

Agenda



Audit & Performance Review Committee

Date: Wednesday, 27 September 2017

Time: 10:00

Venue: Council Chambers, Clydebank Town Hall
Dumbarton Road, Clydebank

Contact: Craig Stewart, Committee Officer
Tel: 01389 737251 craig.stewart@west-dunbarton.gov.uk

Dear Member

Please attend a meeting of the **Audit & Performance Review Committee** as detailed above. The business is shown on the attached agenda.

Yours faithfully

JOYCE WHITE

Chief Executive

Distribution:

Councillor John Mooney (Chair)
Councillor Jim Brown
Councillor Karen Conaghan
Councillor Daniel Lennie
Councillor Jonathan McColl
Councillor John Millar
Councillor Martin Rooney
Councillor Brian Walker
Mr SJ Doogan
Ms E McKerry

All other Councillors for information

Chief Executive
Strategic Director - Transformation & Public Service Reform
Strategic Director - Regeneration, Environment & Growth
Chief Officer of West Dunbartonshire Health & Social Care Partnership

Date of issue: 14 September 2017

AUDIT & PERFORMANCE REVIEW COMMITTEE

WEDNESDAY, 27 SEPTEMBER 2017

AGENDA

1 APOLOGIES

2 DECLARATIONS OF INTEREST

Members are invited to declare if they have an interest in any of the items of business on this agenda and the reasons for such declarations.

3 MINUTES OF PREVIOUS MEETING 5 - 8

Submit for approval as a correct record, the Minutes of Meeting of the Audit & Performance Review Committee held on 21 June 2017.

4 TREASURY MANAGEMENT ANNUAL REPORT 2016/17 9 - 22

Submit report by the Strategic Lead – Resources providing an update on treasury management during 2016/17.

5 AUDITED ANNUAL ACCOUNTS To follow

Submit report by the Strategic Lead – Resources on the above.

6 AUDIT SCOTLAND: ANNUAL REPORT To follow

Submit report by the Strategic Lead – Resources on the above.

7 AUDIT ACTION PLANS 23 - 26
Appendices to follow

Submit report by the Strategic Lead - Resources advising of:-

(a) recently issued Internal Audit action plans; and

- (b) progress made against action plans previously issued contained within Internal Audit and External Audit reports.

8	PUBLIC INTEREST DISCLOSURE AND OTHER INTERNAL AUDIT INVESTIGATIONS 1 JANUARY TO 30 JUNE 2017	27 - 29
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Submit report by the Strategic Lead – Resources advising of public interest disclosures and other Internal Audit investigations received during the period 1 January to 30 June 2017.

AUDIT & PERFORMANCE REVIEW COMMITTEE

At a Meeting of the Audit & Performance Review Committee held in Committee Room 3, Council Offices, Garshake Road, Dumbarton on Wednesday, 21 June 2017 at 10.05 a.m.

Present: Councillors Jim Brown, Karen Conaghan, Jonathan McColl, John Mooney, Martin Rooney, Brian Walker and Lay Member Ms Eilidh McKerry.

Attending: Angela Wilson, Strategic Director – Transformation & Public Service Reform; Jim McAloon, Strategic Lead – Regeneration;; Malcolm Bennie, Strategic Lead – Communications, Culture & Communities; Colin McDougall, Audit and Risk Manager; and Craig Stewart, Committee Officer.

Also Attending: Ms Carol Hislop, Senior Audit Manager and Ms Zara Mahmood, Senior Auditor, Audit Scotland.

Apologies: Apologies for absence were intimated on behalf of Councillors Daniel Lennie and John Millar and Lay Member Stevie Doogan. Apologies were also intimated from Joyce White, Chief Executive; Stephen West, Strategic Lead – Resources; Vicki Rogers, Strategic Lead – People & Technology.

Councillor John Mooney in the Chair

WELCOME AND INTRODUCTIONS

Prior to the meeting commencing Councillor Mooney, Chair, welcomed everyone to the first meeting of the Audit & Performance Review Committee since the May local government elections, and invited all Members and officers to introduce themselves.

DECLARATIONS OF INTEREST

It was noted that there were no declarations of interest in any of the items of business on the agenda.

INTERNAL AUDIT ANNUAL REPORT TO 31 MARCH 2017

A report was submitted by the Strategic Lead - Resources advising of the work undertaken by Internal Audit in respect of the Annual Audit Plan 2016/17 and advising of the Assurance Statement given to the Section 95 Officer (Strategic Lead - Resources) in support of the Statement of Internal Financial Control/ Governance Statement.

After discussion and having heard the Strategic Director, Audit and Risk Manager and Ms Hislop, Senior Audit Manager in further explanation and in answer to Members' questions, the Committee agreed to note the contents of the report.

CODE OF GOOD GOVERNANCE

A report was submitted by the Strategic Lead - Resources advising of the outcome of the annual self-evaluation undertaken of the Council's compliance with its Code of Good Governance.

After discussion and having heard the Audit and Risk Manager and relevant officers in further explanation and in answer to Members' questions, the Committee agreed:-

- (1) to note the outcome of the recent self-evaluation process in considering how the Council currently met the agreed Code of Good Governance; and
- (2) to note the issues identified and improvement actions.

