

# Agenda

## Audit Committee

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Date: Thursday, 1 December 2016

Time: 5.00 pm

Venue: Committee Room 1 - Civic Centre

To: Mr J Baker (Chair), Councillors R Bright, D Davies, E Garland, J Guy, R Mogford, M Spencer, H Thomas and R White

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### Item

- 1 Agenda yn Gymraeg / Agenda in Welsh (Pages 3 - 4)
- 2 Apologies for Absence
- 3 Declarations of Interest
- 4 Minutes of the Meeting held on 22 September 2016 (Pages 5 - 10)
- 5 Lessons Learned 2015-16 (Pages 11 - 18)
- 6 Financial Memorandum on 2015-16 Financial Audit (Pages 19 - 30)
- 7 Treasury Management Report (Pages 31 - 46)
- 8 Internal Audit Plan 2016-17 Progress Quarter 2 (Pages 47 - 60)
- 9 SO24 / Waiving of Contract Standing Orders: Quarterly report reviewing Cabinet / Cabinet Member urgent decisions or waiving Contract Standing Orders (Quarter 2, July to September 2016) (Pages 61 - 72)
- 10 Audit Committee Self Evaluation Exercise
- 11 Work Programme (Pages 73 - 78)
- 12 Date of Next Meeting - 26 January 2017

**NB: Would members please ensure no printed copies of the agenda are left in the room at the conclusion of the meeting. Leaving paper copies of reports where they can be accessed by unauthorised persons could present a data breach.**

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Date of Issue: 24 November 2016



# Agenda



## Pwyllgor Archwilio

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Dyddiad: Dydd Iau, 1 Rhagfyr 2016

Amser: 5 y.p.

Lleoliad: Ystafell Bwyllgora 1

At: Mr J Baker (Cadeirydd), Y Cyngorwyr: Bright, Davies, Garland, Guy, Mogford, Spencer, H Thomas a White.

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### Eitem

#### Rhan 1

1. Agenda yn Gymraeg
2. Ymddiheuriadau am absenoldeb
3. Datganiadau o fuddiant
4. Cofnodion y cyfarfod a gynhaliwyd ar 22 Medi 2016
5. Gwersi a Ddysgwyd 2015-16
6. Memorandwm Ariannol ar Archwiliad Ariannol 2015-16
7. Adroddiad Rheoli Trysorlys
8. Cynllun Archwilio Mewnol 2016-17 Cynnydd Chwarter 2
9. Rheol Sefydlog 24/Hegor Rheolau Sefydlog Contractau: Adroddiad Chwarterol sy'n adolgu penderfyniadau brys y Cabinet/Aelod
10. Ymarfer Hunanwerthuso Pwyllgor Archwilio
11. Rhaglen Waith
12. Dyddiad y cyfarfod nesaf – 26 Ionawr 2017

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# Minutes



## Audit Committee

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Date: 22 September 2016

Time: 5.00 pm

Present: Mr J Baker (Chair), Councillors D Davies, E Garland, R Mogford, M Spencer, H Thomas and R White

In Attendance: Mike Dickie (Business Service Development Manager), Rachel Kalahar (Senior Performance Management Officer), Andrew Wathan (Chief Internal Auditor), Dona Palmer (Audit Manager), Robert Squance (Audit Manager), Meirion Rushworth (Head of Finance), Owen James (Assistant Head of Finance - Technical and Development), Meryl Lawrence (Overview and Scrutiny Officer), Paul Symonds (Head of Streetscene & City Services) and Martin Coombes (Senior Operations Manager)

Apologies: Councillors J Guy

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### 1 Declarations of Interest

None

### 2 Minutes of the Meeting held on 23 June 2016

The Minutes of the meeting held on 23 June 2016 were submitted.

#### Agreed:

To confirm the minutes of the meeting held on 23 June 2016.

### 3 Corporate Risk Register Update

Members considered an updated version of the Corporate Risk Register which identified eight risks, which are all medium risks. Since the last update, five risks remained unchanged, one has increased, one has reduced and one; the risk of Brexit is new.

Discussions included the following:

- Risk 8: Brexit
  - A Member asked would it be appropriate that the Regeneration Team be involved in this economic issue? - The Business Service Development Manager advised that opinions will be taken from more than one area of the Council.
  - A typographical error was identified: *"It is unclear at this time both when the **EU** will formally exit the EU and how these regulations may change."*
- Risk 5: Safeguarding

It was queried whether the risk should fall due to the new Safeguarding Role in Education? – It was explained that the risk is assessed by the Head of Service, taking all issues on board.
- Risk 3: Capacity and capability to meet the Council's objectives

The Present Risk score of 12 is consistent and it was queried whether there was a need to include detail in internal control frameworks to sign off? – It was clarified that this is not confined to one area and is implicit but can make them explicit. It was suggested that the Annual Governance Statement ties this together.

### **Agreed**

To note the contents of the Corporate Risk Register.

## **4 Regulatory Reports Summary**

Members considered a report detailing all of the regulatory reports that had been received by the authority from our main regulators, Wales Audit Office (WAO), Care and Social Services Inspectorate Wales (CSSIW) and Estyn.

New information contained in this report included:

- WAO Certificate of Compliance, Audit of Newport City Council's Improvement Plan. A certificate was issued to confirm that the Authority has complied with the requirements of the Local Government Measure 2009 with regards to its Audit of the Improvement Plan 2016-17.

The monitoring of the proposals for improvement made by WAO were reported to Cabinet, whereas the monitoring arrangements for CSSIW and Estyn reports were through Scrutiny. Progress monitoring reports for the WAO proposals for improvement were reported to Cabinet on a quarterly basis. These quarterly reports to Cabinet included updates of the open Proposals for Improvement and the Recommendations arising from the Corporate Assessment. The latest update on the proposals for improvement was included in Appendix 2.

Discussions included the following:

- With the Medium Term Financial Plan (MTFP) embedded across Wales, the value of the Wales Audit Office report was questioned and also less money spent on reports could be spent elsewhere? - The WAO were commissioned by the Auditor General to undertake the report across Wales, and an outcome was that MTFP processes need to be strengthened. It was clarified that following the Financial Resilience Report, actions were already in place to address the recommendations.
- Has the number of staff changes over the last few years impacted upon ability to ensure things are done right in compliance with regulation? – The Performance Team comprises two Officers, but knowledge of regulation is dotted around the Council in various services, e.g. Assistant Head of Finance, etc.
- Whether something could be missed when people leave and handover? - The responsibility rests with the Chief Executive and Directors. The Monitoring Officer, Chief Financial Officer and Head of Human Resources provide comments upon all reports to ensure they are compliant with Legal, Finance and HR requirements.

### **Agreed**

1. To note the details of the regulatory reports contained in the report.
2. To receive a further update in March 2017.
3. To note the update on Wales Office Proposals for Improvement and Recommendations.

## **5 Internal Audit Plan-Progress Quarter 1**

Members considered a report on the Internal Audit Section's progress against the 2015/16 agreed audit plan for the first three months of the year and for information on audit opinions given to date and progress against key performance targets.

The team currently operated with an establishment of 9 audit staff. At the start of the year there were 5 audit staff with 4 vacancies in the team. An Auditor was appointed and started with the team during quarter 1. The remaining vacant posts were recently advertised and interviews held during September.

In order to take account of the budget savings contribution and the delayering exercise required by senior management following the job evaluation exercise, the Internal Audit Team was restructured during Quarter 1. The previous and revised organisation charts were included in Appendix 1

The performance for Quarter 1 2016/17 was compared to the same period of the previous year (shown in brackets):

- a. 16% (16%) of the audit plan has been achieved so far which is the same as last year's performance and higher than the profiled target of 10%;
- b. The promptness of issue of draft report (comparing timescale between finalising all fieldwork and issuing the draft report to management) averages at 1 day (2 days) which is well within the target time of 10 days;
- c. The promptness of report finalisation (comparing timescale from meeting with client to discuss issues raised in the draft report to issue of finalised report to management) averages 4.5 days (1 day) which is within the target time of 5 days.

Coverage of the plan at that stage of the year was above expectations; the target being 10% for Quarter 1. Although there had been a reduced audit resource in the team there had been very little involvement with special investigations. Although performance may dip throughout the year, historically things had picked up in the final quarter; this year would depend on sufficient audit resources being available to complete the audit plan. All key financial systems would be reviewed by the year end.

Discussions included the following:

- Whether staffing issues were due to the salary offered? – Job Evaluation had impacted upon the grading of the posts and three staff had left as a result.
- Could a responsibility allowance be offered? – The process requires a vacancy to be advertised externally twice, before a panel could consider whether an allowance can be given for an individual post.
- Is the salary offered at Newport City Council less than in other Local Authorities? – It's less enough to affect recruitment, plus there aren't much career progression prospects in the structure.
- With regard to staffing, at what point would you not be able to give an opinion? – There are 90 jobs in the plan, if half of the jobs are achieved, it will affect the level of assurance that can be given by the end of the Plan. Will try to address this at the 6 month point and if unable will report to the Audit Committee and the Head of Finance.

### **Agreed**

To note the progress against the 2016-17 Audit Plan for the first three months of the year.

### **6 Standing Order 24 / Waiving of Contract Standing Orders: Quarterly report reviewing Cabinet / Cabinet Member Urgent decisions or waiving Contract Standing Orders (Quarter 1, April to June 2016)**

Members considered a report on the use of Standing Order 24 and the Waiving of Contract Standing Orders in recent decisions taken by Cabinet and Cabinet Members. Members were asked to consider whether the reasons for the urgency/waiving of contract standing orders were properly reflected in the documentation supporting the following decisions:

- a) The Cabinet Member for Education and Young People took an urgent decision on 26 April 2016 relating to Ysgol Gyfun Is Coed, Newport which meant the decision was not subject to the “call in” process.
- b) The Cabinet took an urgent decision on 24 May 2016 relating to Ysgol Gyfun Is Coed, Newport, which meant the decision was not subject to the “call in” process.

The comments of the Chief Internal Auditor stated that:

- a) This decision is linked to the previous report regarding this school presented to Audit Committee in May 2016. Due to the statutory obligations stated in the report, the need for urgency is justified.
- b) Justification for staff giving adequate notice to existing employees is not specifically covered within the body of this report; there are other statutory requirements included with the setting up of this new school which do justify the urgent decision made in order for it to progress and be up and running from September 2016.

A Member commented that it does seem like there had been a lack of forward planning for the setting up of the school far enough in advance . The Chair asked whether if Members thought they hadn't had enough opportunity to comment, then the lack of consultation could be a risk to the control framework. The Chief Internal Officer advised he could take that back to Officers. Members requested that the question be asked why there was a lack of planning? - The Chief Internal Officer advised he would take that back to Officers and report back.

### **Agreed**

The report contained justification for the urgent decisions.

## **7 Statement of Accounts and Audit of Financial Statements Report 2015-16**

Members considered a report on the results of the external audit of the 2015-16 Statement of Accounts, which highlighted the changes since they were initially published at the end of June 2016, and the Wales Audit Office report which set out for consideration the matters arising from the audit of the financial statements of the Council for 2015-16. The report sought formal adoption of the 2015-16 Accounts, as required by the Accounts and Audit (Wales) regulations 2014

The Accounts were published at the end of June 2016 by the Head of Finance and added to the Council's website at that time. The Accounts were available for public scrutiny, as required by the Accounts and Audit (Wales) regulations 2014, for a 20 working day period ending 5 August 2016.

Auditors had reviewed the 2015/16 Statement of Accounts in detail, and a number of required changes had been identified. The Wales Audit Office's (WAO) accompanying report showed a summary of the agreed changes. Appendix A presented the revised Accounts which members were invited to review and subsequently approve in accordance with the Council's standing orders.

The Head of Finance introduced the report and advised that the accounts had been completely audited the Wales Audit Office ISA260 report was included in the reports pack and it had been a good process this year with the Assistant Head of Service providing experience and management.



The Assistant Head of Finance advised that there were no significant changes to the accounts in the audit process and the corrected statements in the Wales Audit Office's ISA260 report were mainly corrections and not changes to the reported outturn of reserves. The ISA 260 showed an improvement in the accounts, which were 20 days early and with Audit Committee by 30 June. There had been teething issues with getting Group Accounts in from Newport Transport which will try to improve upon next year.

He advised that there were 3 uncorrected statements in the ISA 260, relating to:

1. Capping of waste station and review of aftercare costs, which will be reviewed next year and won't impact on accounting.
2. Revenue expenditure incorrectly being treated as capital expenditure for two grants:
  - a) one agreed to treat as capital for this instance;
  - b) the second relates to Disabled Facilities Grants and is ongoing, all Councils capitalise a proportion of their grants.

The decision had been taken not to make the changes in the letter of representation that hopefully the Chair and the Head of Finance will sign at the close of the meeting.

Discussions included the following:

- Some wording, formatting issues and spelling mistakes were referred to.
- Landcapping
  - The process for reviewing the Landcapping provision and the need for the Engineer to review the provision;
  - The percentage 60% the calculations were out by, how could reassure that this will be right in the future? – This year this will be reviewed by external audit early on in the year to get sign off before the draft accounts as in year review is important in this case. This work will be done in year and not in the pressured accounts period;
  - In the control framework, what is stopping people from challenging;
  - Why hadn't the provision been picked up by external audit previously.
- Capitalisation
  - It was clarified that some of the task is assisting applicants to fill in form, which auditors say is not a reasonable task for capitalisation. The Head of Finance will be emailing Officers to advise that Auditors have picked this up, reminding them what is eligible for capital funding;
  - Why has this come up now, what training is ongoing with service areas.
- Contingent Liability regarding Friars Walk and the related wording in the accounts and the related comment in the Head of Finance note.
- Contingent Liability MMI Insurance – not a provision the Council sets aside but has the reserves to cover.
- Pension liabilities for Newport Live and Newport Norse

Anthony Veale, Wales Audit Office introduced the ISA 260 report. Terry Lewis, WAO advised that the proposed audit report was scheduled to be signed off by the Auditor General. He added that the corrections had been covered earlier and there had been an improvement in the working papers. However there would need to be more work done earlier in the year in future to meet earlier deadlines for closing of the accounts.

