

6. INTERNAL AUDIT UPDATE	3 - 24
To update the Committee on Internal Audit work in 2018/2019 and present the latest position on the Reasonable Assurance Model	
9. WECA TREASURY MANAGEMENT MID-YEAR REVIEW 2018/19	25 - 32
To review the mid-year report for Treasury Management performance for 2018/19	
10. WECA TREASURY MANAGEMENT STRATEGY 2019/20	33 - 46
To consider the Treasury Management Strategy for 2019/20	

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WECA AUDIT COMMITTEE

UPDATE ON INTERNAL AUDIT
WORK - REASONABLE
ASSURANCE MODEL
FEBRUARY 2019

OUTLINE OF MODEL - EIGHT THEMES



OUTLINE OF MODEL - RISK & ASSURANCE ASSESSMENT

LEVEL OF RISK	HIGH					
	LOW					
		HIGH	LEVEL OF ASSURANCE			LOW

PURPOSE OF MODEL

Focussed on Corporate Governance & Organisational Health

Considers Thematic Risk and levels of Assurance

Not a Performance Metric

Adaptable to different Organisations

Acts as a Prioritisation & Planning Tool

Supports Audit Planning & Annual Governance Statement

Supports Organisational Improvement

Not static and refreshed periodically

LAST YEAR'S ASSESSMENT - 17/18

LEVEL OF RISK	HIGH					
			CORPORATE GOVERNANCE	FINANCIAL MANAGEMENT		
			PROGRAMME & PROJECT MANAGEMENT		PERFORMANCE MANAGEMENT	RISK MANAGEMENT
				INFORMATION MANAGEMENT	PROCUREMENT	
	LOW				ASSET MANAGEMENT	
		HIGH	LEVEL OF ASSURANCE			LOW

THEME 1 - CORPORATE GOVERNANCE

Overall Vision & Values

Stakeholder Engagement & Consultation

Constitution, Codes of Conduct, Rules & Procedures

Officer & Member Decision Making

Officer & Member Training & Induction

Openness & Transparency

Overall Governance Arrangements

DRAFT IN-YEAR ASSESSMENT 18/19

LEVEL OF RISK	HIGH					
	CORPORATE GOVERNANCE					
	LOW					
		HIGH	LEVEL OF ASSURANCE			LOW

THEME 2 - FINANCIAL MANAGEMENT

Medium Term Financial Planning

Budget Setting & Financial Control

Financial Reporting & Scrutiny

Treasury Management & Investment

Financial Resilience

Core Financial Systems & Internal Control

Financial Rules & Procedures

Value for Money

DRAFT IN-YEAR ASSESSMENT 18/19

LEVEL OF RISK HIGH LOW					
	CORPORATE GOVERNANCE				
		FINANCIAL MANAGEMENT			
	HIGH	LEVEL OF ASSURANCE			LOW

THEME 3 - PERFORMANCE MANAGEMENT

Business Plan & Key Priorities

Links to Service & Team Planning

Performance Management Framework

KPI's, Outcomes & Measures

Performance Reporting & Scrutiny

Benchmarking

DRAFT IN-YEAR ASSESSMENT 18/19

<div>HIGH</div> <div>LEVEL OF RISK</div> <div>LOW</div>					
	CORPORATE GOVERNANCE				
		FINANCIAL MANAGEMENT	PERFORMANCE MANAGEMENT		
	<div>HIGH</div> <div>LEVEL OF ASSURANCE</div> <div>LOW</div>				

THEME 4 - RISK MANAGEMENT

Strategy & Framework

High Level Understanding of Risks

Links to Decision Making

Links to Service & Team Planning

Risk Reporting

Insurance

DRAFT IN-YEAR ASSESSMENT 18/19

LEVEL OF RISK HIGH LOW					
	CORPORATE GOVERNANCE				
		FINANCIAL MANAGEMENT	PERFORMANCE MANAGEMENT	RISK MANAGEMENT	
HIGH LEVEL OF ASSURANCE LOW					

THEME 5 - PROGRAMME & PROJECT MANAGEMENT

Overall Arrangements for Major Programme/Project Delivery

Governance & Gateways

PID & Business Case Processes

Project Reporting & Scrutiny

Project Capacity & Skills

Project Risk Management

Benefit Realisation

DRAFT IN-YEAR ASSESSMENT 18/19

<div>HIGH</div> <div>LEVEL OF RISK</div> <div>LOW</div>					
	CORPORATE GOVERNANCE	PROGRAMME & PROJECT MANAGEMENT			
		FINANCIAL MANAGEMENT	PERFORMANCE MANAGEMENT	RISK MANAGEMENT	
	<div>HIGH</div> <div>LEVEL OF ASSURANCE</div> <div>LOW</div>				