ACCOUNTS COMMISSION REPORT: LOCAL GOVERNMENT IN SCOTLAND – PERFORMANCE AND CHALLENGES 2017

A report was submitted by the Strategic Lead - Resources providing, for information and consideration, a national audit report which has been received from the Accounts Commission.

After discussion and having heard the Strategic Director, Strategic Lead - Communications, Culture & Communities and Ms Hislop, Senior Audit Manager in further explanation and in answer to Members' questions, the Committee agreed:-

- (1) to note the position of the Council in terms of the report's recommendations as detailed at 4.2; and
- (2) otherwise to note the terms of the discussion that had taken place in respect of this matter.

AUDIT SCOTLAND REPORT: WEST DUNBARTONSHIRE COUNCIL: REVIEW OF KEY INTERNAL CONTROLS 2016/17 – JUNE 2016

A report was submitted by the Strategic Lead - Resources providing for information a letter which has been received from our external auditors, Audit Scotland, and, in addition, information on management actions implemented following receipt of the letter.

After discussion and having heard the Strategic Director and Ms Hislop, Senior Audit Manager in further explanation and in answer to Members' questions, the Committee agreed to note the contents of the report and the agreed improvement actions.

AUDIT ACTION PLANS

A report was submitted by the Strategic Lead - Resources advising of:-

- (1) recently issued Internal Audit action plans; and
- (2) progress made against action plans previously issued contained within Internal Audit and External Audit reports.

After discussion and having heard the Strategic Director, Audit and Risk Manager and relevant officers in further explanation and in answer to Members' questions, the Committee agreed to note the contents of the report.

CHAIR'S CLOSING REMARKS

Councillor Mooney, Chair, advised the meeting that, following concerns the Council had raised with the Scottish Government on the issue of Phoenix companies (regarding Non Domestic Rates avoidance), a letter of reply had now been received from Derek Mackay MSP, Cabinet Secretary for Finance and the Constitution. The Committee noted the terms of the response.

The meeting closed at 11.15 a.m.

WEST DUNBARTONSHIRE COUNCIL

Report by the Strategic Lead – Resources

Audit and Performance Review Committee: 27 September 2017

Subject: Treasury Management Annual Report 2016/17

1. Purpose

- 1.1** The purpose of this report is to provide Members the opportunity for further scrutiny on the Treasury Management Annual Report 2016/17, which was reported to Council on 30 August 2017.

2. Recommendations

- 2.1** Members are asked to consider this report.

3. Background

- 3.1** In accordance with the Treasury Policy governing the Council's treasury management activities during 2016/17, the Strategic Lead - Resources is required to provide an Annual Report to Members regarding the Treasury function.
- 3.2** When considered by Council on 30 August 2017, Members:
- (a) noted the treasury management stewardship information within the report;
 - (b) noted the 2016/17 actual prudential indicators as advised within the report (Tables 2, 3, 4 and 5 within Appendix 1); and
 - (c) agreed that a copy of this report is remitted the Audit and Performance Review Committee to ensure further scrutiny takes place.
- 3.3** The Audit and Performance Review Committee is responsible for ensuring effective scrutiny of the treasury management strategy and policies.

4. Main Issues

Treasury Management Stewardship Report

- 4.1** A copy of the report is attached (Appendix 1).
- 4.2** The report gives details of loans borrowed and loans repaid during the course of the year, interest rates and debt rescheduling which was undertaken. The report also details the movement in the loans fund advances account in the year and the anticipated repayment profile of balances held at 31 March 2017.

- 4.3** The Council undertook new borrowing of £144.709m for the approved capital plans (£57.565m) and the replacement of naturally maturing debt (£87.144m) during 2016/17.
- 4.4** Consideration was given to available interest rates, and therefore a mixture of short, medium and long term borrowing has been utilised to finance the current capital programme.
- 4.5** External borrowing has increased from £321.958m at the beginning of the year to £379.523m at the end of the year. This is due to new borrowing required to fund the capital programmes. Maturing debt has been renewed along with debt rescheduling of a £5m market loan and overall there was a reduction in the average interest rate on long-term debt from 3.64% to 2.99%.
- 4.6** Investments have decreased from £11.436m at the beginning of the year to £11.256m at the year-end in line with treasury management planned activity. The average interest rate on these investments as at 31 March 2017 decreased from 0.43% to 0.37%, due to market conditions and is in line with that anticipated within the 2017/18 budget.
- 4.7** All year end actual indicators advised within Appendix 1 of this report are within the limits previously agreed by Council.

5. People Implications

- 5.1** There are no personnel issues.

6. Financial and Procurement Implications

- 6.1** There are no financial or procurement implications.