Anthony Veale advised that as a culmination of this work he intended to provide an unqualified statement on the accounts in the statutory deadline.

At the request of the Chair, Officers and Auditors confirmed that they had given full information to the Audit Committee

At the request of the Chair, Members of the Audit Committee confirmed that they were happy for the Chair to sign the accounts.

## **Agreed**

1. To note the content of the 2015/16 Accounts and the Wales Audit Office's Financial Statements (ISA260) report on the 2015/16 Accounts and comments.
2. To authorise the Chairman to adopt the Accounts 2015-16, in accordance with the Accounts and Audit (Wales) Regulations 2014 and to sign the letter of recommendation.

## **8 Work Programme**

Members agreed that:

- The Self Assessment Exercise Update be added to the Agenda for the November meeting;
- The Wales Audit Office Financial Memorandum on the 2015-16 Financial Audit be rescheduled from the January 2017 meeting to the November 2016 meeting;

## **Agreed**

To note the Work Programme, subject to the above amendments.

## **9 Date of Next Meeting - 24 November 2016**

The date of the next meeting was confirmed as 24 November 2016.

## **10 Part 2 Exempt or Confidential Items - Exclusion of the Press and Public**

To exclude the press and public from the meeting during the consideration of the following item on the grounds that exempt or confidential information as defined in Schedule 12A of the Local Government Act 1972 (as amended) would be disclosed.

## **11 Internal Audit 2 Unsatisfactory Audit Opinions**

Following 2 consecutive Unsatisfactory Internal Audit report opinions, Members of the Audit Committee agreed to call in the Head of Streetscene & City Services and Senior Operational Manager responsible for the provision of CCTV & Security at Telford Depot within the Council to account for the limited action taken to address the issues identified in the audit reports.

Members of the Audit Committee questioned the Head of Streetscene & City Services and Senior Operational Manager and were satisfied that the assurance provided would address the issues identified in the unsatisfactory audit opinion reports.

The Chair added that it was open to Officers to challenge individual recommendations of audit reports or propose more realistic timescales that were supported by evidence and reasoning.

## **Agreed**

That Members of the Audit Committee are satisfied that the assurances provided would address the issues identified in the Unsatisfactory Audit Opinion reports and that the agreed action plan had now been implemented. A further follow up Internal Audit review would be undertaken during 2016/17 with the outcome reported back to Audit Committee.

# Report

## Audit Committee

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### Part 1

Date: 01 December 2016

**Subject** **Lessons Learned – 2015/16 Accounts Closedown and Financial Statements Preparation**

**Purpose** This report presents the findings of an initial lessons learned review carried out by finance officers following the 2015/16 accounts closedown. It gives an assessment on the findings of the lessons learned review and the plans in place to implement for 2016/17 and the key risks to the closedown process for 2016/17.

**Author** Assistant Head of Finance

**Ward** General

**Summary** Following the closedown of the 2015/16 accounts, a lessons learned log was required to put into place improvements for the closedown of the accounts process. This lessons learned review should be taken as a matter of course, and with the issues that arose from the audit of the 2015/16 accounts, this review is of high importance to ensure improvements are delivered for 2016/17.

While there was a number of positives that came out of the closedown process in 2015/16 which can be taken forward into future years, there are a number of areas where weaknesses have been identified and improvements can be made. Processes, timetables and communication are essential in delivering these.

**Proposal** **Committee is recommended:**

- To note the lessons learned process that has been carried out to date and agree the proposed plan for 2016/17 closedown.

**Action by** (i) Head of Finance/Assistant Head of Finance – implement proposals and processes highlighted in the report.

**Timetable** Immediate

This report was prepared after consultation with:

Finance Teams  
Wales Audit Office

## **Background**

Following a challenging closedown process in 2014/15, the 2015/16 accounts closedown saw a much improved process where a number of the actions from the lessons learned reported to Audit Committee in November 2015 were implemented.

This saw a number of overall improvements which were highlighted in the audit report brought to the committee in September, these include:

- Completion of the single entity accounts by June 10<sup>th</sup> (2 weeks earlier than previous year)
- Consolidation of Newport Transport accounts, which removed the emphasis of matter reported in 2014/15
- Improved working papers provided to Wales Audit Office in a more timely manner
- Significantly reduced number of audit issues on the audit matrix log

While there was significant progress in just one year, there are still a number of improvements that need to be made to ensure a better process and completion of accounts by an earlier closing deadline in the near future. These are discussed further in the report.

Early discussions have taken place with Wales Audit Office, and a formal meeting will take place following the attendance by a number of key finance colleagues at the “Making reality of early closure” course being delivered by WAO.

## **Outcome – Certification of the Accounts**

The opinion from the Independent Auditors report was that the accounts gave a true and fair view and have been properly prepared in accordance with the Code of Practice. This was in relation to both the single entity accounts and group accounts.

## **Process for improvement**

The process for challenge and improvement for 2016/17 accounts closedown and financial statements has already begun and officers involved in the accounts closedown have all been asked to provide their analysis of:

- What went well?
- What didn't go well?
- What can be improved on?
- Key risks.

These have been completed and collated and the next stage of this process is now to review these findings and timetable the improvements that can be implemented prior to planning the preparation of 2016/17 year end accounts. Some of the key themes that have come from the initial review are as follows:

- Number of year end tasks that can be completed earlier in the closedown process/during the financial year.
- Grant income coding improved for both the Statement of Accounts and Whole of Government Accounts

- As per the ISA260 there were a number of items of revenue expenditure that had been classified as revenue expenditure. These charges will be reviewed to ensure that they are correctly treated in this financial year.
- Improvement in processes for internal recharges
- Continued improvement of working papers
- Meetings with External Auditors to agree any implications of changes to the Code and any updates we are making to our processes.
- Better use of the systems to create automated accruals.
- Continue to create better links with the financial statements and Whole of Government Accounts. Carry out early reconciliations on transactions with other public bodies.
- Need to improve the collection of third party data required for completion of accounts

The next stage is to look at each of these in detail and assign the delivery of these improvements with individual officers/teams to ensure delivery.

### **Key Areas**

There are also a number of key areas that need to be focussed on and agreed with WAO at an early stage which will need to be discussed with WAO in the immediate future, these are:

- I. Early review of provisions and leases
- II. Notes/accounts that can be reviewed by WAO prior to year end
- III. New/amended notes to be included

#### I. Review of provisions and leases

The 2015/16 ISA260 Audit of Financial Statements highlighted the fact that the landfill capping and aftercare provision had not been reviewed for a number of years and thus when audited the estimate may be overstated. Therefore there will be a review undertaken by the appropriate officers of the Council of this provision to be completed by early 2017 for review by WAO prior to the sign off of the draft accounts. Details of the provisions and leases to be reviewed and agreed and timescales of the review are in Appendix 1 of this report.

#### II. Notes/accounts that can be reviewed by WAO prior to year end

Discussions need to take place with WAO about which testing can be undertaken prior to the sign off of the draft accounts. This will include notes such as capital disposals/additions/impairments, provisions, leases, creditors and early income/expenditure testing. Details of the notes that will be focused on are detailed in appendix 1 of the report.

#### III. New/amended notes to be included

In addition to the change to Highways Network Assets, there are changes to how the Comprehensive Income & Expenditure Account (CI&E) is reported. Previously the CI&E has been reported on a Service Reporting Code of Practice (SeRCOP) basis to enable comparison across authorities. However as part of "telling the story" CIPFA have introduced that the CI&E will now be reported on a management accounts basis (as reported to Cabinet). This will require update of the document and notes to the accounts as well as comparative prior year figures, which can be completed prior to year-end.

Again WAO will be requested to review these updates at the earliest opportunity to ensure efficient closure of final accounts.

## Communication

Communication will be essential throughout this process, and we will need to engage the appropriate officers to take these improvements forward. Liaison with Wales Audit Office during the lessons learned and planning stages is also key to a smooth closedown and audit process. Following the initial lessons learned meeting discussions which need to take place with WAO include:

- Agreement to transactions and proposed methodologies/processes that can be completed earlier in the year (clarification of estimations and judgements used)
- Communication and agreement on upcoming policy changes
- Early review of provisions, leases and other relevant notes
- Agreement on level of working papers and timings- review of deliverables document
- Early discussions on earlier closing and working together to succeed

## Timetable for improvement

<b>October 2016</b>	Carry out lessons learned review with relevant officers on accounts closedown 2015/16 – <b>Completed</b>
<b>November 2016</b>	Meeting with Wales Audit Office to agree lessons learned and action plan
<b>November - December 2016</b>	Review of Oracle system to review coding structure and balances on accounts. Update word document and excel tables in preparation for 2016/17.
<b>Early December 2016</b>	First “closing” meeting set up with relevant officers to discuss lessons learned log, assign responsibilities, and discuss closing timetable.
<b>December 2016 – January 2017</b>	Provisions and leases reviewed. Highways Network Asset systems reviewed by internal audit.
<b>Early February 2016</b>	<b>FINAL</b> timetable and memo to be agreed with responsible officers and HoF
<b>January 2017</b>	Review deliverables document with WAO with WAO undertaking early review of relevant notes where agreed.
<b>February 2016</b>	Final timetable and memo sent out to appropriate officers
<b>February/March 2016</b>	Completion of earlier closedown tasks to take pressure off closedown periods
<b>3<sup>rd</sup> week April 2016</b>	<b>ALL</b> transactions relating to Outturn to have been completed
<b>4<sup>th</sup> week April 2016</b>	All “technical” transactions to be complete
<b>Continuous</b>	Working Papers to be completed at earliest opportunity rather than waiting for Outturn to be closed off – if not changing complete – checks to be made.
<b>Throughout May</b>	Put financial statements together as per agreed timetable.
<b>Final week May</b>	Completed draft SOA ready for QA and review
<b>1st week June</b>	Approval of SOA by HoF – dates of Audit Committee to be confirmed but likely to be in July.

## Financial Summary

There are no direct financial implications arising from this report.

## Risks

There are a number of key risks to the closedown process that need to be mitigated against. The following table highlights these.

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Introduction of Highways Network Assets	H – Accounts could be qualified	M – Systems will need to be robustly reviewed to ensure figures are accurate and reliable	Internal audit have been asked to undertake a review of the systems which are integral in producing the figures that will be included in the Balance Sheet.	Capital Accountant/ AHoF/HoF
Number of new staff/loss of key staff	M	M	Good working papers need to be set up and easy to follow. Complete work instructions and clear responsibilities for closing tasks	Finance
Delayed accounts due to reliance on third parties	M	L	Estimations/judgements may be required where the information isn't available from third parties i.e. accruals Ensure third parties are aware of timetable deadlines	Finance
New policies/treatments	L	L	Knowledge of changes to the 'Code' and impact on the Authority's financial statements. Attendance at relevant year end courses. Discussions with auditors at early stage of process.	Finance
Failure to approve and publish the accounts before the 30 Sept deadline increases the risk of qualification, and increases reputational external perception risks.	M	L	The Council works with its Auditors to ensure the Accounts are prepared and suitably reflect the financial position of the authority	Assistant/Head of Finance

\* Taking account of proposed mitigation measures

### Links to Council Policies and Priorities

Effective financial management is essential if an organisation is to achieve its stated objectives.

### Options Available and considered

Note and agree process of planned improvement following lessons learned review.

## **Preferred Option and Why**

As above

## **Comments of Chief Financial Officer**

Comments of the Chief Finance Officer are included in the above report.

## **Comments of Monitoring Officer**

N/A

## **Comments of Head of People and Business Change**

There are no staffing implications arising from the report

## **Comments of Cabinet Member**

N/A

## **Local issues**

There are no local issues arising from this report.

## **Scrutiny Committees**

N/A

## **Equalities Impact Assessment and the Equalities Act 2010**

N/A

## **Children and Families (Wales) Measure**

N/A

## **Wellbeing of Future Generations (Wales) Act 2015**

N/A

## **Crime and Disorder Act 1998**

N/A

## **Consultation**

N/A

## **Background Papers**

Statement of Accounts 2015/16 - available to public.

