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Agenda

Audit Committee

Date:	Thursday, 30 November 2017
Time:	5.00 pm
Venue:	Committee Room 1 - Civic Centre
To:	Mr J Baker (Chair), Councillors D Davies, J Guy, J Jordan, L Lacey, W Routley, H Thomas, K Thomas, H Townsend and R White

Item

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Date of Issue: Thursday, 23 November 2017

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Agenda

Pwyllgor Archwilio

Dyddiad:	Dydd Iau, 30 Tachwedd 2017
Amser:	5 y.p.
Lleoliad:	Ystafell Bwyllgora 1 - Canolfan Dinesig
At:	Mr J Baker (Cadeirydd), Y Cynghorwyr: D Davies, J Guy, J Jordan, L Lacey, W Routley, H Thomas, K Thomas, H Townsend, R White

Eitem

Rhan 1

1. Agenda yn Gymraeg
2. Ymddiheuriadau am Absenoldeb
3. Datganiadau o Fuddiant
4. Cofnodion y Cyfarfod a gynhaliwyd ar 25 Medi 2017
5. Adroddiad Rheoli Trysorlys
6. Gwersi a Ddysgwyd 2016-17
7. Swyddfa Archwilio Cymru - Cyfrifon Terfynol Memorandwm 2016-17
8. Cynllun Archwilio Mewnol 2017-18 - Cynnydd (Chwarter 2)
9. Pwyllgor Archwilio Ymarfer Hunanwerthuso
10. Rhaglen Waith
11. Dyddiad y Cyfarfod Nesaf – 25 Ionawr 2018

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Dyddiad cyhoeddi: 23 Tachwedd 2017

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Minutes

Audit Committee

Date:	25 September 2017
Time:	2.00 pm
Present:	Mr J Baker (Chair), Councillors J Guy, J Jordan, H Thomas and R White
In attendance:	Rachel Kalahar (Senior Performance Management Officer), Mike Dickie (Business Service Development Manager), Meirion Rushworth (Head of Finance), Owen James (Assistant Head of Finance - Technical and Development), Andrew Wathan (Chief Internal Auditor), Robert Squance (Audit Manager), Vimal Upadhyay (Senior Finance Business Partner), Laura Campbell (Senior Finance Business Partner) and Michele Chesterman (Democratic Services Officer)
Apologies:	Councillors D Davies, L Lacey, W Routley, K Thomas and H Townsend

1 **Declarations of Interest**

None.

2 **Minutes of the Meeting held on 26 June 2017**

The Minutes of the meeting held on 26 June 2017 were submitted.

Agreed

To confirm the minutes of the meeting held on 26 June 2017.

3 **Corporate Risk Register Update**

Members considered an updated version of the Corporate Risk Register which identified 14 risks; 4 remained from the previous update, 2 had been closed and 2 updated. In addition to this 8 new risks had been identified. There were 5 high risks and 9 medium risks.

Discussion included the following:

- <u>Risk 8: Risk of Stability of External Suppliers</u>

  Present risk score should be 20 and not 4 – to be amended.

Agreed

To note the contents of the Corporate Risk Register

4 **Statement of Accounts and Audit of Financial Statements Report 2016-17**

Members considered a report on the results of the external audit of the 2016-17 Statement of Accounts, which highlighted the changes since they were initially published at the end of June 2017 and sought their formal adoption in accordance with the Accounts and Audit (Wales) regulations 2014.

The Accounts were published at the end of June 2017 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 2 August 2017. The Council received no requests to review the Accounts from the public during the public scrutiny period.

Auditors have reviewed the 2016/17 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 Assistant Head of Finance introduced the report and advised that the accounts had been completely audited and the Wales Audit Office ISA260 report was included in the reports pack. Whilst there were a number of amendments made to the accounts following audit, no changes were made to the reported outturn or reserves held by the Council.

There has also been a quality assurance exercise of the financial statements prior to presentation at the Audit Committee. It was acknowledged that WAO had highlighted a number of issues within their ISA260 report, which would be reviewed by the Council and actions put in place to ensure that procedures and processes were in place to address the issues raised.