7. Risk Analysis

- 7.1** Although this report provides a historic position in relation to treasury management there are three main risks associated with the formulation of prudential indicators and the treasury management strategy as detailed in Appendix 1. These risks are noted below; however the Council has robust monitoring processes in place and provides regular reports to Council and ensures further scrutiny by elected Members at the Audit and Performance Review Committee:
- (a) Capital receipts which affect the capital financing and borrowing requirement may not materialise and if this occurs then additional borrowing will be required in order to fund the financing requirement;
 - (b) The risk of Counterparties default (i.e. loss of principal sum invested) must also be taken into account; however the Council has robust controls included within its treasury management and investment strategies that will assist in mitigating this risk; and

- (c) Capital inflation may increase capital expenditure levels, which in turn may affect the capital financing and borrowing requirement leading to an increase in borrowing, assuming no additional capital receipts are available.

8. Equalities Impact Assessment

- 8.1** No equalities impact assessment was required in relation to this report.

9. Consultation

- 9.1** The views of Legal Services have been requested on this report and have advised there are neither any issues nor concerns.

10. Strategic Assessment

- 10.1** Proper budgetary control and sound financial practice are cornerstones of good governance and support Council and officers to pursue the 5 strategic priorities of the Council's Strategic Plan.
- 10.2** Treasury management contributes to the Financial Strategy via the interdependency that exists between pro-active treasury management and the formulation of long term financial plans.

Stephen West
Strategic Lead - Resources
Date: 4 September 2017

Person to Contact:	Jennifer Ogilvie, Section Head (Strategic Finance and Development), Garshake Road, Dumbarton, Telephone (01389) 737453 Email: Jennifer.ogilvie@west-dunbarton.gov.uk
Appendix:	Annual Report 2016/17 – Treasury Management and Actual Prudential Indicators
Background Papers:	Loans register and portfolio; Debt rescheduling schedules; Prudential Indicators 2016/17 to 2025/26 and Treasury Management Strategy 2017/18 to 2025/26 (Council 22 February 2017); Treasury Management Annual Report 2015/2016 (Council 31 August 2016)
Wards Affected:	No wards directly affected.

Annual Report 2016/17

Treasury Management and Actual Prudential Indicators

1. Introduction

- 1.1** The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:
- The Local Government in Scotland Act 2003 (the Act), provides the powers to borrow and invest as well as providing controls and limits on this activity. The Act permits the Scottish Ministers to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2016/17);
 - Statutory Instrument (SSI) 29 of 2004, requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities, and therefore to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services; and the treasury activity with regard to the CIPFA Code of Practice for Treasury Management in Local Authorities; and
 - Statutory Instrument (SI) 2016 No 123 requires the Council to document its policy on the prudent repayment of loans fund advances.
- 1.2** This Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector and operates its treasury management service in compliance with this Code and the above requirements. These require that the prime objective of the treasury management activity is the effective management of risk, and that its borrowing activities are undertaken in a prudent, affordable and sustainable basis.
- 1.3** During 2016/17 the minimum reporting requirements were that the Council receive an annual treasury strategy in advance of the new financial year, a mid-year report and an annual report following the financial year-end describing the activity compared to the strategy (this report).
- 1.4** This report sets out:
- A summary of the strategy agreed for 2016/17;
 - The Council's treasury position at 31 March 2017;
 - The main Prudential Indicators and compliance with limits;
 - A summary of the economic factors affecting the strategy over 2016/17;
 - The Treasury activity during 2016/17;
 - Performance indicators set for 2016/17;
 - Disclosure regarding the repayment of loan Fund advances for 2016/17; and
 - Risk and Performance.

2. A Summary of the Strategy Agreed for 2016/17

- 2.1** The expectation for interest rates within the treasury management strategy for 2016/17 anticipated low but rising Bank Rate and gradual rises in medium and longer term fixed borrowing rates during 2016/17. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding levels of investments and to reduce counterparty risk.

During 2016/17 there was some volatility in PWLB rates as shown in the graph at 5.2 with rates falling during quarters 1 and 2 to reach historically very low levels in July and August, before rising significantly during quarter 3, and then partially easing back towards the end of the financial year.

3. The Council's Treasury Position at 31 March 2017

- 3.1** During 2016/17, the Strategic Lead – Resources, in line with the treasury strategy to postpone borrowing, managed the debt position with the use of internal funds as well as external borrowing, and the treasury position at 31 March 2017 compared with the previous year was:

Table 1

Treasury position	31 March 2017		31 March 2016	
	Principal	Average Rate	Principal	Average Rate
Fixed Interest Rate Debt	£379.523m	2.99%	£321.958m	3.64%
Variable Interest Rate Debt	£0.000m	0.00%	£0.000m	0.00%
Total Debt	£379.523m	2.99%	£321.958m	3.64%
Total Investments	£11.256m	0.37%	£11.436m	0.43%
Net borrowing position	£368.267m		£310.522m	

- 3.2** From the above table, it can be seen that the average interest rate on debt held on 31 March 2017 has reduced from 3.64% to 2.99%. At the same time the average interest rate has decreased on the investments held on 31 March 2016 to 2017 from 0.43% to 0.37%.
- 3.3** The external debt figures included within Table 1 includes both short term and long term debt. This is due to a strategy of using short term borrowing to fund long term capital investment enabling the Council to take advantage of lower interest rates.
- 3.4** There are four treasury prudential indicators which cover the activity of the treasury function. Complying with these indicators reduces the risk of an adverse movement in interest rates impacting negatively on the Council's overall position:

- Upper limits on variable rate exposure;
- Upper limits on fixed rate exposure;
- Maturity structures of borrowing; and
- Total principal funds invested for greater than 364 days. During 2014/15 Members approved investment in Hub West Scotland for a period greater than 364 days, however this investment was not drawn down until 2016/17.