ISA 260 Audit of Financial Statements 2015-16 – available to public

Appendix 1 – Action plan

Dated: 08/11/2016



## Appendix 1

### Lessons Learned Action Plan

#### Review of provisions / leases

Provision	Can it be completed reviewed prior to 31st March 2017	Can it be reviewed by WAO prior to draft accounts	What date should provision review be completed by?	Responsible Officer(s)	Date to be reviewed/agreed by WAO	Reviewed & Agreed
Accumulated Absences	Yes	Yes	- Teachers immediate - Other February	Laura Campbell	Teachers - Feb 2017 Other - during audit of draft accounts	
Insurance / MMI Provision	Yes	Unlikely	February - but would require use of estimates	Laura Campbell	During draft accounts	
Equal Pay	Yes	Yes	Likely to be completed during the 16/17 financial year	Laura Campbell	Feb-17	
Landfill Fines	Yes	Yes	Should know outcome by end of calendar year	Geoff Price	Feb-17	
Energy Provision	Yes	Yes	Complete update on the requirement of provision by end of Dec-16	Geoff Price / Norse	Feb-17	
Long Term Landfill Capping	Yes	Yes	End of Jan-17	Vimal Upadhyay & Ian Fisher	Feb-17	
Leases	Yes	Yes	End of Jan-17 for material leases	Vimal Upadhyay	Feb-17	

**Other Notes / Statements**

<b>Note/Statement</b>	<b>Can it be completed reviewed prior to 31st March 2017</b>	<b>Can it be reviewed by WAO prior to draft accounts</b>	<b>What date should note be completed by?</b>	<b>Responsible Officer(s)</b>	<b>Date to be reviewed/agreed by WAO</b>	<b>Reviewed &amp; Agreed</b>
Revised Comprehensive Income & Expenditure Statement - 15/16 comparators	Yes	Yes	Jan-17	Laura Campbell	Feb-17	
Update word document	Yes	Yes	Jan-17	Laura Campbell	Feb-17	
Draft Whole of Government Accounts	No	No	Sep-17	Owen James	Agree to audit during draft audit of single entity accounts	
Contingent Liabilities	Yes	Yes	Jan-17	Owen James	Agreement on what needs to be included by Feb-17	

**Capital Items**

<b>Capital item</b>	<b>Can it be completed reviewed prior to 31st March 2017</b>	<b>Can it be reviewed by WAO prior to draft accounts</b>	<b>What date should note be completed by?</b>	<b>Responsible Officer(s)</b>	<b>Date to be reviewed/agreed by WAO</b>	<b>Reviewed &amp; Agreed</b>
Depreciation	Yes	Yes	Jan-17	Vimal Upadhyay	Feb-17	
Capital Receipts / Disposals	Part-year	Part	Jan-17	Vimal Upadhyay	Feb-17	
Additions	Part-year	Part	Jan-17	Vimal Upadhyay	Feb-17	
Valuations	Not this year - but in future	No	2017/18	Vimal Upadhyay	Need to discuss with WAO	



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

## Final Accounts Memorandum 2015-16 **Newport City Council**

Audit year: 2015-16

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# Contents

This document, which has been prepared and presented on behalf of the Auditor General, summarises the conclusions on the audit of Newport City Council's 2015-16 financial statements and Whole of Government Accounts return.

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# Summary report

## Introduction

- 1 The financial statements are an essential means by which Newport City Council (the Council) accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. The Auditor General's Code of Audit Practice identifies that it is the responsibility of the audited body to:
  - put in place systems of internal control to ensure the lawfulness of transactions;
  - maintain proper accounting records; and
  - prepare financial statements in accordance with relevant requirements.
- 2 As auditors, we are required to audit the financial statements and to issue an auditor's report which includes an opinion on whether the financial statements give a 'true and fair' view of the state of affairs of the Council. The auditor's report also gives our opinion on whether the financial statements have been prepared properly in accordance with relevant legislation, directions or regulations, and applicable accounting standards.
- 3 The Auditor General also reports by exception if:
  - the Annual Governance Statement does not reflect compliance with guidance;
  - adequate accounting records have not been kept;
  - financial statements are not in agreement with accounting records and returns;
  - information specified by Welsh Ministers regarding remuneration and other transactions is not disclosed; or
  - all the information and explanations required for audit have not been received.
- 4 The legislative authority for the Whole of Government Accounts (WGA) is the Resources and Accounts Act 2000 (the GRAA). This appoints the Comptroller & Auditor General (C&AG) as the auditor of the WGA. His audit opinion is underpinned by work carried out by a central WGA consolidation audit team within the National Audit Office and the auditors of component bodies that are included in WGA.
- 5 Most public sector bodies, including the Council, are required to provide WGA information under the HM Treasury's Whole of Government Accounts (Designation of Bodies) Order. This identifies the English and Welsh bodies to be included in the 2015-16 WGA.
- 6 We are responsible for interpreting the National Audit Office's instructions for a Welsh context and check that WGA packs have been prepared properly and in accordance with guidance and provide an assurance statement to the National Audit Office.

## The Auditor General issued an unqualified opinion on the 2015-16 financial statements of Newport City Council

- 7 On 28 September 2016, the Auditor General issued an unqualified auditor's report on the financial statements.
- 8 We received a draft Statement of Accounts on 10 June 2016. An updated version of the Statement of Accounts, which included the group accounts and signed by the Head of Finance, was provided to us on 30 June 2016. This was in line with the requirements of the Accounts and Audit (Wales) Regulations 2014. We are pleased to report that there have been significant improvements in both the quality of the draft financial statements and the information available to support them. There are still areas where improvement can be made, the more significant areas are detailed in Appendix 1.
- 9 We are required to report to those charged with governance the findings from our audit of the financial statements. The Auditor General's **Audit of the Financial Statements** report was presented to the Audit Committee on 22 September 2016. A summary of the findings is set out in **Exhibit 1**.

### Exhibit 1: Audit of Financial Statements Report to the Audit Committee

Reporting requirement	Audit findings
Modifications to the auditor's report	No modification was required to the auditor's report
Unadjusted misstatements	There were three unadjusted misstatements: <ol style="list-style-type: none"> <li>1) The provision for Landfill Capping is overstated by £2m</li> <li>2) Revenue expenditure of £609,000 has been incorrectly treated as capital expenditure</li> <li>3) Revenue expenditure of £261,000 has been incorrectly treated as Revenue Expenditure Funded from Capital under Statute (REFCUS)</li> </ol>
Material weaknesses in the accounting and internal control systems identified during the audit	No material weaknesses in the accounting and internal control systems were identified during the audit.
Views about the qualitative aspects of the entity's accounting practices and financial reporting	There has been significant improvements in the working papers provided to support the financial statements. There has also been an improvement in the quality of the financial statements. Notwithstanding the improvements, the post-audit financial

Reporting requirement	Audit findings
	statements incorporated a large number of agreed audit adjustments.
Matters specifically required by other auditing standards to be communicated to those charged with governance	There are no other matters specifically required by audit standards to be communicated to those charged with governance.
Any other relevant matters of governance interest relating to the audit	No other matters noted.

- 10 Recommendations arising from our audit of the financial statements are set out in [Appendix 1](#).

## We identified some issues with the Council's Whole of Government Accounts return for 2015-16

- 11 The Council was required to provide an unaudited WGA return to the Welsh Government by 12 August 2016. This return was submitted to the Welsh Government on 22 August 2016. We were required to complete our review by 19 October 2016. Our review was completed by 27 October 2016, after a number of audit queries were resolved.
- 12 Recommendations arising from our WGA audit are set out in Appendix 1.



# Appendix 1

## Recommendations from our 2015-16 audit work

We set out all the recommendations arising from our audit with management's response to them. We will follow up these next year and include any outstanding issues in next year's audit report:

<b>Recommendation 1 – The process for compiling of the Whole of Government Accounts needs to improve in future years</b>	
<b>Findings</b>	<p>HM Treasury issue a Whole of Government Account (WGA) Management Review Checklist. The checklist is required to be completed before the WGA return is submitted as an unaudited version to the Welsh Government. The Checklist states <i>“Auditors have been advised not to start their audit until they receive a properly completed management review checklist”</i>. At the request of the audit team, the checklist was completed by management on 10 October 2016.</p> <p>Within each sheet of the WGA return there is a 'comments box'. The WGA Local Authority Guidance states that the comments boxes should be used to provide explanations “where a number is made up of several figures”. The purpose of the comments boxes is to provide an audit trail, where the figures are not easily identifiable from the financial statements. Our review identified that no comment boxes were completed.</p> <p>The working papers to support entries in the WGA return was provided the week of 17 October 2016. The review of the working papers resolved some of our queries. For our remaining queries to be resolved, various adjustments were made to the WGA return. Some of our queries could have been avoided, as they were known issues to management. For example, the use of a balancing figure to avoid a validation error for the opening pensions figure.</p> <p>As a result of the above issues, the audit of the WGA return was completed on 27 October 2016, missing the deadline set by the Welsh Government of 19 October 2016.</p>
<b>Priority</b>	High
<b>Recommendation</b>	<p>We recommend that for the 2016-17 WGA Return:</p> <ul style="list-style-type: none"> <li>• the Management Review Checklist is completed to assist with the preparation of the return</li> <li>• the Comments Box's with the return are completed to provide an audit trail to the Financial Statements</li> <li>• working papers to support the Whole of Government Accounts return are provided at the same time as the return is provided for audit; and</li> <li>• known issues identified by management are brought to the attention of the auditor at the outset to enable them to be resolved in a timely manner.</li> </ul>

<b>Accepted in full by management</b>	Yes – agreed with recommendations although it should be acknowledged that WAO should schedule their review earlier also.
<b>Management response</b>	<p>In order to improve the process for WoGA we are reviewing the coding in relation to grants which caused the main issue on review, We will also improve the in-year work done on CPID transactions which was the issue which caused delay in submitting the draft return.</p> <p>There were few amendments required to be made between the draft and the final WoGA submitted, therefore if it can be arranged for WAO to review the draft WoGA accounts at the same time as the single entity accounts this would make a significant difference.</p>
<b>Implementation date</b>	Immediate

**Recommendation 2 – A detailed review of leases should be undertaken to identify those that may meet the definition of Finance Leases**

<b>Findings</b>	Our review of leases identified that some existing leases could meet the definition of Finance Leases. From discussions with management, we have agreed that the Council will undertake a detailed review of leases in 2016-17, to identify those leases that may meet the definition of a Finance Lease. The audit team will seek to review the Council's findings as soon as it is available.
<b>Priority</b>	High
<b>Recommendation</b>	We recommend that a detailed review of leases is undertaken to identify those leases that may meet the definition of a Finance Lease, and suitable accounting treatment of those leases should be implemented.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	We would, where appropriate, to undertake early review of provisions and leases and get these signed off by WAO prior to submission of draft accounts.
<b>Implementation date</b>	January 2017

**Recommendation 3 – A detailed review of the Provision for Landfill Capping and Aftercare costs should be undertaken**

<b>Findings</b>	As reported in the Audit of Financial Statements Report presented to the Audit Committee, the provision for Landfill Capping in the 2015-16 financial statements is overstated by £2m. Furthermore, the aftercare element of the provision (of
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	£1m) is based on information dating back to 2004. From discussions with management, we have agreed that the Council will undertake a review of the total landfill provision (capping and aftercare costs) in 2016-17. The audit team will seek to review the Council's findings as soon as it is available.
<b>Priority</b>	High
<b>Recommendation</b>	We recommend that a detailed review of the landfill provision (capping and aftercare costs) is undertaken during 2016-17.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	We would, where appropriate, to undertake early review of provisions and leases and get these signed off by WAO prior to submission of draft accounts. The appropriate engineer has already begun the review of this provision and is working to the timescales for early 2017.
<b>Implementation date</b>	January 2017

**Recommendation 4 – Decisions regarding the approval of pay grades and market supplements of Senior Officers should be documented**

<b>Findings</b>	<p>Our review of Senior Officer Remuneration identified that the Head of Adult Services and the Head of Streetscene &amp; City Services were appointed at the top of the pay grade, with the Head of Adult Services also in receipt of a Market Supplement.</p> <p>The Council's Pay and Reward Policy states that for Senior Officers (Heads of Service, Strategic Directors and Chief Executive) the decision to award a market supplement or starting pay above the grade minimum, is delegated to the Appointments Committee.</p> <p>We requested documented evidence that such approval was granted by the Appointments Committee and were informed by management there was no documented evidence. Management were able to provide us with an email from the Chair of the Appointments Committee confirming the awards made to the Head of Adult Services. We did not receive any such confirmation for the Head of Streetscene &amp; City Services.</p>
<b>Priority</b>	High
<b>Recommendation</b>	Decisions regarding the approval of pay grades and market supplements of Senior Officers by the Appointments Committee should be fully documented and retained to support decisions.
<b>Accepted in full by management</b>	Yes

<b>Management response</b>	In future recruitment processes a formal minute in relation to starting salary will be taken at appointment panels for Chief Officer and above.
<b>Implementation date</b>	Immediate

**Recommendation 5 – Procedures over the preparation of Group Accounts should be improved**

<b>Findings</b>	2015-16 was the first time that the Council prepared Group Accounts to consolidate Newport Transport Limited. Our review of the Group Accounts resulted in a number of adjustments being made.  The Consolidation of Newport Transport Limited Accounts with Newport City Council's Accounts requires improvement in order to avoid the number of adjustments that were made.
<b>Priority</b>	High
<b>Recommendation</b>	Procedures over the preparation of Group Accounts should be improved.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	2015/16 was the first year of consolidating Group Accounts, which was a significant positive given the emphasis of matter in 2014/15. However, it is agreed a number of improvements can still be made and management will contact Newport Transport to ensure we receive timely and accurate information from their accounts to consolidate into the Group Accounts.
<b>Implementation date</b>	April-May 2017

# Appendix 2

## Wales Audit Office performance measures

We agreed a range of targets for the delivery of our work as set out in our 2016 **Audit Plan**.

I have summarised our performance against these targets below:

Planned output	Target	Outcome
Audit of the Financial Statements Report	September 2016	Presented to Audit Committee 22 September 2016
Opinion on Financial Statements	September 2016	Audit Opinion signed on 28 September 2016
Final Accounts Memorandum	October 2016	Issued in November 2016 **

\*\* The planned target for the Final Accounts Memorandum of October 2016 was missed as a result of the delay in completing our review of the WGA return.

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# Report

## Audit Committee

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### Part 1

Date: 01 December 2016

**Subject** Report on Treasury Management for the period to 30 September 2016

**Purpose** To inform the Council of treasury activities undertaken during the period to 30 September 2016

**Author** Assistant Head of Finance

**Ward** General

**Summary** The Council continues to be both a s/t investor of cash and borrower to manage day-to-day cash-flow's. Current forecasts indicate that in the future, temporary borrowing will continue to be required to fund normal day to day cash flow activities and to fund borrowing for the City Centre Redevelopment.

Discussions around the sale of the redevelopment are currently underway and are of a commercial and confidential nature. The successful conclusion of a sale will have a significant impact on the treasury activities of the authority. The outcome of the sales discussions will be known in the near future and the impact on treasury management will be updated for the '2017/18 Treasury Management Strategy', which will come to Audit Committee in January 2017.