THEME 6 - PROCUREMENT

Overall Strategy

Long-Term Procurement Plan

Transparency & Market Engagement

Governance & Gateways

Contract Rules & Procedures

Commercial Approach

Environmental Factors & Social Value

DRAFT IN-YEAR ASSESSMENT 18/19

LEVEL OF RISK HIGH LOW					
	CORPORATE GOVERNANCE	PROGRAMME & PROJECT MANAGEMENT	PROCUREMENT		
		FINANCIAL MANAGEMENT	PERFORMANCE MANAGEMENT	RISK MANAGEMENT	
HIGH LEVEL OF ASSURANCE LOW					

THEME 7 - INFORMATION MANAGEMENT

Strategy & Investment Plans

Roles & Responsibilities

Compliance & Security Framework

Rules & Procedures

Data Protection (GDPR)

FOI & EIR

Records Management

Business Continuity & Disaster Recovery

<div> <div>HIGH</div> <div>LEVEL OF RISK</div> <div>LOW</div> </div>					
	CORPORATE GOVERNANCE	PROGRAMME & PROJECT MANAGEMENT	PROCUREMENT		
		FINANCIAL MANAGEMENT	PERFORMANCE MANAGEMENT	RISK MANAGEMENT	
			INFORMATION MANAGEMENT		
	<div> <div>HIGH</div> <div>LEVEL OF ASSURANCE</div> <div>LOW</div> </div>				

THEME 8 - ASSET MANAGEMENT

Asset Management Strategy

Investment & Utilisation

Asset Recording

Capital Investment & Revenue Implications

Workforce Planning & Organisational Development

HR Policies & Procedures

Training & Professional Development

Feedback, Surveys & PDR processes

DRAFT IN-YEAR ASSESSMENT 18/19

<div> <div> HIGH </div> <div> LEVEL OF RISK </div> <div> LOW </div> </div>					
	CORPORATE GOVERNANCE	PROGRAMME & PROJECT MANAGEMENT	PROCUREMENT		
		FINANCIAL MANAGEMENT	PERFORMANCE MANAGEMENT	RISK MANAGEMENT	
			INFORMATION MANAGEMENT		
			ASSET MANAGEMENT		
	<div> HIGH <div> LEVEL OF ASSURANCE </div> LOW </div>				

NEXT STEPS

Assessments remain under review until end of March

Consulted with Senior Management at that time

Consideration of areas for management to focus on in 2019/20

Themes to feed into Audit Planning & Assurance for 2019/20

High Level Assessment finalised & included in Audit Plan

Reported back to Audit Committee at next meeting

WECA AUDIT COMMITTEE

TREASURY MANAGEMENT MID-
YEAR REVIEW 2018/19

MID-YEAR REVIEW

- As at 30th September 2018
- Compliance with Code of Practice
- Variations to planned approach
- Performance - versus Budget
- Performance - versus Benchmark
- Position against approved indicators
- Amendments to Strategy & indicators

PERFORMANCE AGAINST BUDGET

Interest & Capital Financing Costs – Budget Monitoring 2018/19

April to September 2018	YEAR END FORECAST			ADV/FAV
	Budgeted (Income) £'000	Forecast (Income) £'000	Forecast over or (under) spend £'000	
Interest & Capital Financing				
- Debt Costs	0	0	0	
- Interest on Balances	(520)	(1,004)	(484)	FAV
Sub Total - Capital Financing	(520)	(1,004)	(484)	FAV

PERFORMANCE AGAINST BENCHMARK

Average rate of return on investments for 2018/19

	April %	May %	June %	July	Aug	Sept	Average %
Average rate of interest earned	0.77	0.79	0.78	0.82	0.82	0.84	0.80
Benchmark = Average 7 Day LIBID rate +0.05% (source: Arlingclose)	0.41	0.41	0.41	0.41	0.63	0.64	0.48
Difference from Benchmark %	+0.36	+0.38	+0.37	+0.41	+0.19	+0.20	+0.32

POSITION AGAINST APPROVED INDICATORS

5. Upper limit for total principal sums invested for over 364 days

This is the maximum amount of total investments which can be over 364 days. The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments.