3.5 Table 2 shows the actual upper limits set per debt type and maturity as at 31 March 2017.

Table 2

	2016/17 Actual	2016/17 Indicator	
Upper limits on variable interest rates (<i>against maximum position</i>)	0%	50%	
Upper limits on fixed interest rates (<i>against maximum position</i>)	100%	100%	
Maturity structure fixed rate borrowing (%)	Year end Position	Max	Min
Under 12 months	46.0%	50%	0%
12 months to 2 years	8.7%	50%	0%
2 years to 5 years	6.4%	50%	0%
5 years to 10 years	4.5%	50%	0%
10 years to 20 years	3.4%	50%	0%
20 years to 30 years	0.5%	50%	0%
30 years to 40 years	8.9%	50%	0%
40 years to 50 years	13.2%	100%	0%
50 years to 60 years	8.2%	100%	0%
60 years to 70 years	0.0%	100%	0%
Maximum principal funds invested >364 days	£0.501m	£7m	Nil

4. The Main Prudential Indicators and Compliance with Limits

4.1 The Council is required by the Prudential Code to report the actual prudential indicators after the year end.

4.1.1 Capital Expenditure and its Financing

This indicator shows total capital expenditure for the year and how this was financed. The reduction in total capital expenditure between revised estimate and actual as noted below in Table 3 is due to expenditure which slipped from 2016/17 into the 2017/18 capital programme, together with resources. The indicators for 2017/18 will be revised in line with this.

Table 3

	2016/17 Actual	2016/17 Revised Estimate
Total capital expenditure	£88.667m	£96.156m
Resourced by:		
Capital receipts and grants	£18.011m	£14.479m
Revenue	£5.910m	£2.603m
Capital expenditure - additional need to borrow	£64.746m	£79.074m

4.1.2 Gross Borrowing and the Capital Financing Requirement (CFR)

In order to ensure that borrowing levels are prudent, over the medium term the Council's gross borrowing must only be used for capital purposes. Gross borrowing should not therefore, except in the short term, exceed the total of the capital financing requirement in the preceding year (2016/17) plus the estimates of any additional capital financing requirement for the current (2017/18) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2017/18.

4.1.3 The Strategic Lead - Resources reports that the Council has complied with this indicator in 2016/17 and this can be seen by comparing the gross debt figure at 31 March 2017 with the anticipated CFR at 31 March 2020 as detailed in Table 4 below.

Table 4

	2016/17 Actual	2016/17 Revised Indicator
Gross borrowing position per Table 1	£379.523m	£389.543m
PPP long term liability	£84.316m	£84.316m
Adjusted gross borrowing position	£463.839m	£473.860m
Capital Financing Requirement	£464.275m	£478.566m

	2016/17 Actual
CFR at 31 March 2017	
2016/17 Actual	£464.275m
Estimated Movement in CFR	
2017/18	£56.255m
2018/19	£21.524m
2019/20	£28.070m
Anticipated CFR at 31 March 2020	£570.124m
Gross Debt at 31 March 2017 (as above)	£463.839m

4.1.4 The Authorised Limit

The Authorised Limit is the "Affordable Borrowing Limit" required by Section 35 of the Local Government in Scotland Act 2003. The Council does not have the power to borrow above this level. The information in Table 5 demonstrates that during 2016/17 the Council has maintained gross borrowing within its Authorised Limit.

4.1.5 The Operational Boundary

The Operational Boundary is the borrowing position that the Council expects to work around during the year, and periods where the actual position is either below or over the Boundary is acceptable subject to the Authorised Limit not being breached. The information in Table 5 demonstrates that during 2016/17 the Council has maintained gross borrowing within its Operational Boundary.

4.1.6 Incremental Impact of capital investment decisions

This indicator identifies the impact of the actual capital outturn compared to the projected impact of the General Services Capital Plan Refresh and the HRA Capital Plan Update as approved by Members in February 2016, measured against Band D council tax and weekly housing rents. Table 5 shows that the final position for 2016/17.

The indicator shows a lower cost than forecast due to the actual capital spend in 2016/17 requiring a lower level of prudential borrowing than projected at February 2016. This is due to expenditure which slipped from 2016/17 into the 2017/18 capital programme, together with resources. The indicators for 2017/18 will be revised in line with this.

4.1.7 Actual financing costs as a proportion of net revenue stream

This indicator shows the actual impact of capital expenditure in 2016/17 compared to the projected impact of the General Services Capital Plan Refresh and the HRA Capital Plan Update as approved by Members in February 2016. The financing cost of capital is described as loan charges within the revenue budgets. Table 5 shows the final position for 2016/17 and shows the increase or decrease for every band D equivalent and weekly rent levels arising from the actual outturn.