The report detailed the agreed changes applied to the Statement of Accounts from the original publication through to completion of the audit review. The majority of these related to presentational changes, disclosure notes, some amendments to lines across the comprehensive income and expenditure account and items relating to Property, Plant and Equipment, all of which had no impact on the bottom line.

Although some of the figures included in the corrected misstatements appendix were large in value, these largely related to the classification of internal recharges as external income rather than netting off against expenditure. The effect of these on the net position on both the accounts and the service areas were nil.

There was only one uncorrected misstatement included in the ISA260 report - the value of Newport Transport Ltd. Depot being understated by £376,000. The reason was related to the accounting treatment used by Newport Transport Ltd and those required to be used as per the accounting policy for the group. Due to the small value and complex nature of the transactions that would need to be put through the accounts it had been decided an adjustment would not be made for this.

Discussions included the following:

- Some wording, formatting issues and spelling mistakes were referred to.
- On the Balance Sheet (Page 108) – it was queried whether there should be a total at the bottom of the page – A total figure to be added.
- It was suggested rewording the paragraph on Page 125 'Any outstanding rolled up interest has been written off, but has been replaced by a new debtor' to be replaced with 'The outstanding interest has been written off replaced by a debtor to the new owner'. In addition it was felt to be helpful if the amount of the debt was included.

- It was clarified that the last two paragraphs on page 125 referred to separate transactions in relation to Friars Walk. One was part of the sale and sales price and the second was part of protecting the investment the Council had. The £125,000 per quarter was based on turnover in terms of rental. There was a need to make an assessment of how much there would be over the long term. The Council did have Friar's Walk reserves to set up as a provision. The expectation was that the Council would not have to pay as much as this. However, the wording 'there will be no detrimental revenue impact in 2017/18' to be amended as although there had not been a detrimental impact on accounts in 2016/17 it was not known what the impact would be in 2017/18.
- It was clarified that the wording on the last line of page 70 'At the time of preparing the initial Statement of Accounts, performance information was available up to Quarter 3 as reported to Cabinet on 20 March 2016' would be updated.
- On page 30 the wording to be changed from 'Surplus or (Deficit) on the Provisions of Services' to 'Deficit or (Surplus)' as both figures were deficits.
- The question was asked whether there was a linkage between the tables on page 62 and page 105 – there was none but there would be an attempt to link these tables in the future.

The Wales Audit Office introduced the ISA 260 report. The proposed audit report was scheduled to be signed off by the Auditor General.

Discussions included the following:

- *The uncorrected misstatement relating to the value of Newport Transport Limited Bus Depot being understated by £376,000* – It was clarified that Newport Transport had raised concerns around timing and that this year they were much quicker and better consolidated. Wales Audit Office confirmed that this year much work had been undertaken to enhance the process of consolidation. The difference arose from two different accounting policies. Single entity value cost and all Council assets need to be revalued on a five year cycle. It was important to ensure that all the relevant accounting policies were aligned as far as possible. It was correct to report it but also to put it in context. In fairness to the Transport Company they are entitled to include it as costs. The Assistant Head of Finance informed Members that the issue would be included in lessons learned. For simplicity it might be best to continue with what was included in the draft accounts, but it was not intended to include it in the ISA 260 report every year.
- *Appendix 3 Page 226 - £5.2 million decrease in income and expenditure within the Comprehensive Income and Expenditure Statement (CIES). Newport Live staff costs for 2016-17 had been incorrectly charged to expenditure, with recharges recorded as income.* How was the figure included in the Accounts and why wasn't it picked up in the monthly accounts – It was clarified that there was a separate entity for payroll. The issue was in connection with how it was coded. It was coded as employee expenditure when in reality it should have been an internal recharge code. The Assistant Head of Finance noted that there was a net nil impact.
- *Appendix 3 Page 226 - £3.7 million decrease in income and expenditure within the CIES. Internal recharges incurred by schools had been incorrectly included in the CIES. Why had this happened?* – The Assistant Head of Finance clarified that this internal recharge and the Newport Live staff cost recharges should have been improved and would be addressed in the future.

