planning as set out in the Code of Audit Practice and Public Sector Audit Appointments Ltd.'s published work programme and fee scales.

**RESOLVED – to note the content of the report.**

**AU7      External Audit Progress Report and Update**

E Mayne, Grant Thornton, presented the Audit Progress Report. The positive working relationship between the external auditors and the Council's finance team was noted, and a lot of work had taken place including some testing during the interim audit in March.

Members praised the inclusion of the sector update information contained within the report, which was described as useful and informative.

**RESOLVED – to note the content of the report.**

**AU8      The Annual Governance Statement 2018/19**

As required under the Accounts and Audit Regulations 2015, the Annual Governance Statement for 2018/19 had been produced. The statement included an action plan to ensure improvements to existing governance arrangements continued.

**Resolved that –**

- a) the Annual Governance Statement 2018/19, attached at Appendix A (including Annex 1) to the report be approved;
- b) the information in the report be noted.

**AU9      Draft Statement of Accounts 2018/19**

The Finance Manager: Corporate & Capital presented the draft Statement of Accounts to the Committee. It was noted that the deadline for the publication of accounts had been brought forward last year. It was noted that the 30 day public consultation period would begin the following day.

A query was raised in respect of the amount of Dedicated Schools Grant included in the gross to net figures and a discussion was held in respect of single status and the number of public queries raised in relation to the accounts.

**AU10      2018/19 Internal Audit Annual Update Report including the Audit Committee Annual Report and 2019/20 Internal Audit Plan**

The Committee received the internal audit annual report and the internal audit plan for 2019/20. Members were advised that in 2018/19, fewer reports were issued as the team had focused on longer, more complex audits and had moved away from smaller audits. The Audit and Governance Team Leader undertook random checks on audit reports to ensure compliance with audit standards. Positive customer feedback from audit reports remained high.

Members received the audit plan for 2019/20 and noted the contingency included for unplanned work. Members were advised that the Committee would be updated on any changes to the plan and a six monthly progress report would be issued.

The report also included a summary of Audit Committee actions in 2018/19.

**RESOLVED – that:**

- a) **The Internal Audit Annual Report for 2018/19 be noted;**
- b) **The operation of the Audit Committee for 2018/19 be noted; AND**
- c) **The Internal Audit Plan for 2019/20, attached as Appendix 3 to the report, be approved.**

**AU11      Update Report on the work of Internal Audit**

The incorrect report was provided to committee members, therefore the Principal Auditor gave a verbal update on the work of internal audit between the periods 5/1/19-30/4/19. Members were advised that the report would be shared with them and any questions could be raised prior to the next Audit Committee meeting. The report would then be re-presented at the next Audit Committee meeting.

**AU12      2018/19 Annual Information Governance and Caldicott Guardian Report and 2019/20 Information Governance Work Programme**

The Committee received the report which provided the annual information in respect to Information Rights legislation (Freedom of Information, Environmental Information Regulations and Data Protection acts) and security incidents.

The report also included annual information from the Caldicott Guardian in respect to the activities of the Council and progress against the action plan.

In respect to data security incidents, in 2018/19, there had been two data breaches which met the criteria for reporting to the Information Commissioners Office (ICO), the ICO decided in both cases that the cause was human error and no further action was required.

Members noted that almost twice the number of Subject Access Requests had been received in 2018/19 than in the previous year, possibly due to increased publicity following the introduction of the new GDPR.

In response to a question, it was confirmed that the Council received similar number of FOIs in comparison with other Councils.

**Resolved that-**

- a) **the Internal Audit, Information Governance & Caldicott Guardian Annual Report for 2018/19 be noted**
- b) **The 2019/20 IG Work Programme be approved**

**AU13      2018/19 Anti-Fraud & Corruption Annual Report and updated policy 2019/20**

The Committee received the report which included annual information in respect of the Corporate Anti-Fraud and Corruption activity for 2018/19 to enable monitoring of the policies operation. The report provided information for 2018/19 on counter fraud and investigation activities within the Investigation Team, Internal Audit and Public Protection. The report also included the requirements of the Local Government Transparency Code on publication of data regarding fraud arrangements.

A discussion was held in respect of adult social care fraud and clarification that this was financial abuse of a person, and that each case involved a vulnerable person.

In response to a question, it was confirmed that the savings were comparable with previous years.

**Resolved that –**

- a) **the 2018/19 Annual Report on Corporate Anti-Fraud and Corruption activity be noted; and**
- b) **the updated Corporate Anti-Fraud & Corruption policy, attached as appendix 1 to the report, be agreed and to RECOMMEND its adoption by Council.**

**AU14      Outline of Audit Committee Business for 2019/20**

The Committee noted the outline of business for future meetings. The Committee noted that the January meeting may change.

The meeting ended at 6.55 pm

**Chairman:** .....

**Date:** Tuesday, 23 July 2019

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**TELFORD & WREKIN COUNCIL****AUDIT COMMITTEE – 23 JULY 2019****TREASURY MANAGEMENT - 2018/19 ANNUAL REPORT AND 2019/20 UPDATE****REPORT OF THE ASSISTANT DIRECTOR: FINANCE & HR (CHIEF FINANCIAL OFFICER)****PART A) – SUMMARY REPORT****1. SUMMARY OF MAIN PROPOSALS**

The report updates members on the outcome of Treasury Management activities for 2018/19 and details the position for 2019/20 to date.