Following the result of the BREXIT referendum there were no immediate changes to our advisor's credit advice on UK banks and building societies. However, the report provides a counterparty update which details the various indicators of credit risk which have reacted negatively to the result of the referendum.

**Proposal** To note the report on treasury management activities for the period to 30 September 2016.

**Action by** Head of Finance

**Timetable** Immediate

This report was prepared after consultation with:

- Treasury Advisors
- Head of Finance

Please list here those officers and members you have consulted on this report.

## Background

1. The Council's Treasury Management Strategy and Prudential Indicators were approved by Council in February 2016 alongside the Medium Term Financial Plan and the 2016/17 Budget.
2. The Treasury Management Strategy for 2016/17 has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year. The Code also recommends that members are informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing best practice in accordance with CIPFA's recommendations.
3. Treasury management is defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
4. The report has been prepared in accordance with the CIPFA Treasury Management Code and the Prudential Code, and reviews and reports on:
  - Borrowing Activity and Rescheduling
  - Investment Strategy and proposed changes to the Council's approved investment limits
  - Economic Background
  - Compliance with Prudential Indicators approved by Council

## Short and Long Term Borrowing

5. Whilst the Council has significant long term borrowing requirements, the Council's strategy of funding capital expenditure through reducing investments rather than undertaking new borrowing remains i.e. we defer taking out new l/t borrowing and fund capital expenditure from day to day positive cash-flows for as long as we can. By using this strategy the Council can minimise cash holding at a time when counterparty risk remains high. The interest rates achievable on the Council's investments are also significantly lower than the current rates payable on long term borrowing.
6. Whilst the strategy minimises investment counterparty risk, the risk of interest rate exposure is increased as the current 'low for longer' borrowing rates may rise in the future. The market position is being constantly monitored in order to minimise this risk.
7. During the first half of the year the amount of borrowing has reduced by £8.65m, this relates mainly to borrowing associated with the Queensberry debt (reduced by £8m). This reduction in borrowing may only be temporary in nature due to positive cash flow in other areas of the Council, therefore there may be an increase in borrowing in relation to this prior to any conclusion of the scheme. The borrowing associated with this loan is kept separate from the Council's other borrowing requirements shown in Appendix C. The loan is anticipated to be paid off via capital receipts in 2016/17, therefore the Council is not required to make MRP charges to the revenue budget in relation to the Friars Walk Development loan as the borrowing will be paid off in full at the end of the scheme. If the development is not sold in the coming months, the Council will need to re-finance any existing borrowing which is due to be repaid, which will require a review of the 2017/18 Treasury Management Strategy and Indicators
8. With the exception Queensberry loans discussed above, no further long term loans have been taken out in the first half of the financial year. However, it is anticipated that the Council will need to undertake additional borrowing on a short term basis for the remainder of the year in order to cover normal day to day cash flow activity. With current estimates it is not expected that any additional long-term borrowing would be required at this stage.



9. Appendix C summarises the Council's debt position as at 30 September 2016. The changes in debt outstanding relate to the raising and repaying of temporary loans and principle repayments against EIP loans with the PWLB.
10. The value of the Council's LOBO money market loans has reduced to £30m due to a £5m LOBO with Barclays being converted to fixed rate borrowing at the same rate. No loans were called during the period. All £30m outstanding is subject to potential change of interest rates by the lender (which would automatically trigger a right to the Council to repay these loans) prior to the end of this financial year. Should a change of interest rate be requested, then it will be considered in detail and a decision on how we proceed will be made in conjunction with our treasury advisors.

## **Investments**

11. As per the agreed strategy, the Council will be a short-term investor to maintain low cash balances as required. As at 30<sup>th</sup> September 2016, there was a nil balance of short-term investments outstanding. Across a typical month, the Council both invests and borrows short term to manage day-to-day cash-flow's.
12. Following the completion of the City Centre re-development the Council may have surplus cash to invest in relation to payment received from the sale of the development. This is because the repayment could be received prior to the loans the Council took out itself in relation to this, maturing themselves. Investment of this surplus cash will need to be allocated where it minimises risk while achieving a return for the Council, prior to using the cash to repay the Council's own borrowing in relation to this scheme.
13. The Council does not hold any long-term (more than 364 days) investments as at 30<sup>th</sup> September 2016.

## **Counter Party Update**

14. Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune although the fall in their share prices was less pronounced.
15. Fitch downgraded the UK's sovereign rating by one notch to AA from AA+, and Standard & Poor's downgraded its corresponding rating by two notches to AA from AAA. Fitch, S&P and Moody's have a negative outlook on the UK. S&P took similar actions on rail company bonds guaranteed by the UK Government. S&P also downgraded the long-term ratings of the local authorities to which it assigns ratings as well as the long-term rating of the EU from AA+ to AA, the latter on the agency's view that it lowers the union's fiscal flexibility and weakens its political cohesion.
16. Moody's affirmed the ratings of nine UK banks and building societies but revised the outlook to negative for those that it perceived to be exposed to a more challenging operating environment arising from the 'leave' outcome.
17. There was no immediate change to Arlingclose's credit advice on UK banks and building societies as a result of the referendum result. Our advisor believes there is a risk that the uncertainty over the UK's future trading prospects will bring forward the timing of the next UK recession.

18. The European Banking Authority released the results of its 2016 round of stress tests on the single market's 51 largest banks after markets closed on Friday 29th July. The stress tests gave a rather limited insight into how large banks might fare under a particular economic scenario. When the tests were designed earlier this year, a 1.7% fall in GDP over three years must have seemed like an outside risk. Their base case of 5.4% growth now looks exceptionally optimistic and the stressed case could be closer to reality. No bank was said to have failed the tests. The Royal Bank of Scotland made headline news as one of the worst performers as its ratios fell by some of the largest amounts, but from a relatively high base. Barclays Bank ended the test with Common Equity Tier 1 (CET1) ratios below the 8% threshold, and would be required to raise more capital should the stressed scenario be realised. The tests support our adviser's cautious approach on these banks, reflected in their investment/lending counterparty list .
19. The Council does not currently undertake any significant investments therefore the risk is currently limited. There were no significant changes in credit ratings advised in the first half of the financial year that had implications for the approved lending list, other than Standard Chartered who have suspended investments in for unsecured investments, the Council did not have any investments in this counterparty. The long term rating of Santander UK, the Council's bankers, remains at A, above the Council's minimum level of A-. The counterparty limits for banking are shown in Appendix D.

### **Economic Background**

20. Appendix A outlines the underlying economic environment during the first half of the financial year, as provided by the Council's Treasury Management Advisors Arlingclose.

### **Compliance with Prudential Indicators approved by Council**

21. The Authority can confirm that it has complied with the Prudential Indicators for 2016/17 set in February 2016 as part of the Treasury Management Strategy. Details of treasury-related Prudential Indicators can be found in Appendix B (a-g).
22. The Authority measures and manages its exposures to treasury management risks using various indicators which can be found in Appendix B (h-j). In the main in the first half of the year the Authority has stayed within the limits set. However, due to the borrowing undertaken for Queensberry the amount of borrowing 'due within 12 months' has exceeded the percentage limit set.
23. In setting the percentage limit for borrowing due 'within 12 months', there was the expectation that the loan outstanding from Queensberry would be repaid, therefore further borrowing in relation to this would remain under the 12 month limit. However, as the loan was not repaid earlier in the year, borrowing has still been required in relation to this as detailed earlier in the report. The level of borrowing undertaken has been taken over a short period (under 12 months), therefore exceeding the percentage limit, as there is the possibility that we would not need to re-finance the majority of these loans in the long-term therefore avoiding a cost of carry.
24. The risk associated with this is minimal, especially when the amount of borrowing with a maturity period of 12-24 months is zero. In order to continue with this prudent process for the remainder of the financial year an increase in the percentage limit to 80% would be required.
25. Details of the current counterparty limits and lending periods of UK institutions can be found in Appendix D.

### **Financial Summary**

- There are no direct costs arising from this report.

## Risks

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Investment counterparty not repaying investments	High but depending on investment value	Low	The Council only invests with Institutions with very high credit scores. It employs advisors to monitor money market movements and changes to credit scores and acts immediately should things change adversely. The lower levels of funds available for investment will also alleviate the risk.	Members, Head of Finance, Treasury staff, based on advice from treasury advisors
Interest Rates moving adversely against expectations	Low	Low	Base and short-term Interest rates are expected to remain at current levels until Q3 in 2016. The Treasury strategy approved allows for the use of short term borrowing once investment funds are exhausted to take advantage of these low rates.	Head of Finance, Treasury staff, treasury advisors

\* Taking account of proposed mitigation measures

### Links to Council Policies and Priorities

It is the Council's policy to ensure that the security of the capital sums invested is fully recognised and has absolute priority. The Council follows the advice of the Welsh Governments that any investment decisions take account of security, liquidity and yield in that order.

### Options Available

The Prudential Code and statute requires that, during and at the end of each financial year, reports on these matters are presented to Council for approval.

Note the prudential indicators and treasury management indicators have been adhered to, except for the percentage of total borrowing that has been maturity date within 12 months.

Approve the requirement to increase the percentage limit of total borrowing with a maturity date within 12 months to 80%.

### Preferred Option and Why

Note the contents of the report.

Note the request to Council to approve the increase in the percentage limit of total borrowing with maturity date within 12 months to 80%.

### Comments of Chief Financial Officer

There are no direct financial implications from this report. Decisions made on treasury matters will be made with a view the Treasury Management Strategy, Treasury Advisors and Prudential Indicators.

In order to reflect the potential short term nature of borrowing in relation to outstanding loans it is advised that the percentage limit of total borrowing undertaken within 12 months is increased.

### **Comments of Monitoring Officer**

There are no legal implications. The in year and annual treasury management report is consistent with relevant Chartered Institute of Public Finance and Accountancy Guidance, Treasury Management principles and the Council's investment strategy.

### **Staffing Implications: Comments of Head of People and Business Change**

There are no staffing implications arising from this report.

### **Comments of Cabinet Member**

N/A.

### **Background Papers**

Treasury Management Strategy report to Audit Committee January 2016.

Report to Council February 2016: 2016/17 Budget and Medium Term Financial Plan

Dated: 04 November 2016

## APPENDIX A

### External Context

The preliminary estimate of Q2 2016 GDP showed reasonably strong growth as the economy grew 0.7% quarter-on-quarter, as compared to 0.4% in Q1 and year/year growth running at a healthy pace of 2.2%. However the UK economic outlook changed significantly on 23<sup>rd</sup> June 2016. The surprise result of the referendum on EU membership prompted forecasters to rip up previous projections and dust off worst-case scenarios. Growth forecasts had already been downgraded as 2016 progressed, as the very existence of the referendum dampened business investment, but the crystallisation of the risks and the subsequent political turmoil prompted a sharp decline in household, business and investor sentiment.

The repercussions of this plunge in sentiment on economic growth were judged by the Bank of England to be severe, prompting the Monetary Policy Committee to initiate substantial monetary policy easing at its August meeting to mitigate the worst of the downside risks. This included a cut in Bank Rate to 0.25%, further gilt and corporate bond purchases (QE) and cheap funding for banks (Term Funding Scheme) to maintain the supply of credit to the economy. The minutes of the August meeting also suggested that many members of the Committee supported a further cut in Bank Rate to near-zero levels (the Bank, however, does not appear keen to follow peers into negative rate territory) and more QE should the economic outlook worsen.

In response to the Bank of England's policy announcement, money market rates and bond yields declined to new record lows. Since the onset of the financial crisis over eight years ago, Arlingclose's rate outlook has progressed from 'lower for longer' to 'even lower for even longer' to, now, 'even lower for the indeterminable future'.

The new members of the UK government, particularly the Prime Minister and Chancellor, are likely to follow the example set by the Bank of England. After six years of fiscal consolidation, the Autumn Statement on 23<sup>rd</sup> November is likely to witness fiscal initiatives to support economic activity and confidence, most likely infrastructure investment. Tax cuts or something similar cannot be ruled out.

Whilst the economic growth consequences of BREXIT remain speculative, there is uniformity in expectations that uncertainty over the UK's future trade relations with the EU and the rest of the world will weigh on economic activity and business investment, dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment. These effects will dampen economic growth through the second half of 2016 and in 2017.

Meanwhile, inflation is expected to pick up due to a rise in import prices, dampening real wage growth and real investment returns. The August Quarterly *Inflation Report* from the Bank of England forecasts a rise in CPI to 0.9% by the end of calendar 2016 and thereafter a rise closer to the Bank's 2% target over the coming year, as previous rises in commodity prices and the sharp depreciation in sterling begin to drive up imported material costs for companies.

The rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes, concentrating instead on the negative effects of Brexit on economic activity and, ultimately, inflation.

**Market reaction:** Following the referendum result gilt yields fell sharply across the maturity spectrum on the view that Bank Rate would remain extremely low for the foreseeable future. The yield on the 10-year gilt fell from 1.37% on 23<sup>rd</sup> June to a low of 0.52% in August, a quarter of what it was at the start of 2016. The 10-year gilt yield has since risen to 0.69% at the end of September. The yield on 2- and 3-year gilts briefly dipped into negative territory intra-day on 10th August to -0.1% as prices were driven higher by the Bank of England's bond repurchase programme. However both yields have since recovered to

0.07% and 0.08% respectively. The fall in gilt yields was reflected in the fall in PWLB borrowing rates, as evidenced in Tables 2 and 3 below.

On the other hand, after an initial sharp drop, equity markets appeared to have shrugged off the result of the referendum and bounced back despite warnings from the IMF on the impact on growth from 'Brexit' as investors counted on QE-generated liquidity to drive risk assets.

The most noticeable fall in money market rates was for very short-dated periods (overnight to 1 month) where rates fell to between 0.1% and 0.2%.