The auditors confirmed they had given full information to the Audit Committee. A standard letter had been raised with the Chair of Audit Committee, Head of Finance and Assistant Head of Finance in terms of fraud, risk and regulations and related party transactions. None of the responses had indicated any concerns. Next year it was intended that a similar process would be carried out and a request was made to include it on the work programme for May/June 2018.

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 2016/17 Accounts and the Wales Audit Office's Financial Statements (ISA260) report on the 2016/17 Accounts and comments.
2. To authorise the Chairman to adopt the Accounts 2016-17 (subject to amendments), in accordance with the Accounts and Audit (Wales) Regulations 2014 and to sign the letter of recommendation.

5 **Internal Audit Plan 2017-18 Progress Quarter 1**

Members considered a report on the Internal Audit Section's progress against the 2017/18 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 8 audit staff. At the start of the year there were 7 audit staff with 1 vacancy in the team. One Auditor left and one Auditor was appointed and started with the team during quarter 1. The remaining vacant post was 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.

The performance for Quarter 1 2017/18 was compared to the same period of the previous year (shown in brackets):

a. 21% (16%) of the audit plan had been achieved so far which was above last year's performance and higher than the profiled target of 12%;
b. The promptness of issue of draft reports (comparing timescale between finalising all fieldwork and issuing the draft report to management) averages at 4 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 to finalised report to management) averages 8 days (1 day) which is above the target time of 5 days.

Coverage of the plan at that stage of the year was above expectations; the target being 12% 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.

Page 233 – Paragraph 12 – 'All key financial systems to be reviewed by year end' – The question was raised whether ISA 260 observations were tied in? – The Auditors confirmed that the frequency would be considered depending on the level of risk.

Agreed

To note the progress against the 2017-18 Audit Plan for the first three months of the year.

6 **Work Programme**

The Head of Finance drew Members' attention to the Treasury Management training scheduled to take place on 11 October 2017. It was recommended that Members attend. The Chair gave apologies.

The Audit Training session had been successful. Members found the session interesting and well presented.

Agreed

To note the Work Programme.

The meeting terminated at 3.00 pm

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Report

Audit Committee

Part 1

Date: 30 November 2017

Subject **Report on Treasury Management for the period to 30 September 2017 and revised MRP policy**

Purpose To inform the Audit Committee of treasury activities undertaken during the period to 30 September, 2017. To provide details of the proposal to change the Minimum Revenue Provision (MRP) policy for supported borrowing.

Author Assistant Head of Finance

Ward General

Summary The Council continues to be both a short term investor of cash and borrower to manage day-to-day cash flows. Current forecasts indicate that in the future, temporary borrowing will continue to be required to fund normal day to day cash flow activities.

The first half of the year saw the successful sale of the Friars Walk development which allowed borrowing which had been undertaken in relation to the loan provided to Queensberry Newport Ltd to be repaid. All borrowing in relation to this development are now fully repaid, and this has meant that net borrowing has fallen from £209.2m to £149.1m during the year.

All borrowing and investments undertaken during the first half of the year was expected and within the Council's agreed limits.

The Council currently charges MRP for supported borrowing at 4% reducing balance, it is proposed that this is changed to a 2.5% straight line charge, which will reduce the revenue charge for the provision by c£2.4m.

Proposal **To note the report on treasury management activities for the period to 30 September 2017 and provide comments to Council.**

To note the recommendation that the Council 'opt-up' to professional status in relation to the introduction of the 'Second Markets in Financial Instruments Directive (MiFID II) when it becomes applicable to the UK in January 2018 and provide comments, if any, on this matter to Council.

To note and review the proposed change to the Minimum Revenue Provision (MRP) policy for supported borrowing and provide comments to Council.

Action by Head of Finance

Timetable Immediate

This report was prepared after consultation with:

- Treasury Advisors
- Head of Finance

BACKGROUND

1. The Council's Treasury Management Strategy and Prudential Indicators were approved by Council in March 2017 alongside the Medium Term Financial Plan and the 2017/18 Budget.