**1.1 2018/19 Treasury Outturn**

The treasury portfolio ended the year with net indebtedness of £251.2m (borrowing: £266.9m less investments: £15.7m (excluding NuPlace Share capital). Base rate was increased from 0.50% to 0.75% on 2 August 2018 and remained there for the rest of 2018/19. It is predicted to remain at this rate for the foreseeable future.

The borrowing strategy for 2018/19 was to borrow temporarily to take advantage of low interest rates where possible and review opportunities for new longer term borrowing as appropriate. Maintaining high levels of very cheap temporary borrowing has contributed to surplus treasury management returns of more than £17m since 2015/16 which has reduced the impact of Government cuts and therefore helped to protect front line services.

Borrowing was £10.2m higher at 31 March 2019 compared to 31 March 2018, investments were £4.2m lower (excluding NuPlace share capital). The net increase in net indebtedness was due to capital expenditure, including income generating schemes such as NuPlace and the Property Investment Portfolio, and various highways schemes which have increased the value of Council assets. Short term borrowing was used during the year at favourable interest rates generating a significant benefit for the Council's budget. Following advice from Arlingclose, the Council's external treasury advisors, some longer, fixed term borrowing has also been taken to manage exposure to interest rate fluctuations.

The investment strategy for 2018/19 was to gain maximum benefit with security of capital being the key consideration. The average return on investments for the year was 0.49% against a benchmark of 0.41%.

Overall, treasury delivered a net over-achievement of £3.161m against the budget set for 2018/19. The majority of the saving relates to the benefit of low interest rates on the levels of temporary borrowing we held during the year.

## 1.2 **2019/20 Update**

The strategy for 2019/20 remains consistent with that of the previous year. Investment opportunities will be reviewed as they arise and we will seek to gain maximum benefit within the agreed risk parameters. There are currently no long term investments, which reduces counter-party risk and also reduces net interest costs as longer-term borrowing costs tend to be greater than we are able to earn on new investments.

Based on the capital programme, borrowing will be required during the year and consideration will be given to the maturity profile of current debt, interest rates and refinancing risks as well as the source, which is primarily expected to be the Public Works Loans Board.

Total borrowing was £266.9m at 31 March 2019 and has increased slightly to £273.4m as at 31 May 2019. Investments were £16.6m at 31 May 2019.

## 2. **RECOMMENDATIONS**

**Audit Committee Members are asked to:-**

- 2.1 note the contents of the report
- 2.2 note the performance against Prudential Indicators.

## 3. ***SUMMARY IMPACT ASSESSMENT***

**COMMUNITY IMPACT** Do these proposals contribute to specific priority plan objectives?

Yes/No Efficient Community Focussed Council

Will the proposals impact on specific groups of people?

Yes/No

**TARGET COMPLETION / DELIVERY DATE** Part of ongoing Treasury Management Activities within the Treasury Management Strategy and Policy approved by Council.

**FINANCIAL/VALUE FOR MONEY IMPACT** Yes/No Where appropriate these are detailed in the body of the report.

**LEGAL ISSUES** Yes/No The AD: Finance & HR (Section 151 Officer), has responsibility for the administration of the financial affairs of the Council. In providing this report the Section 151 Officer is meeting one of the responsibilities of the post contained within the Council's Constitution at Part 2, Article 12, paragraph 12.04(f) which states "The Chief financial Officer will contribute to the promotion and maintenance of high standards of governance, audit, probity and propriety, risk management and the approval of the statement of accounts through provision of support to the Audit Committee."

**OTHER IMPACTS,  
RISKS AND  
OPPORTUNITIES**

Yes/No The key opportunities and risks associated with treasury management activities are set out in the body of the report and in the Treasury Management Strategy and Policy approved by Council and will be regularly monitored throughout the year.

**IMPACT ON  
SPECIFIC WARDS**

Yes/No

4. **PREVIOUS MINUTES**

Council 28 February 2019  
Audit Committee 29 January 2019  
Audit Committee 24 July 2018  
Council 1 March 2018  
Audit Committee 30 January 2018

**PART B) – ADDITIONAL INFORMATION**

5. **BACKGROUND**

- 5.1 Treasury Management in local government is regulated by the CIPFA Treasury Management in Public Services: Code of Practice (the Code). This Council has adopted the Code and fully complies with its requirements. The primary requirement of the Code is the formulation and agreement by full Council of a Treasury Policy Statement, which states the policies and objectives of its treasury management activities. The Authority's treasury management strategy for 2018/19 was approved at Full Council on 1<sup>st</sup> March 2018.
- 5.2 A requirement of the Council's Treasury Management Practices is the reporting to the Council of both the expected treasury activity for the forthcoming financial year (the annual treasury strategy statement) and subsequently the results of the Council's treasury management activities in that year (this annual treasury report).
- 5.3 The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

6. **2018/19**

- 6.1 The annual report is covered in paragraphs 6-15 and deals with: -
- 2018/19 Portfolio position;
  - the borrowing strategy for 2018/19;
  - the borrowing outturn for 2018/19;
  - compliance with treasury limits;
  - investments strategy for 2018/19;
  - investments outturn for 2018/19;
  - debt rescheduling;
  - Shropshire Council debt
  - overall outturn position
  - leasing

## 7. 2018/19 PORTFOLIO POSITION

7.1 The Council's treasury management position at the beginning and the end of the year was as follows: -

	31 March 2019		31 March 2018	
	Principal £m	Rate %	Principal £m	Rate %
Borrowing	266.924	2.41	256.702	2.22
Investments (excluding NuPlace share capital)	15.685	0.51	19.937	0.25
<b>Net Indebtedness (ex NuPlace)</b>	<b><u>(251.239)</u></b>		<b><u>(236.765)</u></b>	
Investment in NuPlace	11.600		8.950	
<b>Net Indebtedness</b>	<b><u>(239.639)</u></b>		<b><u>(227.815)</u></b>	