### Money Market Data and PWLB Rates

The average, low and high rates correspond to the rates during the financial year rather than those in the tables below.

Please note that the PWLB rates below are Standard Rates. Authorities eligible for the Certainty Rate can borrow at a 0.20% reduction. Borrowing eligible for the project rate can be undertaken at a 0.40% reduction.

**Table 1: Bank Rate, Money Market Rates**

Date	Bank Rate	O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/4/2016	0.50	0.36	0.36	0.39	0.46	0.61	0.88	0.78	0.83	0.98
30/4/2016	0.50	0.36	0.36	0.38	0.47	0.62	0.90	0.86	0.95	1.13
31/5/2016	0.50	0.35	0.37	0.39	0.46	0.61	0.89	0.82	0.92	1.09
30/6/2016	0.50	0.35	0.36	0.39	0.43	0.55	0.80	0.49	0.49	0.60
31/7/2016	0.50	0.15	0.45	0.42	0.52	0.64	0.77	0.47	0.47	0.54
31/8/2016	0.25	0.11	0.18	0.18	0.38	0.54	0.69	0.42	0.42	0.48
30/9/2016	0.25	0.10	0.25	0.45	0.51	0.61	0.74	0.43	0.42	0.47
<b>Minimum</b>	0.25	0.02	0.15	0.18	0.30	0.50	0.66	0.38	0.37	0.42
<b>Average</b>	0.43	0.26	0.37	0.42	0.52	0.66	0.83	0.61	0.64	0.75
<b>Maximum</b>	0.50	0.43	0.55	0.61	0.72	0.83	1.04	0.88	0.99	1.20
<b>Spread</b>	0.25	0.41	0.40	0.43	0.42	0.33	0.38	0.51	0.62	0.78

**Table 2: PWLB Borrowing Rates – Fixed Rate, Maturity Loans (Standard Rate)**

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/4/2016	125/16	1.33	1.82	2.51	3.24	3.33	3.19	3.15
30/4/2016	165/16	1.37	1.95	2.65	3.34	3.40	3.25	3.21
31/5/2016	205/16	1.36	1.93	2.56	3.22	3.27	3.11	3.07
30/6/2016	249/16	1.17	1.48	2.09	2.79	2.82	2.61	2.57
31/7/2016	292/16	1.07	1.31	1.84	2.57	2.65	2.48	2.44
31/8/2016	336/16	1.09	1.23	1.65	2.22	2.29	2.12	2.08
30/9/2016	380/16	1.02	1.20	1.70	2.34	2.43	2.29	2.27
	Low	1.01	1.15	1.62	2.20	2.27	2.10	2.07
	Average	1.20	1.54	2.12	2.81	2.87	2.70	2.67
	High	1.40	2.00	2.71	3.40	3.46	3.31	3.28

**Table 3: PWLB Borrowing Rates – Fixed Rate, Equal Instalment of Principal (EIP) Loans (Standard Rate)**

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/4/2016	125/16	1.50	1.86	2.54	2.99	3.25	3.34
30/4/2016	165/16	1.59	1.99	2.68	3.11	3.34	3.42
31/5/2016	205/16	1.58	1.97	2.58	2.99	3.23	3.30
30/6/2016	249/16	1.24	1.51	2.11	2.55	2.79	2.86
31/7/2016	292/16	1.13	1.34	1.87	2.31	2.58	2.67
31/8/2016	336/16	1.12	1.25	1.67	2.02	2.23	2.31
30/9/2016	380/16	1.05	1.22	1.72	2.13	2.36	2.44
	<b>Low</b>	1.03	1.17	1.64	2.00	2.20	2.28
	<b>Average</b>	1.30	1.57	2.15	2.58	2.82	2.89
	<b>High</b>	1.63	2.04	2.73	3.17	3.41	3.48

**Table 4: PWLB Variable Rates (standard rate)**

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR	Pre-CSR	Pre-CSR	Post-CSR	Post-CSR	Post-CSR
1/4/2016	0.61	0.65	0.67	1.51	1.55	1.57
30/4/2016	0.61	0.65	0.67	1.51	1.55	1.57
31/5/2016	0.65	0.66	0.70	1.55	1.56	1.60
30/6/2016	0.64	0.62	0.62	1.54	1.52	1.52
31/7/2016	0.55	0.48	0.45	1.45	1.38	1.35
31/8/2016	0.38	0.41	0.48	2.18	1.31	1.38
30/9/2016	0.38	0.40	0.48	1.28	1.30	1.38

*Please note PWLB rates are standard rates*

## APPENDIX B

### Prudential Indicators

#### (a) Gross Debt and the Capital Financing Requirement

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with **gross** external debt.

The Head of Finance reports that the Authority had no difficulty meeting this requirement in 2015/16 and 2016/17 (to date), nor are there any difficulties envisaged for future years. This view takes into account current commitments and existing plans .

#### (b) Estimates of Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

Capital Expenditure	2016/17 Approved £m	2016/17 Revised £m	2017/18 Estimate £m	2017/18 Revised £m	2018/19 Estimate £m
<b>Total</b>	<b>46.8</b>	<b>38.5</b>	<b>18.2</b>	<b>36.4</b>	<b>10.9</b>

Capital expenditure will be financed or funded as follows:

Capital Financing	2016/17 Approved £m	2016/17 Revised £m	2017/18 Estimate £m	2017/18 Revised £m	2018/19 Estimate £m
Capital Receipts	5.2	1.7	0.6	6.8	1.0
General Capital Grant	2.5	2.5	2.2	2.2	2.2
Other Specific Grants	13.1	15.0	4.2	13.1	2.6
S106 Contributions	5.0	2.9	0	0	0
Revenue Contributions	0.3	3.3	0	0	0
<b>Total Financing</b>	<b>26.1</b>	<b>25.4</b>	<b>7.0</b>	<b>22.1</b>	<b>5.8</b>
Supported borrowing	4.1	4.1	3.6	3.6	3.6
Unsupported borrowing	16.6	9.0	7.4	10.5	1.5
Finance Leases	0	0	0.2	0.2	0
<b>Total Funding</b>	<b>20.7</b>	<b>13.1</b>	<b>11.2</b>	<b>14.3</b>	<b>5.1</b>
<b>Total Financing and Funding</b>	<b>46.8</b>	<b>38.5</b>	<b>18.2</b>	<b>36.4</b>	<b>10.9</b>

The table above shows that the capital expenditure plans of the Authority cannot be funded entirely from sources other than external borrowing.



### (c) Ratio of Financing Costs to Net Revenue Stream:

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2016/17 Approved %	2016/17 Revised %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
Total	8.8	8.7	8.7	8.8	8.2

### (d) Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and financing.

Closing Capital Financing Requirement	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Total CFR	230.5	233.8	238.1	241.7	243.1

### (e) Incremental Impact of Capital Investment Decisions

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2016/17 £	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £
Increase / (Reduction) in Band D Council Tax*	2.88	4.24	4.46	(2.75)

Assumes a 4.0% cumulative increase in Council Tax although no decision has been taken to this effect.

### (f) Authorised Limit and Operational Boundary for External Debt

The Local Government Act 2003 requires the Authority to set an 'Authorised Borrowing Limit', irrespective of their indebted status. This is a statutory limit which should not be breached.

The 'Operational Boundary' is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit.

The Authority confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2016/17 to date:

	Authorised Limit 2016/17 £000s	Operational Boundary 2016/17 £000s	Actual Debt as at 30/09/2016 £000s	Estimated Debt as at 31/03/2016 £000s
Borrowing	350,000	330,000	211,762	231,762
Other Long-term Liabilities	47,000	47,000	51,201	51,201
<b>Total</b>	<b>397,000</b>	<b>377,000</b>	<b>262,963</b>	<b>282,963</b>

### (g) Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the Authority has adopted the principles of best practice.

#### Adoption of the CIPFA Code of Practice in Treasury Management

The Council approved the adoption of the CIPFA Treasury Management Code at its Council meeting on 29<sup>th</sup> June 2009.

*The Authority has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.*

### Treasury Management Indicators

#### (h) Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

- These indicators allow the Authority to manage the extent to which it is exposed to changes in interest rates.
- The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	Approved Limits for 2016/17 £/%	Maximum during 2016/17 £/%
<b>Upper Limit for Fixed Rate Exposure</b>	100%	100%
Compliance with Limits:		Yes
<b>Upper Limit for Variable Rate Exposure</b>	50%	0%
Compliance with Limits:		Yes

#### (i) Maturity Structure of Fixed Rate Borrowing

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Maturity Structure of Fixed Rate Borrowing	Upper Limit %	Lower Limit %	Actual Fixed Rate Borrowing as at 30/9/2016 £000s	% Fixed Rate Borrowing as at 30/9/2016	Compliance with Set Limits?
under 12 months	40%*	0%	94,976	45%	No
12 months and within 24 months	20%	0%	0	0	Yes
24 months and within 5 years	70%	0%	44,153	21%	Yes

5 years and within 10 years	50%	0%	37,695	18%	Yes
10 years and within 20 years	30%	0%	11,930	6%	Yes
20 years and within 30 years	20%	0%	0		Yes
30 years and within 40 years	20%	0%	1,950	1%	Yes
40 years and within 50 years	20%	0%	16,058	7%	Yes
50 years and above	20%	0%	5,000	2%	Yes
<b>Total</b>			<b>211,762</b>		

*(The 2011 revision to the CIPFA Treasury Management Code now requires the prudential indicator relating to Maturity of Fixed Rate Borrowing to reference the maturity of LOBO loans to the earliest date on which the lender can require payment, i.e. the next call date<sup>1</sup>)*

\* To be revised to 80% due to potential short term nature of borrowing relating to Friars Walk.

**(j) Upper Limit for Total principal sums invested for periods longer than 364 days**

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Authority having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	2016/17 Approved £m	30/9/2016 Actual £m	31/03/2017 Estimate £m	31/03/18 Estimate £m
<b>TOTAL</b>	100	0	0	0

## APPENDIX C

### Loan Debt Activity - 1 April 2016 - 30 September 2016

Newport City Council Debt	Outstanding as at 31/03/16 £000's	Debt Raised £000's	Debt Repaid £000's	Outstanding as at 30/09/2016 £000's
Public Works Loans Board	72,437	0	650	71,787
Market Loans	35,000	0	0	35,000
Stock Issue	40,000	0	0	40,000
Other Soft Loans (IFRS)				
Queensbury Real Estate Debt **	72,975	79,500	87,500	64,975
<b>Total Long Term Loans</b>	<b>220,412</b>	<b>79,500</b>	<b>88,150</b>	<b>211,762</b>
Temporary Debt*				
<b>Total Long Term and Temporary Debt</b>	<b>220,412</b>	<b>79,500</b>	<b>88,150</b>	<b>211,762</b>

\* The temporary debt relates to the normal activities of the Council

\*\*This relates to additional borrowing undertaken to fund the Newport City Centre redevelopment between the Council and Queensberry Real Estate (Newport) Ltd.

Total Investments Administered Newport City Council	Outstanding as at 31/03/16 £000's	Raised £000's	Repaid £000's	Outstanding as at 30/09/2016 £000's
<b>Total</b>	<b>3,100</b>	<b>216,095</b>	<b>219,195</b>	<b>0</b>

## APPENDIX

### COUNTERPARTY LIMITS FOR BANKING - UK INSTITUTIONS

	Unsecured Investments		Secured Investments	
Counterparty - Banking UK Institutions	Maximum Counterparty Limit and Group Limit (if applicable)	Maximum Lending Period	Maximum Counterparty Limit and Group Limit (if applicable)	Maximum Lending Period
Bank of Scotland	£5,000,000	13 Months	£10,000,000	2 years
Barclays Bank Plc.	£5,000,000	100 Days	£10,000,000	2 years
Close Brothers Ltd	£5,000,000	6 Months	£10,000,000	2 years
Goldman Sachs International Bank	£5,000,000	100 Days	£10,000,000	2 years
HSBC Bank Plc.	£5,000,000	13 Months	£10,000,000	2 years
Lloyds Bank Plc.	£5,000,000	13 Months	£10,000,000	2 years
National Westminster Bank Plc.	£2,500,000	35 Days	£10,000,000	2 years
Nationwide Building Society	£5,000,000	6 Months	£10,000,000	2 years
Royal Bank of Scotland	£2,500,000	35 Days	£10,000,000	2 years
Santander UK Plc. (Banco Santander Group)	£5,000,000	6 Months	£10,000,000	2 years
Standard Chartered Bank (suspended)	£5,000,000	6 Months	£10,000,000	2 years

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# Report

## Audit Committee

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### Part 1

Date: 1 December 2016

**Subject** Internal Audit – Progress against audit plan 2016/17 Quarter 2

**Purpose** To inform Members of the Council’s Audit Committee of the Internal Audit Section’s progress against the 2016/17 agreed audit plan for the first six months of the year and for information on audit opinions given to date and progress against key performance targets.

**Author** Chief Internal Auditor

**Ward** General

**Summary** The attached report identifies that the Internal Audit Section is making good progress against the 2016/17 audit plan and internal performance indicators.

**Proposal** 1) The report be noted by the Council’s Audit Committee

**Action by** The Audit Committee

**Timetable** Immediate

This report was prepared after consultation with:

- Chief Financial Officer
- Monitoring Officer
- Head of People and Business Change

## Background

1. This report aims to inform Members of the Audit Committee of progress of work undertaken by the Internal Audit Section of the Council against the agreed audit plan. Progress against the audit plan for the first six months of the year will be reported.
2. The report gives Members assurance (or otherwise) on the adequacy of the internal control environment operated within the Council by providing the audit opinions on work undertaken at the end of Q2.