2. The Treasury Management Strategy for 2017/18 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 Strategy / Activity
- Investment Strategy / Activity
- Economic Background
- Compliance with Prudential Indicators approved by Council

BORROWING STRATEGY / ACTIVITY

Short and Long Term Borrowing

5. Whilst the Council has significant long term borrowing requirements, the Council's current strategy of funding capital expenditure is through reducing investments ('internal borrowing') rather than undertaking new borrowing i.e. we defer taking out new long term 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 also 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 and this remains the main reason for our current 'internally borrowed' strategy.

6. Whilst the strategy minimises investment counterparty risk, the risk of interest rate exposure is increased as the current low longer term borrowing rates may rise in the future. The market position is being constantly monitored in order to minimise this risk.

7. As anticipated, during the first half of the year the amount of borrowing has reduced by £60,075m, this relates mainly to borrowing associated with the Queensberry debt. This reduction in borrowing followed the sale of the Friars Walk development and all borrowing in relation to this was able to be fully repaid in July 2017. The borrowing associated with this loan was always kept separate from the Council's other borrowing requirements shown in Appendix B.

8. 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 in this financial year, .

9. Appendix B summarises the Council's debt position as at 30 September 2017. The changes in debt outstanding relate to the raising and repaying of temporary loans.

10. In regards to LOBOs, 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 ACTIVITY / POSITION

11. The Council's strategies in this area of Treasury Management are (i) to be a short term and relatively low value investor and (ii) investment priorities should follow the priorities of security, liquidity and yield, in that order.

    The Council's strategy of being a s/t and relatively low value investor has been maintained, though the repayment of the Friar's Walk loans has increased cash holdings temporarily. In line with our strategy, this will be allowed to reduce over the next year or so.. As at 30 September 2017, there was a £33.3m balance of short-term investments outstanding.

12. This was anticipated and reported in the TM strategy report. All investments are placed on a temporary basis and are placed in high security institutions, in line with our other strategy in this area, dealing with our investing priorities of (i) security (ii) liquidity and (iii) yield, in that order. At the 30 September 2017 £32.5m was placed with various local authorities and £800k with Santander Call Account with the maximum maturity date of 22 March 2018.

13. January 2018 will see the implementation in the UK of the second Markets in Financial Instruments Directive (MiFID II), where firms will be obliged to treat all local authorities as retail clients unless they opt up to professional client status and meet certain criteria. These criteria include holding a minimum of £10m investment balance and employing knowledgeable and experienced staff to carry out investment transactions. If the Council do not opt up to professional client service it is likely to severely limit the scope of services that financial institutions including advisers and brokers can provide to the Council. Therefore it is recommended that the Council will opts up to professional status and therefore would be required in the future to maintain investment balances of at least £10m. This is still a relatively small balance within the context of the Council's finances and cash-flows and still allows us to pursue current strategies on borrowing and investments. This is further discussed in Appendix A.

14. It is anticipated that our investment balances will remain well above the minimum £10m, until the start of 2019/20, when the stock issue of £40m will be due, at this point the Council will need re-finance and undertake new long-term borrowing.

15. The Council does not hold any long-term (more than 364 days) investments as at 30 September 2017.

OTHER MID YEAR TREASURY MATTERS

Economic background and Counter Party Update

16. 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.

17. As discussed previously in this report the Council does not have any long-term investments, and the investments that it currently undertakes is mainly with other local authorities which are deemed very secure, 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. The long term rating of Santander UK, the Council's bankers, remains at A above the Council's minimum level of A-.

Regulatory Updates

18. The implementation of MiFID II in January 2018 is further detailed in Appendix A.

19. In February 2017 CIPFA canvassed views on the relevance, adoption and practical application of the Treasury Management and Prudential Codes and after reviewing responses launched a further consultation on changes to the codes in August with a deadline for responses of 30th September 2017. Details of the proposed changes are outlined in Appendix A to this report, with the main proposed changes including, the production of a new high-level Capital Strategy report to full council, plans to drop certain indicators and for the treasury management code to include reference to non-treasury investments such as commercial investments in properties in the term "investments".