There was continued use of temporary borrowing through 2018/19, temporary borrowing was £75.1m at 31 March 2019 (including £7.7m PWLB maturing in 2019/20). £5.1m of PWLB loans were repaid during the year and new PWLB borrowing of £65m was raised. Alongside this £20m of LOBOs (Lenders Option Borrowers Option) loans were redeemed which reduced the Council's exposure to interest rate changes. The capital programme was funded from a combination of borrowing, capital receipts, grants and other external contributions; as expected, this has resulted in an increase in net indebtedness during the year. Prudential borrowing increased in 2018/19 due to planned capital expenditure approved as part of the capital programme. Investments at 31/3/19 included £11.6m share capital in NuPlace.

### ***The Adopted Treasury Strategy was to:-***

- Monitor borrowing opportunities determined by the prevailing markets.
- Only investing short term to meet cashflow requirements.
- Reduce the volatility of investment returns while maintaining adequate flexibility in arrangements.
- To achieve optimum return on investments commensurate with proper levels of security and liquidity.

## 8. COUNCILS RESPONSE TO ECONOMIC CLIMATE

8.1 **Economic background:** UK Consumer Price Inflation (CPI) for February 2019 was up 1.9% year/year, just above the consensus forecast but broadly in line with the Bank of England's February Inflation Report. The most recent labour market data for the three months to January 2019 showed the unemployment rate fell to a new low 3.9% while the employment rate of 76.1% was the highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.4% as wages continue to rise steadily and provide some upward pressure on general inflation. Once adjusted for inflation, real wages were up 1.4%.

After rising to 0.6% in the third calendar quarter from 0.4% in the second, fourth quarter economic growth slowed to 0.2% as weaker expansion in

production, construction and services dragged on overall activity. Annual GDP growth at 1.4% continues to remain below trend. Following the Bank of England's decision to increase Bank Rate to 0.75% in August 2018, no changes to monetary policy have been made since.

The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the 2.25%-2.50% range in December. However, a recent softening in US data caused the Fed to signal a pause in hiking interest rates at the last Federal Open Market Committee (FOMC) meeting in March.

With the 29th March 2019, original EU 'exit day' now been and gone, the prime minister was forced to ask for an extension to the Brexit process beyond 12th April in order to avoid a no-deal scenario and the date of 31 October has now been agreed with the EU. The resignation of Theresa May has created greater short-term uncertainty and there is the possibility of exiting the EU on 31 October without a deal. These ongoing uncertainties continue to weigh on sterling and UK markets.

While the domestic focus has been on Brexit's potential impact on the UK economy, globally the first quarter of 2019 has been overshadowed by a gathering level of broader based economic uncertainty. The US continues to be set on a path of protectionist trade policies and tensions with China in particular, but with the potential for this to spill over into wider trade relationships, most notably with the EU. The EU itself appeared to show signs of a rapid slowdown in economic growth with the major engines of its economy, Germany and France, both suffering misfires from downturns in manufacturing alongside continued domestic/populist unrest in France. The International Monetary Fund downgraded its forecasts for global economic growth in 2019 and beyond as a consequence.

**Financial markets:** December was a month to forget in terms of performance of riskier asset classes, most notably equities. The FTSE 100 (a good indicator of global corporate sentiment) returned -8.8% assuming dividends were reinvested. However, since the beginning of 2019 markets have rallied, and the FTSE 100 and FTSE All share indices were both around 10% higher than at the end of 2018.

Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. After rising in October, gilts regained their safe-haven status throughout December and into the new year - the 5-year benchmark gilt yield fell as low as 0.80% and there were similar falls in the 10-year and 20-year gilts over the same period dropping from 1.73% to 1.08% and from 1.90% to 1.55%. The increase in Bank Rate pushed up money markets rates over the year and 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.53%, 0.67% and 0.94% respectively over the period.

Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth is not just a UK phenomenon but a global risk. During March the US yield curve inverted (10-year Treasury yields were lower than US 3 month money market rates) and German 10-year Bund yields turned negative. The drivers are a significant shift in global

economic growth prospects and subsequent official interest rate expectations given its impact on inflation expectations. Further to this is world trade growth which collapsed at the end of 2018 falling by 1.8% year-on-year. A large proportion of this downturn in trade can be ascribed to the ongoing trade tensions between the US and China which despite some moderation in January does suggest that the International Monetary Fund's (IMF) and Organisation for Economic Co-Operation & Development's (OECD) forecasts for global growth in 2019 of 3.5% might need to be revised downwards..

**Credit background:** Credit Default Swap (CDS) spreads drifted up towards the end of 2018 on the back of Brexit uncertainty before declining again in 2019 and continuing to remain low in historical terms. After hitting around 129 basis points in December 2018, the spread on non-ringfenced bank NatWest Markets plc fell back to around 96bps at the end of March, while for the ringfenced entity, National Westminster Bank plc, the CDS spread held relatively steady around 40bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 33 and 79bps at the end of the period.

The ring fencing of the big four UK banks (Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc) transferred their business lines into retail (ring fenced) and investment banking (non-ring fenced) entities.

In February, Fitch put the UK AA sovereign long-term rating on Rating Watch Negative as a result of Brexit uncertainty, following this move with the same treatment for UK banks and a number of government-related entities.