Table 5

	2016/17	
Revised Indicator - Authorised Limit	£568.632m	
Revised Indicator - Operational Boundary	£521.246m	
Maximum gross borrowing position during 2016/17	£379.523m	
Minimum gross borrowing position during 2016/17	£315.958m	
	Estimated	Actual
Incremental Impact of capital investment decisions:		
Council Tax (excluding year-end flexibility)	-£1.13	-£31.48
Rent	£0.61	-£1.10
Financing costs as a proportion of net revenue stream:		
Non housing	8.73%	8.81%
Housing	30.88%	31.52%

5. Summary of the Economic Factors affecting Interest Rates over 2016/17

5.1 Interest Rates

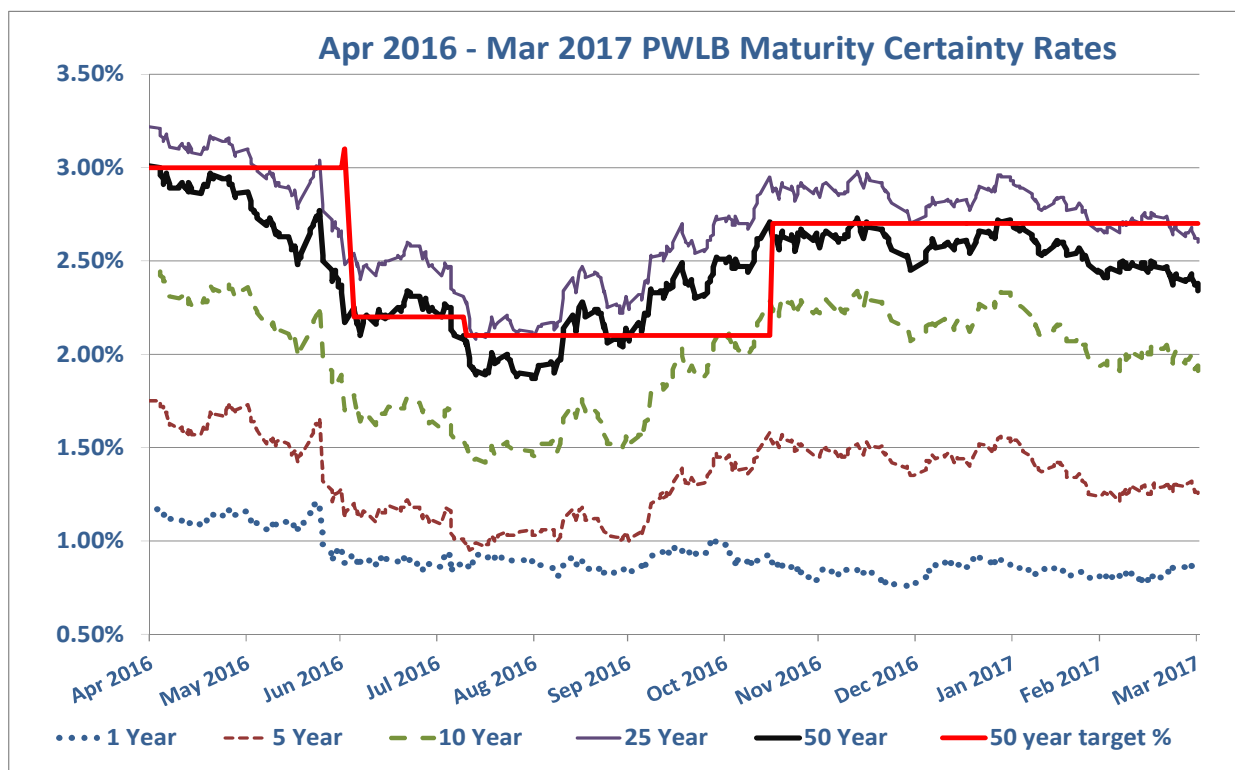
The two major landmark events that had a significant influence on financial markets in the 2016/17 financial year were the UK EU referendum on 23 June and the election of President Trump in the USA on 9 November. The first event had an immediate impact in terms of market expectations of when the first increase in Bank Rate would happen, pushing it back from quarter 3 2018 to quarter 4 2019. At its 4 August 2016 meeting, the Monetary Policy Committee

(MPC) cut the base Bank Rate from 0.5% to 0.25% and the Bank of England's Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016. The MPC also warned that it would be considering cutting Bank Rate again towards the end of 2016 in order to support growth.

In the second half of 2016, the UK economy confounded the Bank's pessimistic forecasts of August. After a disappointing start to the year the annual growth for 2016 overall, compared to 2015, of no less than 1.8%, was very nearly the fastest rate of growth of any of the G7 countries. This meant that the MPC did not cut Bank Rate again after August but, since then, inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum. By the end of March 2017, sterling was down against the dollar and the euro. In February 2017, the latest CPI inflation figure had risen to 2.3%, above the MPC's inflation target of 2% leading to market expectations for the first increase in Bank Rate being moved forward to quarter 3 2018 by the end of March 2017 in response to increasing concerns around inflation.