20. CIPFA intends to publish the two revised Codes towards the end of 2017 for implementation in 2018/19, although CIPFA plans to put transitional arrangements in place for reports that are required to be approved before the start of the 2018/19 financial year. This will be updated in the Treasury Management Strategy report in January 2018.

Compliance with Prudential Indicators approved by Council

21. The Authority measures and manages its exposures to treasury management risks using various indicators which can be found in Appendix B. The Authority has complied with the Prudential Indicators for 2017/18, set in March 2017 as part of the Treasury Management Strategy. Details of treasury-related Prudential Indicators can be found in Appendix B.

MINIMUM REVENUE PROVISION – CHANGE OF METHOD

Minimum Revenue Provision (MRP) Policy

22. MRP is the method by which Local Authorities charge their revenue accounts over time with the cost of their capital expenditure that was originally funded by debt.

23. From 2007/08 onwards, Local Authorities have been free to set their own policy on calculating MRP, with the sole legislative proviso being that the amount calculated must be one that the Council considers to be "prudent". Detailed guidance then exists as to methods of setting MRP which are deemed acceptable / prudent.

24. At a time of increasing pressure on budgets, many Local Authorities across the UK have reviewed their MRP policies to ensure there is a balance between a prudent and adequate provision for MRP ansd the pressure it puts on Council's budgets. In Wales, such reviews have already been undertaken by Torfaen, Merthyr Tydfil, Conwy, Denbighshire, Flintshire, Rhondda Cynon Taff, Caerphilly and Monmouthshire Councils.

25. It should be noted that during 2016/17 a report detailing changes to the MRP policy here in Newport, in relation **unsupported borrowing** was brought before Audit Committee and was subsequently approved at Council as part of the Treasury Management Strategy report for 2017/18. The change to this policy was implemented in 2017/18.

26. A review of MRP policy in relation to **supported borrowing** has now been concluded and a change is recommended.

27. MRP is intrinsically linked to the Capital Financing Requirement (CFR). The CFR represents the total of all the Council's past capital expenditure, less the total capital financing applied other than debt. The CFR therefore represents the Council's underlying need to borrow for capital purposes, and the amount that has yet to be permanently financed. MRP is the main method of permanently financing that expenditure.

The Council's Treasury Management Advisor, Arlingclose, was commissioned to objectively review the Council's current MRP policy and our findings, including confirming the recommendations as being prudent and within guidelines

Current supported borrowing MRP Policy

28. The Council's MRP policy is set on an annual basis in accordance with the 2008 Regulations and approved by Full Council as part of the Treasury Management Strategy and the Revenue Budget prior to the commencement of each financial year.

29. The Council's 2017/18 MRP policy was approved by Council in March 2017 and comprises of the following method to determine the annual MRP charge: -

    - Historic debt liability as at the 31st March 2007 and subsequent capital expenditure funded from supported borrowings to be charged to revenue at 4% in accordance with the CFR Method on a reducing balance basis.

30. Based on the current policy the supported borrowing MRP charge/budget to the revenue account for the 2017/18 financial year is £6,451k.

Alternative approaches

31. An alternative approach that the Council could adopt is to link the supported CFR MRP charge to average asset lives. The MRP Guidance allows for thisand applying an asset life method to this element of the CFR is an approach being undertaken by a number of Local Authorities. In simple terms, this approach links the annual MRP charge to a more realistic assessment of the lives of assets funded through debt. For example, it would not be unreasonable to assume that a school would have a useful life of up to 70 years.