There were minimal other credit rating changes during the period. Moody's revised the outlook on Santander UK to positive from stable to reflect the bank's expected issuance plans which will provide additional protection for the its senior unsecured debt and deposits.

## 9. **BORROWING 2018/19**

### 9.1 **Original Economic Projections**

The Expectation for Interest Rates – When the budget was set for 2018/19 the “average” City view anticipated that Bank Rate would remain at 0.50% during 2018/19 following the rise from the historic low of 0.25%. The Monetary Policy Committee (MPC) re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

### 9.2 **Outturn 2018/19**

Bank Rate rose to 0.75% in August 2018. Rhetoric from the Bank of England has shown it has a bias towards higher interest rates but has been reluctant to push rate expectations too strongly due to the uncertainty surrounding Brexit. Arlingclose expects the base rate to remain at 0.75% for the foreseeable future, although this is dependent on the outcome of Brexit. The markets forecast an even slower rise over the same period. Brexit and its timing complicate the outlook and the economy faces a challenging period as it exits the EU.

## Borrowing and Investment Rates in 2018/19

The overnight investment rate increased in August in line with the Bank Rate.

## Treasury Borrowing and Rescheduling

The borrowing strategy for the current year was to borrow temporarily to take advantage of low interest rates where possible and review opportunities for new longer term borrowing as appropriate.

During the year we borrowed new PWLB loans totalling £65.0m at the discounted certainty rate and we had maturities totalling £5.1m. These new loans were a mixture of Equal Instalments of Principal, Annuity and Maturity loans.

## PWLB Repayments & Discounts

No loans were repaid early or rescheduled during the year.

An analysis of the maturity structure of our debt is shown below. The maturing in less than 1 year includes £7.703m of PWLB loans.

## Lenders Option Borrowers Option Redemption

The Authority continues to hold £25m of Lenders Option Borrowers Option loans, as at 31/03/2019, where the lender has the option to propose an increase in the interest rate as at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the year and current expectations are that calls in the foreseeable future are unlikely.

Banks have been reluctant to review these loans, however Arlingclose were able to negotiate terms relating to £20m of the Council's LOBOs in July 2018 which provided value to the Council in terms of savings and reduces the interest rate risk exposure in the overall borrowing portfolio.

## Analysis of Debt Maturity as at 31<sup>st</sup> March

	<b>2019</b>		<b>2018</b>	
	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>%</b>
Maturing in less than 1 year	75,101	28.1	102,176	39.8
Maturing in 1-2 years	7,226	2.7	5,098	2.0
Maturing in 2-5 years	20,318	7.6	12,793	5.0
Maturing in 5-10 years	30,115	11.3	18,741	7.3
Maturing in more than 10 years*	<u>134,164</u>	50.3	<u>117,894</u>	45.9
	<b><u>266,924</u></b>	100.0	<b><u>256,702</u></b>	100.0

\* this includes £25m LOBO (Lenders Option Borrowers Option) loans that are potentially callable at certain points before the maturity date.

## Debt Performance

As highlighted in section 7 the average debt portfolio rate has risen over the course of the year from 2.22% to 2.41%. This is due to the reduction in use of temporary borrowing being undertaken in 2018/19 (£67.4m as at 31/03/2019 compared to £97.1m as at 31/03/2018).

## 10. **COMPLIANCE WITH TREASURY LIMITS**

10.1 During the financial year the Council operated within the Treasury Limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement

## 11. **INVESTMENTS 2018/19**

### 11.1 **Strategy**

The authority currently manages the majority of its investments in-house and invests within the institutions complying with its counterparty limits and credit rating requirements. All investments are short term related to cash flows in order to minimise counterparty risk and to minimise overall treasury management costs. Investments include £4.980m in Money Market Funds (MMFs) which provide greater diversification of credit risk and achieve a slightly higher return than our call accounts.

Investment Strategy - The agreed short term investment strategy for 2018/19 was to achieve optimum return on investments commensurate with proper levels of security and liquidity.

The Council has continued to maintain short duration and relatively low level of investments during 2018/19. This reduces exposure to investment risk.

We have closely followed investment guidance issued by our Treasury Advisors in relation to credit ratings, financial standing and duration and take advice on borrowing strategies and options.

### 11.2 **Outturn 2018/19**

Detailed below are the results of the investment strategy undertaken by the Council, based on the average investment during the year.

	<b>Average Investment</b>	<b>Rate of Return (gross of fees)</b>	<b>Rate of Return (net of fees)</b>	<b>Benchmark Return *</b>
Investments	£26.149m	0.49%	0.49%	0.41%

\*DMO Overnight rate

No institutions in which investments were made showed any difficulty in repaying investments and interest in full during the year.

## 12. **SHROPSHIRE COUNCIL DEBT**

12.1 The Council makes an annual contribution (£1.309m in 2018/19) towards Shropshire Council costs on pre disaggregation debt (i.e. pre unitary inception) - interest paid averaged 5.17% last year. The rate of interest paid on this is managed by Shropshire and is considerably higher than the rate payable by Telford & Wrekin Council on its borrowing.