5.2 Borrowing Rates in 2016/17

The graph below shows PWLB rates for a selection of maturity periods and highlights how PWLB certainty rates have fallen to historically very low levels during the year.



6. Treasury Activity during 2016/17

6.1 Borrowing – The Council raised new long term loans of £20m and new short term loans of £124.709m during 2016/17 for the replacement of naturally maturing debt and to finance the Council's capital programme.

- 6.2 Rescheduling** – On 23 December 2016 the Council repaid a £5m market loan paying interest at 3.53% with a £5m PWLB loan at an interest rate of 2.43% resulting in total savings of £0.407m over the period to 31 March 2029. In addition 5 LOBO loans which were held with Barclays Bank were converted to straightforward fixed rate loans with no change to the interest rate applied.
- 6.3 Repayment** – The Council repaid naturally maturing debt of £87.144m.
- 6.4 Summary of Debt Transactions** – The overall position of the debt activity resulted in the average interest rate at 31 March year on year falling to 2.99%.
- 6.5 Investment Policy** – The Scottish Government issued The Local Government Investments (Scotland) Regulations 2010 on 1 April 2010.
- 6.6** The regulations applied from 1 April 2010 and the Council's policy was included in the annual treasury strategy approved by Council on 30 March 2013. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.
- 6.7** The Council's short term cash investments decreased from £11.436m at the beginning of the year to £11.256m at the end of the year with an average balance of £13.302m and received an average return of 0.37% over the year. In addition to the short term cash investments the Council also had 2 long term investments in Clydebank Property Company and Hub West Scotland with a total value of £0.501m as at 31 March 2017 as detailed in table 2 above. On 23 November 2016 Council agreed in principle to invest up to £6m towards the District Heating Network at Queens Quay, none of which was drawn down at 31 March 2017.
- 6.8** Economic factors for 2016/17 (see 5.1 above) resulted in low interest rates during this period impacting adversely on investment returns.

7. Performance Indicators set for 2016/17

- 7.1** Security, liquidity and return benchmarks were first introduced for 2010/11. Return benchmarks are currently widely used to assess investment performance.
- **Security** - In the context of benchmarking, assessing security is a very subjective area. Security is currently evidenced by the application of minimum quality criteria to financial institutions that the Council may choose to invest in, primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch, Moody's and Standard & Poors). The Council has benchmarked security risk by assessing the historical likelihood of default for investments placed with any institution with a long term credit rating of A- (this is the minimum long term credit rating used in the Council's investment strategy). The Council's maximum security risk is that 0.09% of investments placed with financial institutions could theoretically default based on global historical data. The Strategic Lead - Resources can report that all investments within the Council's portfolio were repaid on their due dates with no defaults of the principal sums recorded.

- Liquidity** – As required by the CIPFA Treasury Management Code of Practice the Council has stated that it will “ensure that it has adequate, though not excessive, cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives”. In respect to liquidity as defined above the The Strategic Lead - Resources can report that liquidity arrangements during the year were maintained in line with the facilities and benchmarks previously set by the Council as follows:
 - Bank overdraft - £1.000m
 - Liquid short term deposits of at least £5.000m available on an overnight basis.
- Return** – The Strategic Lead – Resources can report that investment return averaged 0.37% which is a year on year decrease of 0.06%. Table 6 illustrates that the average return of 0.37% was slightly below the Council's investment account but higher than the LIBID rates which are the local measures of return investment benchmarks approved in March 2012.

The Council's bankers (and therefore the bank with which the investment account is held) are currently the Clydesdale Bank Plc which falls within the Category 3 Investment Category approved in the investment strategy approved in February 2015. Due to the credit rating of this bank this category specified a maximum limit £5million which may be held on an overnight basis only thus limiting the ability to attract interest at 0.50%

Table 6

Benchmark	Benchmark Return	Average Return
Internal returns above the 7 day LIBID rate	0.11%	0.37%
Internal returns above the 1 month LIBID rate	0.13%	0.37%
Internal returns above the Council investment account	0.50%	0.37%

8. Disclosure regarding the repayment of Loan Fund advances for 2016/17

- 8.1 Table 7 shows the movement in the level of loan fund advances between 1 April 2016 and 31 March 2017.

Table 7

	Non Housing	Housing
Opening Balance at 1 April 2016	£148.082m	£173.927m
New Advances in 2016/17	£56.726m	£8.020m
Repayments in 2016/17	£4.885m	£6.093m
Closing Balance at 31 March 2017	£199.923m	£175.854m

- 8.2 Table 8 details the anticipated repayment profile of the balance on the loans fund advance accounts for both non housing and housing held at 31 March 2017.