	2018/19 Prudential Indicator	Actual as at 30th September 2018
	%	%
Investments over 364 days	30	16.6

	Balance at 30 th September 2018 (Duration from Original date of Deal) £000
Notice (instant access funds)	27,280
Up to 1 month	0
1 month to 3 months	25,000
4 to 6 months	5,000
6 to 12 months	98,000
More than 12 months	33,000
Property Fund	9,957
Total	198,237

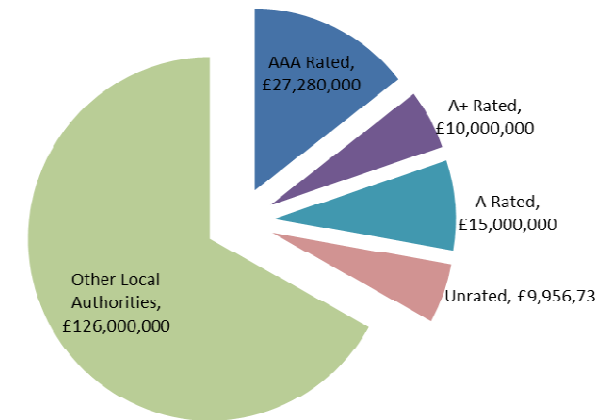
POSITION AGAINST APPROVED INDICATORS

7. Average Credit Rating

The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the weighted average credit rating of its investment portfolio. A summary guide to credit ratings is set out at **Appendix 7**. The figure excludes the Property Fund Investment.

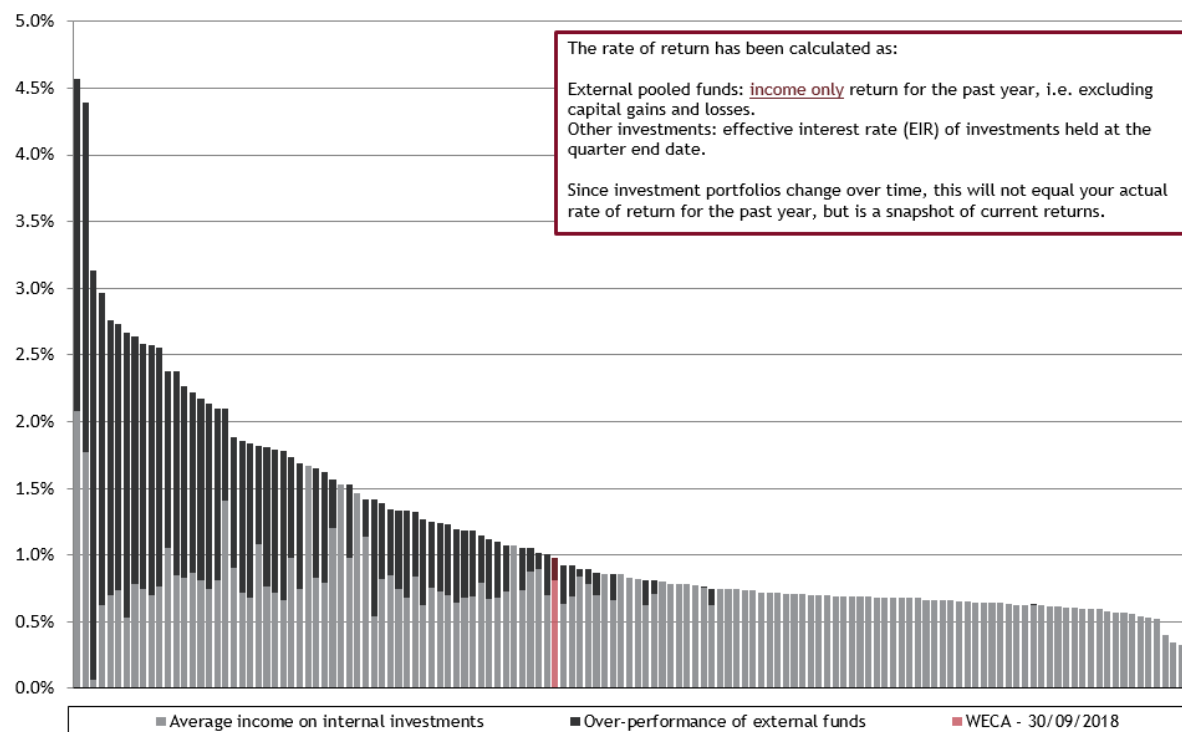
	2018/19 Prudential Indicator	Actual as at 30th September 2018
	Rating	Rating
Minimum Portfolio Average Credit Rating	A-	AAA-

Chart 5: WECA Investments per lowest equivalent Long Term credit rating (£198.2m) at 30th September 2018



BENCHMARKING

Income Only Return on Total Investments (Internal plus External Funds)



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WECA AUDIT COMMITTEE

TREASURY MANAGEMENT
STRATEGY 2019/20

TM STRATEGY

- Key Financial Risk Mgt mechanism for the Authority
- CIPFA TM Code of Practice 2017
- Closely follows TM Advisors template
- Sets Performance Targets - versus Budget / Benchmark
- Investment & Borrowing strategies
- Selects appropriate approved indicators
- Context of external economic / market forecasts & commentary

CORE PRINCIPLES OF STRATEGY

Objective of Strategy;

“Have regard to the security & liquidity of its investments before seeking the highest rate of return or yield.”