### 13. **OVERALL OUTTURN FOR 2018/19**

- 13.1 The net overall position is summarised in the table below. The sound overall position has resulted from a mix of cash flow benefits plus proactive treasury management activities. The budget reflected the position when the budget was set, the underspend has been achieved through active management of borrowing and the low interest rates prevailing for the year. Overall a net saving of £3.161m was made against budget for the year which is summarised below:

#### **Summary of Outturn Position**

	<b>Estimate £m</b>	<b>Outturn £m</b>	<b>Variance £m</b>
Interest Received	(0.175)	(0.148)	0.027
Debt Management & Recharges	0.048	0.149	0.101
MRP including saving from change of policy re PFI	(1.629)	(1.714)	(0.085)
Capitalisation of Interest	(0.206)	(0.074)	0.132
Shropshire County Council	1.331	1.304	(0.027)
Interest Paid	<u>8.232</u>	<u>4.923</u>	<u>(3.309)</u>
<b>Net Position</b>	<b>7.601</b>	<b>4.440</b>	<b>(3.161)</b>

### 14. **LEASING**

- 14.1 Each year the Council arranges operating leases for assets such as vehicles, computers and equipment. This helps spread the cost over a number of years in line with the anticipated life of the equipment.

Only one leasing drawdown was completed for 2018/19 and this was in September, which was reported in the last update to members in January.

### 15. **2019/20 UPDATE**

The remainder of this report deals with the current financial year based largely on information to 31 May 2019.

#### 15.1 **Strategy**

The strategy for 2019/20 was approved by Full Council 28<sup>th</sup> February 2019. The strategy is to continue to keep investments as short term, where possible, to reduce the need to borrow thus reducing investment exposure and maximising overall returns to the revenue account. We will review investment opportunities if they arise and also review borrowing opportunities as we progress through the year and look to take advantage of advantageous interest rates where appropriate. 2019/20 and 2020/21 will see the Council continue to invest in significant regeneration projects including highways and building homes and commercial property for rent as part of the approved Housing Investment Programme. In order to comply with MiFID II the Council will maintain a minimum investment balance of £10m.

#### 15.2 **Interest Rates**

Base rate began the year at 0.75% and has remained there. The current expectation is that this will continue for the foreseeable future.

### 15.3 Prudential Regime

This Council agreed its required indicators at Council on 28<sup>th</sup> February 2019. There have been no breaches of the indicators and none have been amended. The Council set itself an Operational limit for external debt of £420m for 2019/20 and an Authorised limit of £440m. Our total borrowing outstanding as at 31/05/19 (including PFI) is £325m which is within both limits.

### 15.4 Borrowing

We have taken two New PWLB loans during in 2019/20 totalling £10m (details below). In total we have £7.7m maturing during 2019/20.

Date	Loan	Period	Amount	Interest Rate
01/04/2019	EIP	25 years	£5m	1.99%
28/05/2019	Annuity	23 years	£5m	1.98%

### 15.5 Investments

The strategy for the year is to gain maximum benefit at minimum risk whilst achieving as a minimum, the overnight deposit rate. For the period to 31 May 2019 some £630m worth of investments have been made in our overnight call accounts or with the Debt Management Office. Rates have ranged from 0.50% to 0.53%. As at 31 May 2019 internal investments stood at £16.553m including Money Market Funds.

Potentially the Council can place up to £15.0m with any Counterparty. At the end of May the greatest exposure with a single counterparty was £3.864m (23.3% of the portfolio) with both Handelsbanken and the DMO. A detailed breakdown of the investment portfolio is shown in Appendix 2.

The Council also has investments in money market funds which gives increased diversification of counter-party risk and slightly higher yield whilst retaining a high degree of liquidity. The amount invested in money market funds at 31<sup>st</sup> May 2019 is £4.98m. This investment was split equally between 2 funds.

### 15.6 Projected Performance 2019/20

Current projections are that a surplus against budget of around £2m will be achieved if current treasury management performance continues for the remainder of the year. This benefit will be used to help offset pressures being faced in key front line care services for older adults and looked after children.

### 16. Background Papers

CIPFA Code of Practice for Treasury Management in Local Authorities;  
Fund Manager Valuations; Temporary Borrowing records; PWLB records  
Investment records

Report prepared by:

Ed Rushton, Group Accountant (Corporate and Health & Well-Being Finance) – Tel. (01952) 383750

## PRUDENTIAL INDICATORS

PRUDENTIAL INDICATOR	2017/18 Actual Outturn	2018/19 Original Estimate	2018/19 Actual Outturn
<b>(1). EXTRACT FROM BUDGET SETTING REPORT</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Capital Expenditure</b>			
TOTAL	85.5	84.7	57.6
<b>Ratio of financing costs to net revenue stream</b>			
General fund	3.85%	7.45%	4.62%
<b>Net borrowing requirement</b>			
brought forward 1 April	220.0	276.8	256.7
carried forward 31 March	256.7	320.1	266.9
in year borrowing requirement	+36.7	+43.3	+10.2
<b>Capital Financing Requirement as at 31 March</b>			
TOTAL	420.8	467.8	445.2
<b>Annual change in Cap. Financing Requirement</b>			
TOTAL	+53.0	+42.7	+24.4
<b>Incremental impact of capital investment decisions</b>	<b>£ p</b>	<b>£ p</b>	<b>£ p</b>
Increase in council tax (band D) per annum (not cumulative)	0.06	0.74	0.05

PRUDENTIAL INDICATOR	2017/18 final	2018/19 original	2018/19 final
<b>(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Authorised limit for external debt -</b>			
borrowing	350	440	440
other long term liabilities	61	61	61
<b>TOTAL</b>	<b>411</b>	<b>501</b>	<b>501</b>
<b>Operational boundary for external debt -</b>			
Borrowing	330	420	420
other long term liabilities	60	59	59
<b>TOTAL</b>	<b>390</b>	<b>479</b>	<b>479</b>
<b>Upper limit for fixed interest rate exposure</b>			
Net principal re fixed rate borrowing / investments	100	100	100
<b>Upper limit for variable rate exposure</b>			
Net principal re variable rate borrowing / investments:-	30%	30%	30%
<b>Upper limit for total principal sums invested for over 364 days</b> (per maturity date)	95%	95%	95%