Table 8

Future Repayment Profile	Non Housing	Housing
Under 12 months	£5.195m	£5.960m
2 years to 5 years	£20.282m	£26.121m
5 years to 10 years	£22.939m	£35.865m
11 years to 15 years	£17.953m	£31.802m
16 years to 20 years	£19.805m	£31.091m
21 years to 25 years	£20.879m	£21.531m
26 years to 30 years	£24.316m	£18.516m
31 years to 35 years	£18.121m	£4.241m
36 years to 40 years	£15.786m	£0.691m
41 years to 45 years	£4.344m	£0.024m
46 years to 50 years	£6.474m	£0.004m
51 years to 55 years	£9.962m	£0.006m
56 years to 60 years	£13.867m	£0.001m
Total	£199.923m	£175.854m

9. Risk and Performance

- 9.1** The Council has complied with all relevant statutory and regulatory requirements which require the Council to identify and, where possible, quantify the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.
- 9.2** The Council is aware of the risks of passive management of the treasury portfolio and, with the support of the Council's treasury advisers, has proactively managed its treasury position within the current economic climate taking advantage of lower interest rates where it is deemed appropriate. The Council has complied with its internal and external procedural requirements. There is little risk of volatility of costs in the current debt portfolio as the interest rates are predominantly fixed, with the majority of debt comprised of long-term loans.
- 9.3** Shorter-term rates and likely future movements in these rates predominantly determine the Council's investment return. These returns can therefore be volatile and, whilst the risk of loss of principal is minimised through the annual investment strategy, accurately forecasting future returns can be difficult.

WEST DUNBARTONSHIRE COUNCIL

Report by Strategic Lead - Resources

Audit and Performance Review Committee: 27 September 2017

Subject: Audit Action Plans

1. Purpose

1.1 The purpose of this report is to advise the Committee of:

- Recently issued Internal Audit action plans; and
- Progress made against action plans previously issued contained within Internal Audit and External Audit reports.

2. Recommendations

2.1 It is recommended that Members consider and note the contents of this report.

3. Background

3.1 When audit reports are issued by External and Internal Audit departmental management agree an action plan in relation to issues highlighted by the audit report. Progress on implementing the actions is monitored and reported to the Audit and Performance Review Committee.

4. Main Issues

Action Plans

4.1 The Appendices to this report will be run in the days leading up to the committee meeting so as to provide as up to date a position as possible in the progress of actions. Appendix A contains Internal Audit action plans recently agreed and issued. Appendix B details the outstanding actions on previously issued Internal Audit reports.

4.2 To put the action plans into context and highlight the risks being mitigated, a summary for recently issued reports included at Appendix A is provided at paragraphs 4.3 to 4.6 below.

4.3 Project 119 (Fine Art Collection)

The audit tested the following areas in relation to the Council Fine Art Collection:

- Policies & Procedures;

- Storage & Security of Collection;
- Valuations;
- Insurance Arrangements;
- Loans;
- Shared Arrangements; and
- Inventories.

The actions identified are required to mitigate risks in relation to:

- The “Acquisition and Disposal Policy - Clydebank Museum and Art Gallery”, which requires to be updated;
- An agreement to share a painting with other local authorities; and
- Accession of paintings into the collection.

4.4 Project 120 (ICT Disaster Recovery / Business Continuity Controls)

The audit sought to address the following key questions:

- Are WDC’s ICT Disaster Recovery plans up to date?
- Have the arrangements been tested?
- What arrangements are in place for building resilience into the systems development and implementation processes, particularly with large corporate systems?

The actions identified are required to mitigate risks in relation to:

- Plans and timescales to effectively test failover preparedness to the primary DR site;
- Plans and timescales to effectively test DR arrangements for the main telephony systems and for large departmental and corporate systems;
- Access to key DR documentation in the event of a complete failure of the primary datacentre;
- Re-evaluation of the prioritisation and recovery time objectives of key systems;
- Factor in DR capacity planning into large system procurement exercises; and
- Logging of DR/Failover arrangements.

Basis of work and recommendation categories

- 4.5** The key areas of work performed by both Internal Audit and External Audit are carried out according to a risk based approach that determines the nature, extent and timing of the required audit assignments.

- 4.6** Recommendations have timescales for completion in line with the following categories:

Category	Expected implementation timescale
<u>High Risk:</u> Material observations requiring immediate action. These require to be added to the department's risk register	Generally, implementation of recommendations should start immediately and be fully completed within three months of action plan being agreed
<u>Medium risk:</u> Significant observations requiring reasonably urgent action.	Generally, complete implementation of recommendations within six months of action plan being agreed
<u>Low risk:</u> Minor observations which require action to improve the efficiency, effectiveness and economy of operations or which otherwise require to be brought to the attention of senior management.	Generally, complete implementation of recommendations within twelve months of action plan being agreed

5. People Implications

- 5.1** There are no personnel issues with this report.

6. Financial and Procurement Implications

- 6.1** There are neither financial nor procurement implications arising directly from this report.

7. Risk Analysis

- 7.1** There is a risk that failure to implement actions within the agreed timescale may result in weaknesses in internal control arrangements remaining unresolved longer than is desirable.

8. Equalities Impact Assessment (EIA)

- 8.1** A screening has been carried out and found no issues relevant to equalities duties.

9. Consultation

- 9.1** This report has been subject to consultation with appropriate Strategic Leads. In addition, services have been consulted in the update of action plans.