Strike an appropriate balance between risk & return;

- Minimising the risk of incurring losses from defaults
- Risk of receiving unsuitably low investment income

INVESTMENT STRATEGY

- Investment balances £120-198m in 2019/20;
 - Local Growth Fund
 - Revolving Infrastructure Fund
 - Investment Fund & other WECA funding
-
- All funds invested in line with strategy primarily to protect capital - predominantly with Central Government, Local Authorities & Banks.
 - Continuation of strategy in 2018/19 - long-term investments in Pooled Funds, to achieve a higher rate of return & further diversification actively considered.

COUNTERPARTY LIMITS

Table 1: Approved investment counterparties and limits

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£10m 5 years	£15m 20 years	£10m 50 years	£10m 20 years	£5m 20 years
AA+	£10m 5 years	£15m 10 years	£15m 25 years	£5m 10 years	£5m 10 years
AA	£10m 4 years	£15m 5 years	£15m 15 years	£5m 5 years	£5m 10 years
AA-	£10m 3 years	£15m 4 years	£10m 10 years	£5m 4 years	£5m 10 years
A+	£10m 2 years	£15m 3 years	£10m 5 years	£5m 3 years	£5m 5 years
A	£10m 13 months	£10m 2 years	£10m 5 years	£5m 2 years	£5m 5 years
A-	£10m 6 months	£10m 13 months	£10m 5 years	£5m 13 months	£5m 5 years
None	£1m 6 months	n/a	£10m 25 years	£50,000 5 years	£3m 5 years
Pooled funds and real estate investment trusts		£10m per fund or trust			

INVESTMENT LIMITS

Table 4: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£10m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£10m per group
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£15m per country (AAA sovereign rating) £10m per country (AA+ sovereign rating)
Registered providers and registered social landlords	£50m in total
Unsecured investments with building societies	£20m in total
Loans to unrated corporates	£20m in total
Money market funds	£100m in total
Real estate investment trusts	£50m in total

STRATEGIC INVESTMENTS

- Core holdings forecast at £20m
- £10m invested in CCLA Property Fund
- Further strategic investments being actively considered
- Global Multi-asset Pooled Funds
- Diversified Asset classes
- Staged investments, spread of Fund Managers
- Income Funds
- Long-term holdings

LIQUIDITY MANAGEMENT

- Cash-flow forecasting
- Short-term borrowing as a proactive treasury tool

Traditional approach

- Keep cash on instant access for unplanned cash outflows
- Security and liquidity means that yield will be low

MiFID II professional clients

- Need to keep £10m in designated investments or cash deposits to retain status
- Little point keeping this on instant access if it is not intended to be spent

Alternative approach

- Keep at least £10m cash buffer in a higher yielding investment
 - Risk appetite should be higher since investment horizon is long
- Borrow for unexpected liquidity needs
 - Better to be a borrower than a lender at current low rates
 - Test access to borrowing occasionally even if not required (this is mandatory for banks)

- UK exiting the EU

BORROWING STRATEGY

- Debt-free strategy - grant funding & revenue contributions
- Retain the option of short-term borrowing at current low rates
- Test access to borrowing periodically

TM INDICATORS

Credit risk indicator	Target
Minimum portfolio average credit rating	A-

Liquidity risk indicator	Target
Total sum borrowed in past 3 months without prior notice	£30m

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	£570k

Price risk indicator	2019/20	2020/21	2021/22
Limit on principal invested beyond year end	£100m	£75m	£50m

PERFORMANCE TARGETS

	Benchmark Return %	WECA £m	Budget LEP (LGF) £m	RIF £m
Property Fund	4.0%	x		
Pooled Fund investments	3.0%	x		
Other investments	0.9%	x	x	x
Average	1.3%	0.820	0.400	0.090

RELATED MATTERS

- In-house TM function with effect from 1 April 2019
- MiFID II requirements
- Derivatives
- IFRS9 accounting standard
- Operational Bank Account

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