<b>Maturity structure of fixed rate borrowing during 2018/19</b>	lower limit	upper limit
under 12 months	0%	70%
12 months and within 24 months	0%	30%
24 months and within 5 years	0%	50%
5 years and within 10 years	0%	75%
10 years and above	25%	100%

**Summary of Investments at 31 May 2019**

	<b>Sovereign Credit Rating</b>	<b>Individual credit Rating</b>	<b>Total £m</b>	<b>%</b>
<b>Call Accounts</b>				
Lloyds Svenska	UK AA	F1 A+ support 5	3.845	23.2
Handelsbanken Debt Management Office (DMO)	UK AA  Government	F1+ AA support 1	3.864	23.3
<b>Other Investments</b>				
Money Market Funds	N/A	AAA	4.980	30.2
<b>Total</b>			<b>16.553</b>	<b>100.0</b>

Call Accounts Non UK holding £7.8m (Limit £15m)

Please note. Part of the Money Market Funds are invested in non UK sovereigns. At 31<sup>st</sup> May 2019 this amounted to 92.2% of the funds.

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## **TELFORD & WREKIN COUNCIL**

### **AUDIT COMMITTEE 23 JULY 2019**

#### **PUBLICATION OF INFORMATION ON COUNCILLORS WHO TRADED WITH THE COUNCIL DURING 2018/19**

#### **JOINT REPORT OF THE MONITORING OFFICER AND THE CHIEF FINANCIAL OFFICER**

### **1 PURPOSE**

- 1.1 To present to the Audit Committee information to be published in respect to Councillors who traded with the Council during 2018/19.

### **2 RECOMMENDATIONS**

- 2.1 That Members of the Audit Committee note the contents of the report and information that will be published on the Council's website.

### **3 SUMMARY**

- 3.1 To improve transparency it was agreed in the Autumn 2012 that details of councillors who have an interest in companies that receive a payment from the Council, for example a directorship, should be separately reported to the Council through the Audit Committee.
- 3.2 This information is collected as part of the final accounts process and this report represents information for 2018/19.
- 3.3 This information will be published on the Council's website following presentation to the Audit Committee.

### **4 PREVIOUS MINUTES**

- 4.1 Council's Constitution Committee 4<sup>th</sup> September 2012  
Council 19<sup>th</sup> September 2012 (2011/12)  
Audit Committee 28<sup>th</sup> January 2014 (2012/13)  
Audit Committee 16<sup>th</sup> September 2014 (2013/14)  
Audit Committee 15<sup>th</sup> September 2015 (2014/15)  
Audit Committee 20 September 2016 (2015/16)  
Audit Committee 19 September 2018 (2016/17)  
Audit Committee 24 July 2018 (2017/18)

### **5 BACKGROUND AND INFORMATION**

- 5.1 As part of the annual account process councillors disclose where they have an interest in a company/companies that receive payment from the Council. These are shown annually in the Final Accounts that are presented to the Audit Committee.
- 5.2 However, the Council through the Constitution Committee and full Council agreed that in order to provide better transparency additional details of any Councillors who have an interest in companies that benefit from trading with the Council will be taken to Full

Council via the Audit Committee as a separate report each year and published on the Council's website.

This information will be more readily accessible by the public and demonstrate the Council's co-operative commitment to openness.

- 5.3 It was agreed that the information reported would be the previous year's value and description of any payments received from the Council to any businesses/companies where that Member has an interest.
- 5.4 Only two Councillors were associated with companies (either owners or Directors) who received payments from the Council in 2018/19. These were:
- Councillor Stephen Burrell - £362,096 in respect to the company Peace of Mind Homecare. Councillor Burrell is a Director of this company.
  - Councillor Joy Francis - £243,531 in respect to the companies Tortoise Day Nursery and Smiley faces Day Nursery. This relates to payment of nursery funding on behalf of the Government. Councillor Francis is the owner of Tortoise Day Nursery and Managing Director of Smiley Faces Day Nursery.

## **6 OTHER CONSIDERATIONS**

<b>AREA</b>	<b>COMMENTS</b>
Equal Opportunities	Transparency supports equalities and demonstrates the Council's commitment to be open and fair.
Environmental Impact	This report has limited environmental impact due to the nature of the work companies reported.
Legal Implications	It should also be noted that in addition to the publication of the information referred to in this report, Councillors also have to complete a disclosable pecuniary interest's form following their appointment. This form includes a section where Councillors must provide details of any contracts they have with the Council. The form for each Councillor is published on the Council's website.
Links with Corporate Priorities	The report supports the Council's values which are embedded in the delivery of all the Council's priorities.
Risks and Opportunities	The risks and opportunities in respect to this report will be appropriately identified and managed.
Financial Implications	There are no financial implications arising from this report as the information is already collected as part of the final accounts process.
Ward Implications	Borough wide

## **7 BACKGROUND PAPERS**

Localism Act 2011

Co-operative Council Commissions Report 2012

Report prepared by Jonathan Eatough – Monitoring Officer and Ken Clarke, Chief Financial Officer



**TELFORD & WREKIN COUNCIL**

**AUDIT COMMITTEE 23 July 2019**

**INTERNAL AUDIT UPDATE REPORT**

**REPORT OF THE AUDIT & GOVERNANCE TEAM LEADER**

**1 Purpose**

To update members on the progress made against the 2019/20 Internal Audit plan and to provide information on recent work of Internal Audit.