32. As at the 31st March 2017, the net book value (NBV) of the Council's total fixed assets was £494m. A number of these fixed assets will have been funded from supported borrowing. For supported borrowing the Authority does not assign actual borrowing to individual assets. The supported borrowing CFR as at the 1st April is £161m, which represents 32.6% of the net book value of £494m. The assets have a range of estimated asset lives but it is difficult to establish which are unfinanced and included in the supported element of the CFR. On a 4% reducing balance method the financing of the supported borrowing CFR will take in excess of 150 years to fully clear and it may therefore be more prudent to change this to a shorter timescale. Based on a review of the assets in the asset register it is considered that an average outstanding life of 40 years would not be unreasonable for the purpose of calculating MRP.

33. Having established an asset life approach based on 40 years, there are 2 alternative options available for charging the MRP on this basis:

    Straight Line Method – Under this approach the MRP charge on the supported borrowing CFR would be applied equally over the 40 year period meaning that the year-on-year charge remains constant.

    Annuity Method – This is more commonly used as a method of establishing loan repayments, where it is required that the total amount of principal and interest repaid each year is a common amount. As such, it produces a profile of principal repayments that starts low and increases each year. For the purpose of calculating MRP a notional interest rate can be assumed and the MRP charge will be linked to the amount of principal on an annual basis. This results in a lower MRP charge in earlier years and a higher charge in later years, which makes forward planning more difficult.

34. Appendix C shows the options appraisal which looks at the following 2 options for changes to the MRP policy for supported borrowing:

- Option 1 - 2.5% Straight line method (equivalent of 40 year asset life)
- Option 2 - 2.5% Annuity method

35. Details of the implications of the options above are included in Appendix C. Arlingclose have advised that "***Overall, we're content that each of the four the suggested options meet the requirements of the current Welsh Government MRP Guidance."*** Therefore having regard to the WG guidance and prudency, the Head of Finance is content that Option 1 continues to provide a prudent level of MRP charge to revenue and should be chosen as the MRP policy from 2017/18.

36. Implementing the MRP policy from 2017/18 will mean a saving in this financial year of £2.4m, and this will be continued into future years with the possibility of savings to be taken up to this value.

37. The table below summarises the main differences between the current MRP policy and the new proposed option:

WELL-BEING OF FUTURE GENERATIONS

38. The Wellbeing of Future Generations (Wales) Act 2015 requires that decisions made by Council today must not have a detrimental effect on future generations.

39. The options set out in this report essentially seek to charge MRP to the revenue account over a period which is commensurate with the estimated lives of assets. This approach ensures that the charge is applied over the period that benefit is being gained from the use of the assets.

40. Under the existing MRP policy the bulk of the MRP charge is applied in the early years, which means that current council tax payers are paying a premium for assets that will also benefit future generations. Furthermore, the reducing balance methodology currently adopted for supported borrowing results in the MRP charge being applied to the revenue account long after assets have reached the end of their useful lives. (This is shown in Appendix C Chart 1)

41. The option of changing to a straight-line basis will ensure that the current CFR for supported borrowing is fully extinguished by year 40. This approach ensures that a consistent annual charge is payable throughout the life of assets.

Financial Summary

42. The decrease in the charge to revenue resulting from changing to the various options is shown in Appendix C, Table 1.

43. If the Council were to implement the proposed Option 1 from 2017/18, this would create an underspend of c. £2.4m in this financial year. This underspend will continue, until a saving is taken in relation to this.

44. Although Option 1 gives revenue savings, due to the fact that MRP could be looked at as a provision for the repayment of debt, this saving in turn leads to less cash being left in the authority to repay existing borrowing or delaying taking out new borrowing. Therefore there is going to be £2.4m less cash each financial year, in order to repay this debt. This will have an impact on the future capital financing costs.

45. Another impact of reducing the MRP charge is that it reduces the speed in which the CFR is falling. We are currently developing the capital programme for 2018/19 to 2022/23, and if the current assumption was to fund capital expenditure through borrowing at the same rate as the MRP is

"falling-off", then as MRP is declining at a lower rate if we implement the new proposal, this impacts on the level of capital expenditure the Council can undertake without causing a pressure on revenue budgets i.e. it reduces the headroom the capital programme has to play with. The impact of this over the life of the programme is estimated to be a reduction in capital expenditure of c.£10m. Chart 2 in Appendix C, shows the reduction in headroom due to change in MRP policy.