### Internal Audit Staffing

3. The team currently operates with an establishment of 9 audit staff. At the start of the year there were 5 audit staff with 4 vacancies in the team. An Auditor was appointed and started in the team during Q1, a Principal Auditor was appointed in Q2.
4. In order to take account of the budget savings contribution and the delayering exercise required by senior management following the job evaluation exercise, the Internal Audit team was restructured during Q1. The previous and the revised organisation charts are shown at **Appendix A**.
5. The relationship with Monmouthshire County Council (for sharing of the Chief Internal Auditor) continues.

### Audit Plan

6. The Public Sector Internal Audit Standards (PSIAS) (IIA) came into force from April 2013 which the team will need to ensure it is compliant with as it carries out work in line with the Audit Plan. These standards replace the former Code of Practice for Internal Audit within Local Government (CIPFA).
7. A requirement of the PSIAS is for the Internal Audit team to be externally assessed once every five years to ensure compliance with these Standards. The Welsh Chief Auditors' Group proposed an option of a peer review in order to meet the requirements of this external assessment, which has been agreed by respective S151 Officers of local authorities in Wales. Newport's peer review will take place during 2017.
8. The 2016/17 Audit Plan was agreed by the Audit Committee on 26<sup>th</sup> May 2016.

### Performance

9. The Audit Section's performance is measured against planned work, which incorporates externalities like special investigations, financial advice and financial regulations training. Where actual time taken for the review exceeds planned time there will be an impact on the audit plan. Ad-hoc reviews requested by management cannot be planned for but will have an immediate impact on the achievement of the audit plan; we will endeavour to minimise these throughout the year. The section has been involved with minimal special investigations so far this year but if this increases significantly it could have an impact on this year's achievement of the audit plan; so far there has been 1 unplanned review.
10. The section's performance is measured against performance indicators set and agreed by the Welsh Chief Auditors' Group. Performance against these indicators is reported to the Audit



Committee on a quarterly basis; the targets for each of the indicators are set internally by the Chief Internal Auditor.

11. The performance for Quarter 2 2016/17 has been compared to the same period of the previous year (shown in brackets). The figures (**Appendix B**) are cumulative and show that:
  - a. 35% (32%) of the audit plan has been achieved so far which is slightly better than last year's performance and higher than the profiled target of 30%;
  - b. The promptness of issue of draft report (comparing timescale between finalising all fieldwork and issuing the draft report to management) averages at 9 day (10 days) which is within the target time of 10 days;
  - c. The promptness of report finalisation (comparing timescale from meeting with client to discuss issues raised in the draft report to issue of finalised report to management) averages 3.5 days (3 days) which is within the target time of 5 days.
12. Coverage of the plan at this stage of the year is above expectations; the target being 30% for Quarter 2. Although there has been a reduced audit resource in the team we have had very little involvement with special investigations. Although performance may dip throughout the year, historically things have picked up in the final quarter; this year will depend on sufficient audit resources being available to complete the audit plan. All key financial systems will be reviewed by the year end.
13. 50 (51) days have been spent finalising 18 (15) 2015/16 audit reviews; 17 of which have been finalised.
14. A vacancy / secondment provision was taken into account in the planning stage which related to the Chief Internal Auditor's work with Monmouthshire, a Principal Auditor post and two Auditor posts.
15. Inevitably there will be some overruns on reviews undertaken within the team which may result in not as many reviews being undertaken as were planned for the year, but there has been a significant improvement in this over previous years.

#### Quality Control

16. On completion of all audit reviews, an evaluation questionnaire is sent out to the service manager with the final report. This gives the manager who has been audited an opportunity to comment on the audit review itself, confirming (or not) that it was of benefit to their service and that the main risks had been covered; the staff, their approach, constructiveness and helpfulness; the report, covering the benefits of discussing the draft report, whether the balance was right via the inclusion of strengths and weaknesses, whether management comments were correctly reflected and if the report format was easy to follow. These questionnaires are returned in confidence to the Chief Internal Auditor who will assess the comments and address any criticisms. 80% positive feedback has been received from service managers via these questionnaires; this will continue to be collated throughout the year and fed into the annual audit report for 2016/17.

#### Financial Training

17. In the Audit Section's continued efforts to ensure that Council's assets are safeguarded and to provide assurance to management that their internal controls are robust, further training specifically on financial regulations and contract standing orders is offered to all service areas.

An overview of financial management is also part of the Corporate Induction Programme and the course is also available on a self-nomination basis, bi-monthly, as part of the Corporate Training Programme. Feedback from staff who have attended courses has been positive. During this year the financial training is continuing to be targeted to areas of previous poor performance, in line with the agreed protocol for dissemination of good practice.

18. 6 sessions were delivered to 83 delegates up to and including Q2. The training programmes will continue throughout the year.

#### Audit Opinions 2016/17

19. Audit opinions issued so far in 2016/17 are shown at **Appendix C**. Definition of audit opinions currently given is shown at **Appendix D**.
20. 12 jobs completed to at least draft report stage by 30 September 2016 warranted an audit opinion: 2 x *Good*; 8 x *Reasonable*, 1 x *Unsatisfactory* and 1 x *Unsound*. Of the 1 community centre accounts undertaken, the opinion was *Unqualified*. Other reports have been completed which did not warrant an audit opinion or related to audit certification work. Other work completed related to the Annual Governance Statement, the Council's performance indicators, grant claims, provision of financial advice and external clients.
21. The audit opinion relates to the adequacy of internal controls within the system or establishment being reviewed. The opinion is derived from the balance of strengths and weaknesses identified from evidence obtained, and testing undertaken, during the audit. Where the auditor believes that any issues identified are the result of a deliberate action and may be in breach of the Disciplinary Code or Employee Code of Conduct, further investigations will be carried out and action taken as appropriate.

#### Service Management Responsibilities

22. Heads of Service and service managers are responsible for addressing any weaknesses identified in internal systems and demonstrate this by incorporating their agreed actions into the audit reports. When management sign off the reports they are accepting responsibility for addressing the issues identified within the agreed timescales.
23. Although Heads of Service are responsible for implementing and maintaining adequate internal controls within service areas, operational managers are responsible for working within those controls and for ensuring compliance with Council policies and procedures. All reports, once finalised, are sent to the respective Heads of Service for information and appropriate action where necessary.

#### Follow up audit reviews

24. Where unsatisfactory and unsound opinions are issued, they are followed up within a twelve month timescale to ensure that the agreed actions have been taken by management and that the internal control systems are improved. These are reported separately to this Audit Committee on a six-monthly basis.

#### **Financial Summary**

25. There are no financial issues related to this report.

## Risks

26.

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Audit Plan not completed	M	M	Currently going through a recruitment exercise to fill the vacant posts in the team.	Chief Internal Auditor

\* Taking account of proposed mitigation measures

## Links to Council Policies and Priorities

27. Giving management assurance on systems in operation gives them confidence that there is sound financial management in place, that more effective services can be provided and the risk of theft, fraud and corruption is minimised. Better service provision, looking after the public pound makes our City a better place to live for all our citizens.

- To make our City a better place to live for all our citizens
- To be good at what we do
- To work hard to provide what our citizens tell us they need

## Options Available

28. This is a factual progress report and therefore there are no specific options, as such. The quarterly reports provide a mechanism for monitoring the performance and progress of the Internal Audit team and the adequacy of the Council's internal control environment to ensure the public pound is spent wisely and appropriately and that fraud, theft and corruption is minimised.

29. The Audit Committee is asked to note progress on delivery of the audit plan and audit opinions given to date and ask questions, make observations and recommendations, as necessary.

## Preferred Option and Why

30. N/A

## Comments of Chief Financial Officer

31. I can confirm that I have been consulted and have no additional comments.

## Comments of Monitoring Officer

32. There are no legal implications. The Report has been prepared in accordance with the Council's internal audit procedures and the Performance Management framework. The progress made to date in delivering the objectives set out in the approved Audit Plan highlights the effectiveness of the work undertaken by this service area in ensuring that adequate and effective internal financial controls are in place.

## **Staffing Implications: Comments of Head of People and Business Change**

33. There are no direct Human Resources issues arising from this report, other than the on-going resource issues highlighted. In terms of Corporate Policy & Performance, the report presents a review of audit activity during the period concerned and is set out in the context of performance framework. Clearly the work of the audit team is critical in giving assurance that the work of the Council is being undertaken within the set policies and procedures.