**2 Recommendations**

Members of the Audit Committee to note the information contained in this report in respect to Internal Audit work undertaken between 1 May 2019 and 30 June 2019.

**3 Summary**

- 3.1 This report provides information on the work of Internal Audit from 1 May 2019 to 30 June 2019 and provides an update on the progress of previous audit reports issued.
- 3.2 The key focus for the team during this period was the completion of the audit plan.
- 3.3 The information included in this progress report will feed into and inform our overall opinion in our Internal Audit Annual Report issued at year-end. All audit reports issued during the year are given an overall audit opinion based on the following criteria:

Level of Assurance/Audit Opinion & Definition	
<p style="text-align: center;"><b>Good (Green)</b></p> <p style="text-align: center;">There is a sound system of control designed to address relevant risks with controls being consistently applied.</p>	<p style="text-align: center;"><b>Reasonable (Yellow)</b></p> <p style="text-align: center;">There is a sound system of control but there is evidence of non-compliance with some of the controls.</p>
<p style="text-align: center;"><b>Limited (Amber)</b></p> <p style="text-align: center;">Whilst there is a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls.</p>	<p style="text-align: center;"><b>Poor (Red)</b></p> <p style="text-align: center;">The system of control is weak and there is evidence of non-compliance with the controls that do exist.</p>

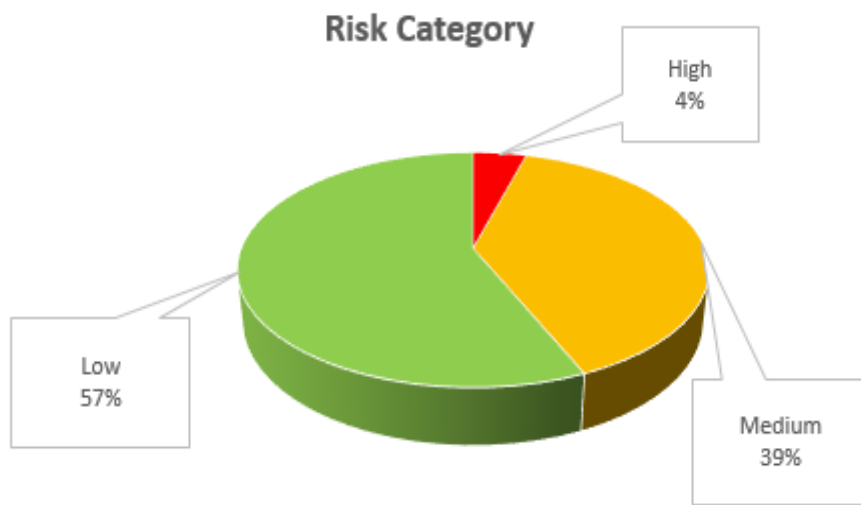
3.4 To determine the overall grading of the Internal Audit report each recommendation is risk rated (high, medium or low). The recommendation risk rating is based on the following criteria:

**High risk =** A fundamental weakness which presents material risk to the system objectives and requires immediate attention by management.

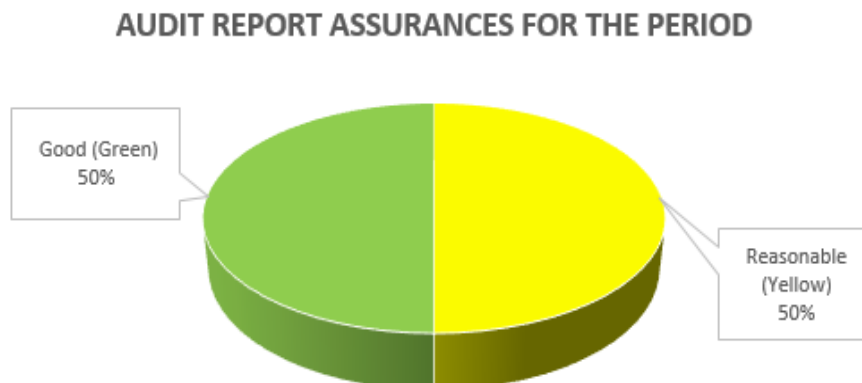
**Medium risk =** A recommendation to address a control weakness where there are some controls in place but there are issues with parts of the control that could have a significant impact.

**Low risk =** A recommendation aimed at improving the existing control environment or improving efficiency, these are normally best practice recommendations.

3.5 The chart below shows the number of high, medium and low risk recommendations made for the reports issued during this period.



3.6 The level of assurance (based on table 3.3 above) for audit work undertaken in this period and for the corresponding status at the audit follow up stage is detailed below.



3.7 The information in the above pie charts is broken down in the summary table below. Please note audits in grey text will not be followed up due to the associated audit opinion and level of risk.

AUDIT REPORTS ISSUED BETWEEN 1/5/19 – 30/6/19 AND CURRENT STATUS					
Area	Date of Report	Original Audit Grade	Follow up undertaken	Revised Grade	Comments
General Data Protection Regulation (GDPR)	17/5/19	Yellow (Reasonable)	November 2019	TBC	
Sales Ledger (18/19)	20/5/19	Yellow (Reasonable)	Included in 19/20 audit	TBC	
New Social Care System - Liquidlogic	24/6/19	Yellow (Reasonable)	December 2019	TBC	
Telford Land Deal	13/5/19	Green (good)	n/a	n/a	
Madeley Town Council	14/5/19	Green (good)	n/a	n/a	
Benefits	7/6/19	Green (good)	n/a	n/a	

Detailed below is the status of any reports previously issued and reported to Audit Committee. Members should note that once reports have reached a green status and have been reported to members they are excluded from future Audit Committee reports.