Summary of change to Option 1

46. The table below shows the main differences and implications of change to a 2% straight line MRP charge in comparison to the current MRP policy of charging at 4% reducing balance.

Impact	**Current Policy 4% Reducing Balance**	**Option 1 – 2.5% Straight Line**
Supported borrowing MRP Charge (no new capital exp)	£6.4m reducing each year	£4m straight line
Revenue saving achieved	N/A	£2.4m
CFR balance after 40 years	£31.5m	£0
Asset lives	Not based on asset lives therefore span to pay off is longer than realistic asset life	Based on 40 year asset life which is felt realistic
Future Generations Act	Higher MRP charge today but would like for like be lower for taxpayers in the future (after year 13 for comparative purposes)	Lower MRP charge, but it could be argued that the current policy is placing a subsidy on current taxpayers for assets that will not have the expected life in future. This policy addresses that issue.
WG Guidance	Follows the CFR Method of WG Guidance	Follows the Asset Life Method of WG guidance which is still deemed acceptable and prudent by both the Head of Finance and Treasury Advisors.

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
AppenInterest Rates moving adversely against expectations	Low	Low	Despite recent increase in the bank rate to 0.5%, future expectations for higher short term rates are subdued. The Treasury strategy approved allows for the use of short term borrowing once investment funds are exhausted to take	Head of Finance, Treasury staff, treasury advisors

			advantage of these low rates.	
Due to change in MRP policy, capital financing costs will increase	Medium	Medium	When re-financing of the stock issue comes in to place, thought will be given to the impact on the reduction of cash in the organisation to repay borrowing and the revenue implication of this.	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. Thus the only option available is consider the report and provide comments to the Council.

Preferred Option and Why

Note the contents of the report and provide comments to the Council.

Comments of Chief Financial Officer

Decisions made on treasury matters will be made with a view the Treasury Management Strategy, Treasury Advisors and Prudential Indicators.

The change of the MRP policy will create an immediate saving as highlighted in the report. These will be built into the Medium Term Financial Plan as part of the budget strategy. This change is required to be approved by Council.

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 2017.
Report to Council February 2017: 2017/18 Budget and Medium Term Financial Plan

Dated: 04 November 2017

External Context

Economic backdrop: Commodity prices fluctuated over the period with oil falling below $45 a barrel before inching back up to $58 a barrel. UK Consumer Price Inflation (CPI) index rose with the data print for August showing CPI at 2.9%, its highest since June 2013 as the fall in the value of sterling following the June 2016 referendum result continued to feed through into higher import prices. The new inflation measure CPIH, which includes owner occupiers' housing costs, was at 2.7%.

The unemployment rate fell to 4.3%, its lowest since May 1975, but the squeeze on consumers intensified as average earnings grew at 2.5%, below the rate of inflation. Economic activity expanded at a much slower pace as evidenced by Q1 and Q2 GDP growth of 0.2% and 0.3% respectively. With the dominant services sector accounting for 79% of GDP, the strength of consumer spending remains vital to growth, but with household savings falling and real wage growth negative, there are concerns that these will be a constraint on economic activity in the second half of calendar 2017.

The Bank of England made no change to monetary policy at its meetings in the first half of the financial year. The vote to keep Bank Rate at 0.25% narrowed to 5-3 in June highlighting that some MPC members were more concerned about rising inflation than the risks to growth. Although at September's meeting the Committee voted 7-2 in favour of keeping Bank Rate unchanged, the MPC changed their rhetoric, implying a rise in Bank Rate in "the coming months". The Council's treasury advisor Arlingclose is not convinced the UK's economic outlook justifies such a move at this stage, but the Bank's interpretation of the data seems to have shifted.

In contrast, near-term global growth prospects improved. The US Federal Reserve increased its target range of official interest rates in June for the second time in 2017 by 25bps (basis points) to between 1% and 1.25% and, despite US inflation hitting a soft patch with core CPI at 1.7%, a further similar increase is expected in its December 2017 meeting. The Fed also announced confirmed that it would be starting a reversal of its vast Quantitative Easing programme and reduce the $4.2 trillion of bonds it acquired by initially cutting the amount it reinvests by $10bn a month.