10. Strategic Assessment

10.1 This report relates to Assuring Our Success through strong financial governance and sustainable budget management.

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Stephen West
Strategic Lead - Resources
Date: 28 August 2017

Person to Contact: Colin McDougall, Audit and Risk Manager
Telephone 01389 737436
E-mail – colin.mcdougall@west-dunbarton.gov.uk

Appendices: A - Internal Audit Reports (Recently Issued)
B - Internal Audit Reports (Previously Issued)

Background Papers: Internal Audit Reports
External Audit Reports
EIA Screening

Wards Affected: All Wards

WEST DUNBARTONSHIRE COUNCIL

Report by Strategic Lead - Resources

Audit & Performance Review Committee: 27 September 2017

**Subject: Public Interest Disclosures and other Internal Audit Investigations
1 January to 30 June 2017**

1. Purpose

- 1.1** The purpose of this report is to advise Committee of public interest disclosures and other Internal Audit investigations received during the period 1 January to 30 June 2017.

2. Recommendations

- 2.1** It is recommended that Members note the content of this report.

3. Background

- 3.1** A disclosure in the public interest is where a concern is raised by a Council employee about a danger or illegality that has a public interest aspect to it. A confidential reporting facility is managed by Internal Audit as part of the WDC Public Interest Disclosure Policy. Internal Audit maintains a central record of all concerns raised under the Public Interest Disclosure Policy. All such disclosures are investigated by Internal Audit, including liaising with Services and HR as appropriate
- 3.2** Internal Audit is also contacted on issues of concern by non-employees and other issues are brought to its attention, e.g. theft of cash from Council premises. Such matters are always investigated by Internal Audit as appropriate, although they are not regarded as public interest disclosures in terms of legislation or the Council policy. The outcome of the investigation of these issues has not previously been included with the six-monthly report to the Audit and Performance Review Committee. In order to demonstrate openness and transparency, the regular six-monthly report has now been amended to include information on all Internal Audit investigations, whether from employees (and deemed to be a protected disclosure) or from other sources.

4. Main Issues

Public Interest Disclosure Cases

- 4.1** One disclosure was received during the period January 2017 to June 2017 as follows:

Ref	Date Received	Detail	Outcome
1.	23.06.17	Allegation that employee is not working all paid hours and concerns re inappropriate working practices	Audit Completed 09.09.17. Allegation founded – management addressing this matter.

4.2 Activity relating to public interest disclosure for recent reporting periods is as follows:

Period	No. of Cases
1 st July 2014 to 31 st December 2014	13
1 st January 2015 to 30 th June 2015	7
1 st July 2015 to 31 st December 2015	8
1 st January 2016 to 30 th June 2016	4
1 st July 2016 to 31 st December 2016	6
1 st January 2017 to 30 th June 2017	1

4.3 As can be seen from the above table the numbers of referrals has been dropping since 2014. This may be because employees are identifying and reporting less areas of concern, or it may be an indication that employees are less aware of the policy. Officers will consider a re-launch of the policy to ensure employees are aware of it and how to raise any concerns they have through the policy.

Other investigations

4.4 A total of three cases were received by Internal Audit during the period January 2017 to June 2017 as follows:

Ref	Date Received	Detail	Progress/ Outcome
1.	27.02.17	Investigation of significant overspend on a capital project	Investigation work completed – report in preparation. It is anticipated that the report will be finalised in the next few weeks.
2.	22.05.17	Investigation on theft of cash from a Council school	Investigation work completed – report in preparation. It is anticipated that the report will be finalised in the next few weeks.
3.	29.06.17	Allegation that contractor used on WDC Tower Blocks had used inferior cladding materials, and procurement practices were inappropriate.	Investigation in progress

5. People Implications

5.1 There are no personnel implications with this report.

6. Financial and Procurement Implications

6.1 There are neither financial nor procurement implications with this report.

7. Risk Analysis

7.1 There are risks to the Council in financial, legal, operational and reputational terms of not providing a service to enable a disclosure in the public interest and to ensure that all public interest disclosure and other concerns raised with Internal Audit are properly investigated

8. Equalities Impact Assessment (EIA)

8.1 A screening was carried out and found no issues relevant to equalities duties.

9. Consultation

9.1 This report has been subject to a check by Finance Services and Legal, Democratic and Regulatory Services.

10. Strategic Assessment

10.1 The Public Interest Disclosure Policy and Business Irregularity Procedures contribute to Council's strategic priorities by ensuring that early warnings of malpractice may mitigate the extent of financial losses to the Council, contributes to better asset management by utilising employees to manage risks to the organisation's reputation and supports fit for purpose services through the continuation and promotion of robust employment practice.

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Stephen West
Strategic Lead - Resources
Date: 14 September 2017

Person to Contact: Colin McDougall, Audit and Risk Manager,
Telephone (01389-737436).
Email: colin.mcdougall@west-dunbarton.gov.uk

Appendices: None

Background Papers: Public Interest Disclosure Policy agreed by the Corporate Services Committee on 13 August 2014;
Business Irregularity Procedures; and
EIA Screening

Wards Affected: All