PREVIOUSLY ISSUED REPORTS & CURRENT STATUS					
Area	Date of Report	Original Audit Grade	Follow up undertaken	Current Grade	Comments
My Options YP services – Operational	20/2/19	Red	1 <sup>st</sup> follow up undertaken May 2019.	Yellow	2 <sup>nd</sup> follow up to be undertaken November 19.
Direct Payments Children & Adults	10/12/18	Adults/ = Red FCM = Red Children = Amber	1 <sup>st</sup> follow up undertaken April	Adults = Yellow Children = Yellow FCM = Amber	2 <sup>nd</sup> follow up to be undertaken July 2019. Then full audit in qtr 3 or 4. As previously reported the Assistant Director – Customer & Neighbourhood Services is working on an action plan with the FCM team to address outstanding issues
Discharge From Hospital	16/3/18	Amber	2 <sup>nd</sup> follow up undertaken May 19	Yellow	No further follow up to be undertaken.

			yellow grading		
My Options Young Peoples Services - Income	21/9/18	Amber	1 <sup>st</sup> follow up undertaken January 19	Yellow	2 <sup>nd</sup> follow up to be undertaken August 19.
Queenswood Primary School	17/10/18	Yellow	1 <sup>st</sup> follow up undertaken May 19	Yellow	2 <sup>nd</sup> follow up to be undertaken November 19. Change of head meant that implementation of some recommendations were delayed.
Permit for Utilities working on the highways	14/11/18	Yellow	1 <sup>st</sup> follow up undertaken May 2019	Yellow	No further follow up undertaken
Phoenix Leisure Centre	11/1/19	Yellow	Follow up to be undertaken July 19	TBC	
ICT Back Up & Storage	1/3/19	Yellow	Follow up to be undertaken September 19	TBC	
ICT Anti -Virus	1/3/19	Yellow	Follow up to be undertaken September 19	TBC	
3 <sup>rd</sup> party access wired & wireless network	30/4/19	Yellow	Follow up to be undertaken October 19	TBC	
Single sign on	23/4/19	Yellow	Follow up to be undertaken October 19	TBC	

Internal Audit is confident and have been assured by management that controls have and will continue to improve in all areas where recommendations have been made. There are no other issues to bring to the attention of the Committee at this time.

#### 4 Changes to the audit plan

4.1 During this period there have been no changes to the 19/20 audit plan.

#### 5 Unplanned work

5.1 Between the 1 May 2019 and 30 June 2019 the Audit Team undertook school fund audits. A new School Fund Auditor started on the 28 May 2019 and are now working on clearing any outstanding school fund audits.

## 6 Quality Assurance and Improvement Programme

- 6.1 The Audit & Governance Team Leader has continued to undertake quarterly spot checks of audit files to review compliance to the Public Sector Internal Audit Standards (PSIAS) alongside the normal quality review process applied to all audit assignments. No issues were identified during this period.

## 7 Internal Audit Adding Value

- 7.1 The Internal Audit function adds value to the Council's services in numerous ways. Recently from its work compiling the Annual Governance Statement (AGS), Internal Audit have worked with the Commissioning, Procurement & Brokerage SDM to highlight particular services where improvement was required in a number of procurement related activities. The Commissioning, Procurement & Brokerage SDM now intends to provide targeted training and awareness in these areas. This therefore closes the 'governance circle' for this area of Council activity.

## 8 OTHER CONSIDERATIONS

AREA	COMMENTS
Equal Opportunities	All members of the Audit Team have attended equal opportunities/ diversity training. If any such issues arose during any work the appropriate manager would be notified
Environmental Impact	All members of the Audit Team are environmentally aware and if any issues were identified they would be notified to the appropriate manager.
Legal Implications	<p>The Accounts and Audit Regulations 2015 (Part 2, paragraph 5) state that the Council must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. The information set out in this report illustrates the work that has been undertaken to meet the appropriate statutory requirements.</p> <p>In the event that an audit reveals a legal issue or concern this is referred to the Council's Legal Services Team and/or the Council's Monitoring Officer for further advice and assistance.</p>
Links with Corporate Priorities	All aspects of the Audit teams work support good governance which underpins the achievement of the Council's objectives and priorities.
Risks and Opportunities	All aspects of the Audit teams work supports managers and the Council to identify and manage their risks and opportunities.
Financial Implications	Financial monitoring is currently showing that Audit, IG, Insurance & Investigations are operating within budget for 2019/20. There are therefore no financial implications arising from adopting the recommendations of this report.
Ward Implications	The work of the Audit team encompasses all the Council's activities across the Borough and therefore it operates within all Council Wards.

### Previous minutes:

30 May 2019  
29 January 2019  
2 October 2018  
24 July 2018  
29 May 2018

**Background Papers:**

Annual Audit Plan 2019/20 and Charter

Public Sector Internal Audit Standards – Applying the IIA International Standards to the UK

Public Sector 2013 and updated January 2017

CIPFA Local Government Application Note – April 2013

Accounts and Audit Regulations – 2015

Report by: Tracey Drummond Principal Auditor. Telephone 383105