## **Comments of Cabinet Member**

34. N/A

## **Local issues**

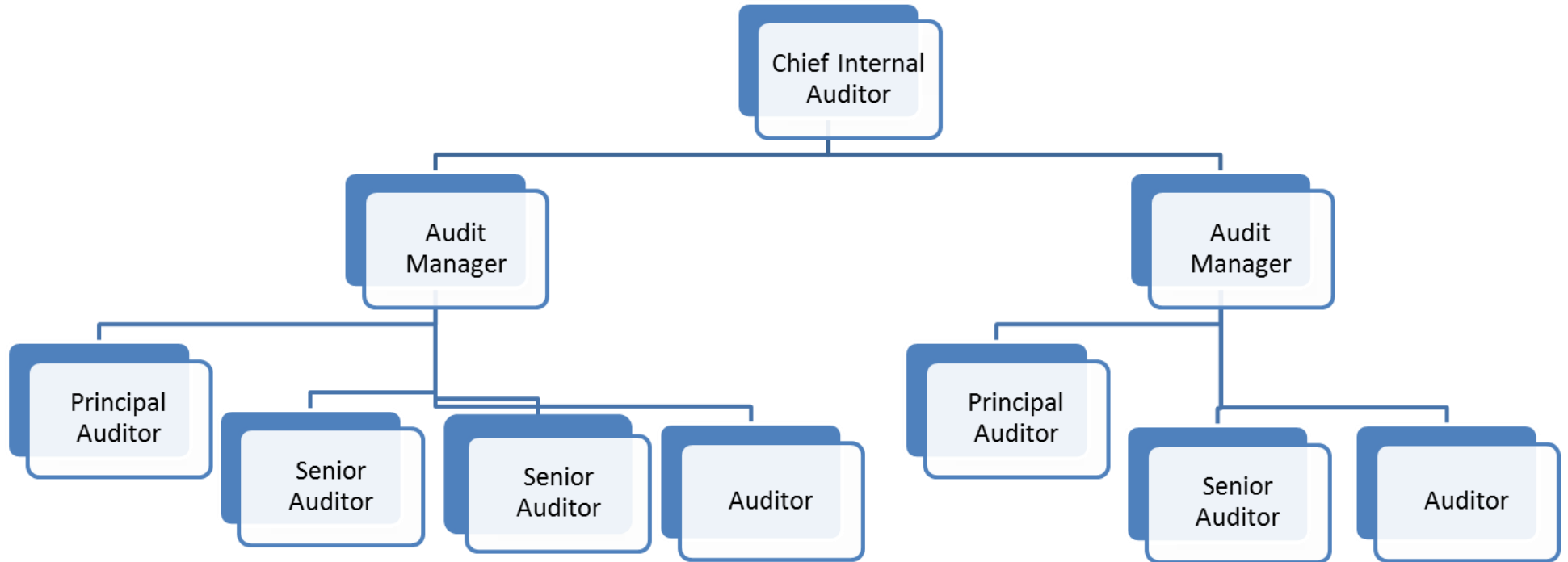
35. N/A

## **Consultation**

36. N/A

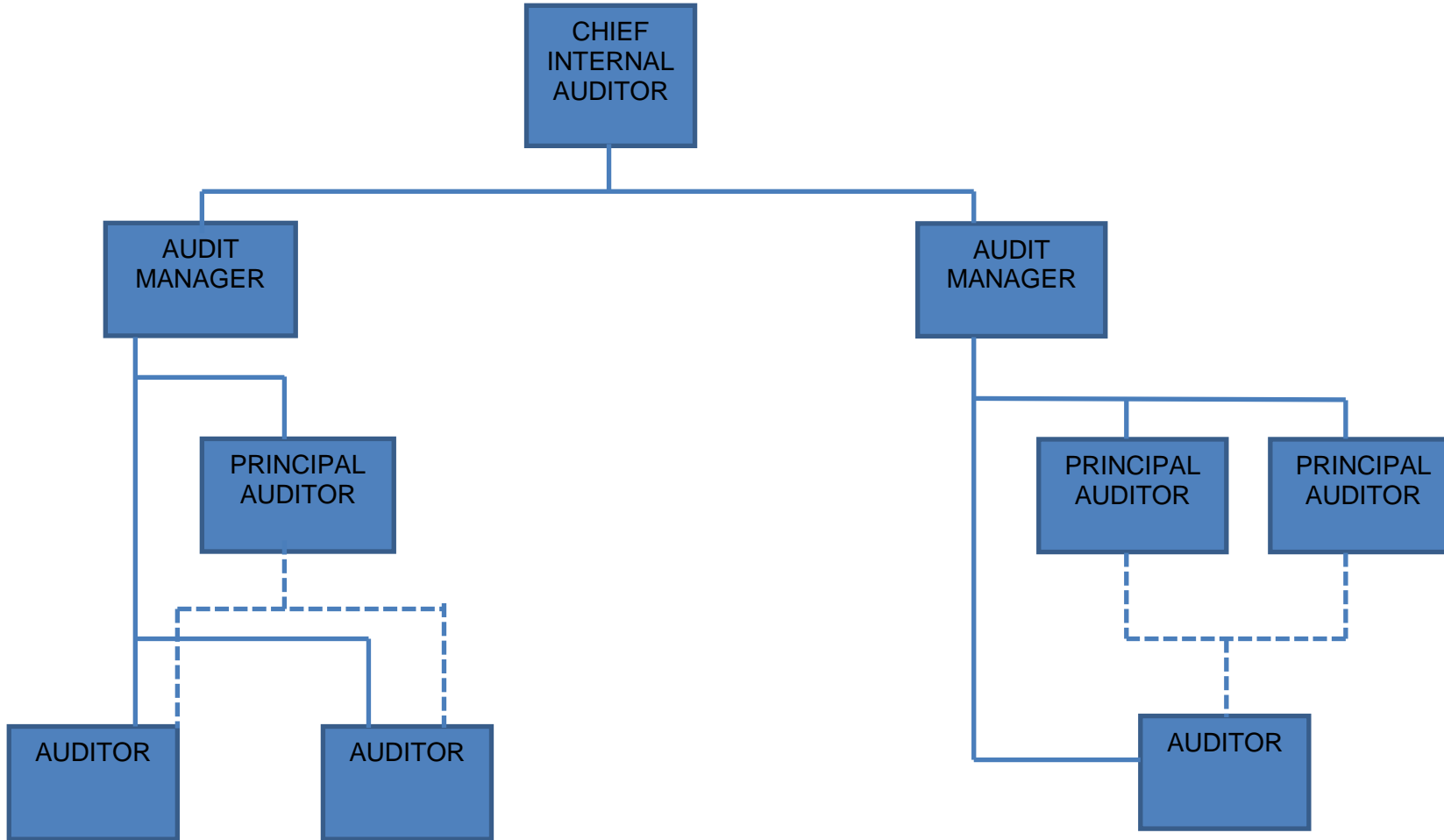
## **Background Papers**

37. N/A



Revised

MAY 2016



## Appendix B

## Newport City Council

## Internal Audit Service

## Performance Indicators

<b>2015/16</b>	2015/16 Target	1 <sup>st</sup> Qtr 15/16	2 <sup>nd</sup> Qtr 15/16	3 <sup>rd</sup> Qtr 15/16	4 <sup>th</sup> Qtr 15/16	Comments
Proportion of planned audits complete	75%	16%	32%	43%	77%	
Proportion of planned audits complete within estimated days	65%	N/A	36%	22%	52%	Cumulative figures
Directly chargeable time against total time available	61%	53%	53%	55%	55%	Quarterly performance
Directly chargeable time against planned	84%	81%	77%	74%	71%	Quarterly performance
Proportion of Special Reviews responded to within 5 working days	100%	100%	100%	100%	100%	Cumulative figures
Number of sessions provided to train staff in all Service Areas on best financial practice	11	0	5	5	9	Cumulative figures
Staff turnover rate (number of staff)	1	1	1	2	4	Quarterly performance
Promptness of draft report issue (end of fieldwork to draft report issue date)	10 days	2 days	10 days	15 days	12 days	Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	1 day	3 days	3 days	3 days	Cumulative figures

<b>2016/17</b>	2016/17 Target	1 <sup>st</sup> Qtr 16/17	2 <sup>nd</sup> Qtr 16/17	3 <sup>rd</sup> Qtr 16/17	4 <sup>th</sup> Qtr 16/17	Comments
Proportion of planned audits complete	75%	16%	35%			[Profiled Target 30%]
Proportion of planned audits complete within estimated days	65%	N/A	90%			Cumulative figures
Directly chargeable time against total time available	50%	52%	54%			Quarterly performance
Directly chargeable time against planned	84%	62%	66%			Quarterly performance
Proportion of Special Reviews responded to within 5 working days	100%	N/A	N/A			Cumulative figures
Number of sessions provided to train staff in all Service Areas on best financial practice	11	0	6			Cumulative figures
Staff turnover rate (number of staff)	1	0	0			Quarterly performance
Promptness of draft report issue (end of fieldwork to draft report issue date)	10 days	1 day	9 days			Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	4.5 days	3.5 days			Cumulative figures

**Appendix C**  
**Opinions as at 30 September 2016, Qtr 2**

Good	2
Reasonable	8
Unsatisfactory	1
Unsound	1
Total	12

**Internal Audit Services - Management Information for 2016/17 Q2**

Job number	Service Area	Section or Team	Job Title	Risk Rating / Priority	Complete when FINALISED	Opinion given
P1617-P4	Finance	Income Collection	National Non Domestic Rates (NDR)	Medium		Good
P1617-P46	Education Serv	Primary Schools	Mount Pleasant Primary	Medium		Good
P1617-P5	Finance	Strategic Procurement	Creditors CAAT's	Medium		Reasonable
P1617-P13	People & Bus Change	Business Service Development	Performance Indicators	Medium		Reasonable
P1617-P14	People & Bus Change	Corporate HR	Payroll CAAT's	Medium		Reasonable
P1617-P17	People & Bus Change	Corporate HR	Total Reward	High	Finalised	Reasonable
P1617-P31	Children & Young People Serv	Safeguarding, QA & Child Protection	Appointeeships	Medium		Reasonable
P1617-P56	Education Serv	I&I - Special Educational Needs	SEN Assessments / OoCP (Follow-up)	High		Reasonable
P1617-P57	Education Serv	I&I - Inclusion Services	Safeguarding / Child Protection (2015/16)	High		Reasonable
P1617-P67	Streetscene & City Serv	General	Overtime - WDS (Follow-up)	Medium		Reasonable
P1617-P18	People & Bus Change	Digital & Information	Payment Card Industry Data Security Standards	High	Finalised	Unsatisfactory




Job number	Service Area	Section or Team	Job Title	Risk Rating / Priority	Complete when FINALISED	Opinion given
P1617-P69	Streetscene & City Serv	General	Agency / Overtime - Refuse (incl. Follow-up)	Medium		Unsound
Grant Claims						
P1617-P64	Streetscene & City Serv	Transport Management	Bus Services Support Grant (2015/16)	Medium		Qualified
P1617-P25	Law & Regulation	Trading Standards	Scambusters Grant Claim 2015/16	Medium	Finalised	Unqualified
P1617-P35	Adult & Comm Serv	Quality Assurance	Supporting People Grant Certification	Medium	Finalised	Unqualified

## Non Opinion work 2016/17 Q2

Job number	Service Area	Section or Team	Job Title	Opinion given
P1617-P8	Finance	General	Annual Governance Statement	Not applicable
P1617-P11	Finance	General	Financial Advice	Not applicable
P1617-P20	People & Bus Change	General	Financial Advice	Not applicable
P1617-P21	People & Bus Change	General	Financial Regulations Training	Not applicable
P1617-P26	Law & Regulation	General	Financial Advice	Not applicable
P1617-P32	Children & Young People Serv	General	Financial Advice	Not applicable
P1617-P40	Adult & Comm Serv	General	Financial Advice	Not applicable
P1617-P43	Education Serv	R&P - Finance & School Resources	Education Improvement Grant (2015/16)	Not applicable
P1617-P58	Education Serv	General	Financial Regulations Training	Not applicable
P1617-P59	Education Serv	General	Financial Advice	Not applicable
P1617-P70	Streetscene & City Serv	General	Financial Advice	Not applicable
P1617-P78	RI&H	General	Financial Advice	Not applicable
U1617-U1	Education Service	R&P - Finance & School Resources	Pupil Deprivation Grant (15/16)	Not applicable

Community Centre	Opinion
Duffryn	Unqualified

**INTERNAL AUDIT SERVICES – OPINIONS**

	<b>GOOD</b>	<b>Well controlled with no critical risks identified which require addressing; substantial level of assurance.</b>	<b>Green</b>
	REASONABLE	Adequately controlled although risks identified which may compromise the overall control environment; improvements required; reasonable level of assurance.	Yellow
	UNSATISFACTORY	Not well controlled; unacceptable level of risk; changes required urgently; poor level of assurance.	Amber
	UNSOUND	Poorly controlled; major risks exists; fundamental improvements required with immediate effect.	Red

Unqualified	<p>The Financial Statement is free from material misstatement and presents fairly the activities of the organisation.</p> <p>The terms and conditions of the grant funding have been complied with.</p>
Qualified	<p>There is a lack of supporting information or documentation to verify that that figures quoted in the Financial Statement fairly represent the activities of the organisation.</p> <p>The terms and conditions of the grant funding have not been fully complied with.</p>

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# Report

## Audit Committee

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### Part 1

Date: 1 December 2016

**Subject** **Standing Order 24 (Urgent Decisions) and Waiving of Contract Standing Orders: July to September 2016**

**Purpose** To inform Members of the use of Standing Order 24 and the Waiving of Contract Standing Orders in recent decisions taken by Cabinet and Cabinet Members.

**Author** Senior Overview and Scrutiny Officer

**Ward** General

**Summary** This report provides details of decisions on the use of Standing Order 24 (decisions taken urgently) and the Waiving of Contract Standing Orders for the above period.

In consideration of this report, Members are reminded that they are not questioning the merits of the decisions taken but are focussing on why decisions were taken as urgent or why contract standing orders needed to be waived.

**Proposal** The Committee is asked to consider whether the reasons for the urgency/waiving of contract standing orders are properly reflected in the documentation supporting each decision. Members may wish to invite Cabinet Members to attend a meeting of the Committee should they consider this not to be the case.

**Action by** Audit Committee

**Timetable** Immediate

This report was prepared after consultation with:

- Head of Law & Regulation
- Head of Finance
- Chief Internal Auditor

## Background

Details of the decisions taken by Cabinet/Cabinet Members during the above period are set out in the table below, together with a commentary from the Chief Internal Auditor. Copies of the report giving rise to the decision are attached.

## Financial Summary

The cost implications of the decisions were set out in the original reports to the Cabinet Members. There are no cost implications of the Committee's consideration of this report.

## Risks

Scrutiny of these matters by the Committee is an important means of ensuring that the reasons for the urgency or waiving of Contract Standing Orders were properly addressed in the decision making process and that decisions are transparent.

## Options Available/Preferred Option and Why

The Committee is asked to consider whether the reasons for the urgency/waiving of contract standing orders are properly reflected in the documentation supporting each decision. Members may wish to invite Cabinet Members to attend a meeting of the Committee should they consider this not to be the case.

## Comments of Chief Financial Officer

See original reports.

## Comments of Monitoring Officer

See original reports

## Staffing Implications: Comments of Head of People and Business Change

See original reports.

Subject	Decision & Date	Reason for Urgency/Reason to waive Contract Standing Orders	Comments of Chief Internal Auditor
Capital Grant Funding for the Gypsy and Traveller Site	Cabinet Member for Adult and Housing Services 5 September 2016	Welsh Government have for the first time invited in year bids from Local Authorities for the Gypsy and Traveller sites capital grant, this opportunity is only available for local authorities who have a proposed site with planning consent. The deadline for applications is Monday 5 <sup>th</sup> September at 11am. Therefore in order to achieve the required timescale it has not been possible to go through the Council's agreed consultation process and therefore not subject to the Council's call in procedures.	<b>Although the report states the reason for urgency is an in year round of bids offered by Welsh Government (WG) for additional funding, and that the deadline was 5<sup>th</sup> September 2016, it does not include a timeline of events leading up to that deadline. However, further enquires with the officers involved have identified the timing of events:</b> <ul style="list-style-type: none"><li>- 12-7-16 – email from WG notifying a round of second bids with timescales being 12-7-16 to 31-8-16.</li><li>- 26-8-16 – email from WG extending</li></ul>

			<p>the deadline to 5-9-16.</p> <ul style="list-style-type: none"> <li>- 2-9-16 – email from WG extending the deadline to 7-9-16.</li> </ul> <p>Given that the timing of this would also have been during the Members’ summer recess, it would have been reasonable to apply Standing Order 24 – Urgent Decision.</p>
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The following documentation is provided as background to the above decisions:

Cabinet Member for Adult Social Services & Housing Decision Schedule and report – 5 Sep 2016 (Attached)

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# Decision Schedule

## **Cabinet Member for Adult Social Services & Housing**

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**TO ALL MEMBERS OF NEWPORT CITY COUNCIL**

**Decision Schedule published on 5 September, 2016**

The Cabinet Member took the following urgent decision on 5 September, 2016. It will take immediate effect.

The reason for the urgency being that the Welsh Government have for the first time invited in- year bids from Local Authorities for the Gypsy and Traveller sites capital grant, this opportunity being available only for local authorities who have a proposed site with planning consent. The deadline for applications is 5 September, 2016 at 11am. Therefore, in order to achieve the required timescale it has not been possible to go through the Council's agreed consultation process and therefore not subject to the Council's call in procedures.

The reasons for urgency will be reported to the Council's Audit Committee

Reports relating to staffing issues/Confidential reports are not circulated to all Members of the Council as part of the consultation/call-in processes.

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**ASS&H 03/16**

### **Capital Grant Funding for Gypsy and Traveller Site**

#### **Options considered/Reasons for Decision**

The Cabinet Member considered a report regarding the proposed submission of an application to the Welsh Government for capital funds for construction of the first phase of the Gypsy and Traveller site at Hartridge Farm Road.

Welsh Government had for the first time invited in- year bids from Local Authorities for the Gypsy and Traveller sites capital grant, this opportunity being only available for local authorities who had a proposed site with planning consent.

Newport City Council was bidding for £1.5m to enable the delivery of the site at Hartridge Farm Road which recently received planning consent, thereby making it eligible for grant aid.

#### **Decision**

1. To agree the application to Welsh Government for the capital grant for the construction of the first phase of the Gypsy and Traveller site at Hartridge Farm Road.
2. To take this decision urgently to meet the necessary deadline as described above, and to inform the Audit Committee of the reasons for urgency at a future meeting.

#### **Consultation**

Monitoring Officer, Head of Finance, Head of People and Business Change,

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**Implemented by:** Head of Regeneration, Investment & Housing  
**Implementation Timetable:** Immediate

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Signed

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Councillor Paul Cockeram, Cabinet Member for Adult Social Services & Housing

Date: 5 September 2016

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# Report

## Cabinet Member for Adult and Housing Services

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### Part 1

Date: 5 September 2016

**Subject** Capital Grant Funding for the Gypsy and Traveller Site

**Purpose** To agree the application to Welsh Government for the capital funds for the construction of the first phase of the Gypsy and Traveller Site.

### Reason For Urgency

Welsh Government have for the first time invited in year bids from Local Authorities for the Gypsy and Traveller sites capital grant, this opportunity is only available for local authorities who have a proposed site with planning consent. The deadline for applications is Monday 5<sup>th</sup> September at 11am. Therefore in order to achieve the required timescale it has not been possible to go through the Council's agreed consultation process and therefore not subject to the Council's call in procedures

**Author** Housing and Assets Manager

**Ward** Ringland

**Summary** The Welsh Government provides the Capital Grant for the construction of Gypsy and Traveller sites, and local authorities are invited to bid for this money annually. This year due to additional money being made available an in-year invitation to bid has been issued. Newport City Council is bidding for £1.5 million to enable the delivery of the site at Hartridge Farm Road which recently received planning consent, thereby making it eligible for grant aid.

**Proposal** To agree the application to Welsh Government for the capital grant for the construction of the first phase of the Gypsy and Traveller site at Hartridge Farm Road.

**To take this decision urgently to meet the necessary deadline as described above, and to inform the Audit Committee of the reasons for urgency at a future meeting.**

**Action by** Head of Service for Regeneration, Investment and Housing

**Timetable** Immediate

This report was prepared after consultation with:

- Head of Law and Regulation
- Head of Finance
- Head of People and Business Change

## 1. Background

- 1.1 The Housing (Wales) Act 2014 became law on the 17<sup>th</sup> September 2014 when it received royal assent. One of the key principles of the act was to:
  - Place a duty upon local authorities to provide sites for Gypsies and Travellers where a need has been identified.
- 1.2 In order to assist local authorities in providing sites Welsh Government has made capital finance available every year for site construction. The finance is available on an annual basis and bids are usually invited from local authorities in January each year.
- 1.3 In view of the number of authorities now needing to comply with the above Act, Welsh Government has made additional finance available this year and has invited further bids to reach them by the 5<sup>th</sup> September.
- 1.4 The site capital grant can fund 100% of the costs of site construction and does not require match funding from the local authority. However, the grant cannot fund site acquisition costs, costs already accrued for preparation of planning applications, land remediation costs, site feasibility studies and ongoing maintenance costs.
- 1.5 The details required for the bid include:-
  - Planning consent documents
  - Projected expenditure in excel format
  - Project Plan/Gantt chart
  - Risk register
  - Management plan
- 1.6 Due to the requirement to have full planning consent in place there are limited local authorities that can bid for the grant this financial year, though obviously, funding cannot be guaranteed.
- 1.7 Local Authorities can bid for up to a maximum of £1.5 million for any one phase of a development. It is understood that this additional bidding round is for a maximum of £1.5 million.
- 1.8 The delivery of a Gypsy and Traveller site was identified as a specific need for Newport as part of the development of the Local Development Plan. A robust process was undertaken by a working group of members to identify potential sites for inclusion, and the site at Hartridge Farm Road was ultimately agreed by the Inspector and subsequently Council.
- 1.9 A planning application for the site was then developed and consent was given by Planning Committee on 11<sup>th</sup> August 2016. The planning application was for the full 35 pitches, though the development will take place in a phased way. In view of planning consent having been obtained Welsh Government invited Newport to submit a bid for the grant funding. The grant funding would enable the first phase of the site to be developed, 9 pitches, site entrance and landscaping, refurbishment of the current road safety office into an office and meeting room.
- 1.10 If Newport is successful in its bid, the grant money has to be spent by the 31<sup>st</sup> March 2017, and would therefore enable the first aspect of the works described above to take place, i.e. road construction, infrastructure, utilities, pitch layout, boundary treatments, office/meeting room refurbishment.
- 1.11 Construction of the day rooms would then be completed the following financial year and site occupation is anticipated in August 2017.

## 2. Financial Summary

	Year 1 (Current) £	Year 2 £	Year 3 £	Ongoing £	Notes including budgets heads affected
Costs (Income)	0	0	0	0	Provision had been made within the Capital budget for whole site construction and therefore if grant funding is obtained there will be a more limited call upon the Councils own resources
Net Costs (Savings)	0	0	0	0	
Net Impact on Budget	0	0	0	0	

## 3. Risks

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Failure to obtain grant	Delay to development of site	L	Ensure that the bid for grant funding is robust	Housing & Assets Manager
Obtain grant this year but no grant available next year	Requirement for NCC to provide the capital grant funding	M	Money has been set aside within the capital programme for the development of the site, should total funding not be available	Capital Accountancy
Failure to obtain the grant funding in subsequent years	Failure to comply with Housing Act 2014 and potential impact on LDP	H	If the site is not development the risks are significant, and therefore NCC needs to ensure that bids for capital grant funding are submitted in a timely manner and that capital funding is available internally if this is not successful	Housing & Assets Manager and Capital Accountancy

\* Taking account of proposed mitigation measures

## 4. Links to Council Policies and Priorities

Improvement Plan 2016 -2018

A Fairer City – Ensuring people have access to suitable accommodation.

A Caring City – Where people live in sustainable communities.

A Learning and Working City – where life chances of children and young people are improved.

Wellbeing of Future Generations (Wales) Act 2015 – A healthier Wales, a more equal Wales and ensuring a Wales of cohesive communities

## 5. Options Considered

- 5.1 To apply for grant funding from Welsh Government this financial year, with money awarded from 1<sup>st</sup> October 2016.

- 5.2 To wait and apply for funding at the next bidding round January 2017, grant award will be from 1<sup>st</sup> April 2017, though there is likely to be more competition from other local authorities for a limited budget

## **6. Preferred Choice and Reason**

- 6.1 To urgently apply to Welsh Government on Monday 5<sup>th</sup> September for £1.5 million grant funding for the development of the Gypsy and Traveller site at Hartridge Farm Road.

## **7. Sustainability and Environmental Issues**

- 7.1 Sustainability and environmental issues have been considered as part of the planning application preparation and subsequent approval.

## **8. Crime Prevention Impact**

- 8.1 Gwent Police have confirmed that the site design will achieve Secured by Design accreditation.

## **9. Comments of Chief Financial Officer**

- 9.1 The Council's capital programme currently has a budget allocation, funded by borrowing, for the development costs already spent and ongoing in the lead up to on-site construction, as outlined in this report. The availability of WG grant to cover construction costs is essential to the scheme and funding must be utilised intelligently. It is therefore vital that officers bid for the maximum sum available.

## **10. Comments of Monitoring Officer**

- 10.1 There are no specific legal issues arising from the Report. The Council has a statutory duty to provide this gypsy and traveller site in accordance with the Housing (Wales) Act and also the adopted LDP. Detailed planning consent has also been approved for the development of the site. Therefore, it is appropriate to make a capital bid for funding towards the costs of the scheme during the current bidding round. Because of the deadline for submission of bids, then this decision will need to be taken in accordance with the Council's urgent decision-making processes and there is no time for prior consultation or call-in. The reasons for the urgency will need to be reported to Audit Committee in due course.

## **11. Staffing Implications: Comments of Head of People and Business Change**

- 11.1 The provision of a purpose built Gypsy and Traveller site will ensure that families have access to the sustainable services and facilities necessary for their wellbeing, for instance education, sanitation and a safe environment. A robust process of consultation and engagement was undertaken in identifying the site at Hartridge Farm Road and obtaining planning consent. The capital grant would enable the building works to commence at the earliest opportunity and the application is supported.

## **12. Scrutiny Committees**

- 12.1 As part of the Local Development Plan process the Scrutiny Committee reviewed all possible sites, the subsequent consultation comments, and the detailed site appraisal information and recommended to Council that the Hartridge Farm Road site be included within the Plan at its meeting on the 24<sup>th</sup> April 2013.

## **13. Equalities Impact Assessment**

- 13.1 The delivery of the Gypsy and Traveller site has equality impact assessments undertaken as part of the inclusion within the LDP and as part of the Housing Needs assessment.

## **14. Children and Families (Wales) Measure**

- 14.1 The development of the Gypsy and Traveller site will ensure that children have access to schooling and further education opportunities, as well as good sanitation and safe places to live. Children from the local families have provided responses to the City Council on their desires for the site and these have been taken into account as part of the development and will influence the play provision available.

## **15. Background Papers**

- 15.1 Local Development Plan – available on the Council's web site.  
Financial Summary Sheet for Capital Bid for Gypsy and Traveller Site

Date – 5 September 2016

## Financial Summary Sheet for Capital Bid for Gypsy and Traveller Site

1) Cost of general site works	£425,594
2) Prelims	£ 89,374
3) Risk allowance	£100,000
4) Design consultancy	£127,000
5) Utility costs	£200,000
6) Community Building refurbishment	£ 75,000
7) On site security	£ 32,000
Total for phase 1A	£1,048,968
1) Building specific works	£802,611
2) Prelims	£168,548
3) Risk allowance	£100,000
Total for phase 1B	£1,071,159
Total site cost of phases 1A and 1B	£2,120,127





# Report

## Audit Committee

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### Part 1

Date: 1 December 2016

**Subject** Work Programme

**Purpose** To report the details of this Committee's work programme.

**Author** Overview and Scrutiny Officer

**Ward** General

**Summary** The purpose of a forward work programme is to help ensure Councillors achieve organisation and focus in the undertaking of enquiries through the Audit Committee function.

This report presents the current work programme to the Committee for information and details the items due to be considered at the Committee's next two meetings.

**Proposal** **The Committee is asked to endorse the proposed schedule for future meetings, confirm the list of people it would like to invite for each item, and indicate whether any additional information or research is required.**

**Action by** Audit Committee

**Timetable** Immediate

This report was prepared after consultation with:

- Head of Law and Standards
- Head of Finance
- Head of Human Resources and Policy

## Background

The purpose of a forward work programme is to help ensure Councillors achieve organisation and focus in the undertaking of enquiries through the Audit Committee function.

Attached at Appendix 1 is the forward work programme for this Committee. Below are the items scheduled to be presented at the Committee's next two meetings. Committee Members are asked to endorse this schedule, confirm the list of people they would like to invite for each item, and indicate whether any additional information or research is required.

### 26 January 2017

Internal Audit Plan – Progress (Quarter 3)
Treasury Management Report
Internal Audit Unsatisfactory Audit Opinions (6 monthly report)
Corporate Risk Register (Considered by Cabinet in December 2016)
Referrals to Audit Committee

### 30 March 2017

Annual Audit outline for the 2015/16 Financial Audit
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 3, October to December)
WAO Annual Report on Grants Works
Regulatory Reports
Annual Governance Statement (draft statement)
Corporate Risk Register (Considered by Cabinet in March)
Member Development Self Evaluation Exercise
Referrals to Audit Committee

## Financial Summary

Please see comments from Chief Financial Officer below.

## Risks

If proper work programming procedures are not put in place, the organisation and prioritisation of the work programme is put at risk. The work of the Audit Committee could become disjointed from the work of the rest of the Council, which could undermine the positive contribution Audit Committee makes to service improvement.

This report is presented to each Committee every month in order to mitigate that risk. The specific risks associated with individual topics on the work programme will need to be addressed as part of the Committee's investigations.

## **Comments of Chief Financial Officer**

There will be financial consequences for some of the reviews undertaken. These will be commented upon as the reports are presented. The preparing and monitoring of the work programme is done by existing staff for which budget provision is available.

## **Comments of Monitoring Officer**

I have no comments, as there are no legal implications.

## **Staffing Implications: Comments of Head of People and Business Change**

There are no staffing implications within this report. Any staffing implications of the reviews in the work programme will need to be addressed in individual reports.

## **Background Papers**

None.

## Appendix 1

**(Audit Committee to meet every other month unless circumstances dictate otherwise)**

<b>26 May 2016</b>
Appointment of Chairman
Internal Audit Annual Report 2015/16
Internal Audit Annual Plan 2016/17
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 4, Jan to March)
Corporate Risk Register Update (considered by Cabinet in March 2016)
Treasury Management Report
Referrals to Audit Committee
<b>23 June 2016</b>
Internal Audit Unsatisfactory Audit Opinions (6 monthly report)
Corporate Risk Register Update (Considered by Cabinet in June 2016)
Annual Governance Statement
Draft Financial Accounts 2015/16
Referrals to Audit Committee
<b>22 September 2016</b>
Internal Audit Plan 2016/17 – Progress (Quarter 1)
Statement of Accounts 2015-16
Audit of Financial Statements Report 2015-16
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 1, April to June)
Corporate Risk Register Update (Considered by Cabinet in September 2016)
Report on Audit Committee Self Evaluation Exercise – <b>deferred to 24 November Committee Meeting</b>
Referrals to Audit Committee
Regulatory Reports Summary (every 6 months approx. March and September)
Internal Audit 2 Unsatisfactory Audit Opinions

<b>1 December 2016</b>
Internal Audit Plan 2016/17 – Progress (Quarter 2)
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 2, July to September)
Treasury Management Report
Lessons Learned 2015/16
Audit Committee Self Evaluation Exercise
Financial Memorandum on the 2015-16 Financial Audit
Referrals to Audit Committee

<b>26 January 2017</b>
Internal Audit Plan – Progress (Quarter 3)
Treasury Management Report
Internal Audit Unsatisfactory Audit Opinions (6 monthly report)
Corporate Risk Register (Considered by Cabinet in December 2016)
Referrals to Audit Committee

<b>30 March 2017</b>
Annual Audit outline for the 2015/16 Financial Audit
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 3, October to December)
WAO Annual Report on Grants Works
Regulatory Reports
Annual Governance Statement (draft statement)
Corporate Risk Register (Considered by Cabinet in March)
Member Development Self Evaluation Exercise
Referrals to Audit Committee

<b>Unallocated work (Dates to be agreed)</b>
Report on Risks associated with Hosting (IT)
Treasury Management Training
Issues Outstanding – Member Development Self Evaluation Exercise

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