Geopolitical tensions escalated in August as the US and North Korea exchanged escalating verbal threats over reports about enhancements in North Korea's missile programme. The provocation from both sides helped wipe off nearly $1 trillion from global equity markets but benefited safe-haven assets such as gold, the US dollar and the Japanese yen. Tensions remained high, with North Korea's threat to fire missiles towards the US naval base in Guam, its recent missile tests over Japan and a further testing of its latent nuclear capabilities.

Prime Minister Theresa May called an unscheduled General Election in June, to resolve uncertainty but the surprise result has led to a minority Conservative government in coalition with the Democratic Unionist Party. This clearly results in an enhanced level of political uncertainty. Although the potential for a so-called hard Brexit is diminished, lack of clarity over future trading partnerships, in particular future customs agreements with the rest of the EU block, is denting business sentiment and investment. The reaction from the markets on the UK election's outcome was fairly muted, business confidence now hinges on the progress (or not) on Brexit negotiations, the ultimate 'divorce bill' for the exit and whether new trade treaties and customs arrangements are successfully concluded to the UK's benefit.

In the face of a struggling economy and Brexit-related uncertainty, Arlingclose expects the Bank of England to take only a very measured approach to any monetary policy tightening, any increase will be gradual and limited as the interest rate backdrop will have to provide substantial support to the UK economy through the Brexit transition.

Financial markets: Gilt yields displayed significant volatility over the six-month period with the appearing change in sentiment in the Bank of England's outlook for interest rates, the push-pull from expectations of tapering of Quantitative Easing (QE) in the US and Europe and from geopolitical tensions, which also had an impact. The yield on the 5-year gilts fell to 0.35% in mid-June, but then rose to 0.80% by the end of September. The 10-year gilts similarly rose from their lows of 0.93% to 1.38% at the end of the quarter, and those on 20-year gilts from 1.62% to 1.94%.

The FTSE 100 nevertheless powered away reaching a record high of 7548 in May but dropped back to 7377 at the end of September. Money markets rates have remained low: 1-month, 3-month and 12-month LIBID rates have averaged 0.25%, 0.30% and 0.65% over the period from January to 21st September.

Credit background: UK bank credit default swaps continued their downward trend, reaching three-year lows by the end of June. Bank share prices have not moved in any particular pattern.

There were a few credit rating changes during the quarter. The significant change was the downgrade by Moody's to the UK sovereign rating in September from Aa1 to Aa2 which resulted in subsequent downgrades to sub-sovereign entities including local authorities. Moody's downgraded Standard Chartered Bank's long-term rating to A1 from Aa3 on the expectation that the bank's profitability will be lower following management's efforts to de-risk their balance sheet. The agency also affirmed Royal Bank of Scotland's and NatWest's long-term ratings at Baa1, placed Lloyds Bank's A1 rating on review for upgrade, revised the outlook of Santander UK plc, and Nationwide and Coventry building societies from negative to stable but downgraded the long-term rating of Leeds BS from A2 to A3.

S&P also revised Nordea Bank's outlook to stable from negative, whilst affirming their long-term rating at AA-. The agency also upgraded the long-term rating of ING Bank from A to A+.

Ring-fencing, which requires the larger UK banks to separate their core retail banking activity from the rest of their business, is expected to be implemented within the next year. In May, following Arlingclose's advice, the Authority reduced the maximum duration of unsecured investments with Bank of Scotland, HSBC Bank and Lloyds Bank from 13 months to 6 months as until banks' new structures are finally determined and published, the different credit risks of the 'retail' and 'investment' banks cannot be known for certain.

The new EU regulations for Money Market Funds were finally approved and published in July and existing funds will have to be compliant by no later than 21st January 2019. The key features include Low Volatility NAV (LVNAV) Money Market Funds which will be permitted to maintain a constant dealing NAV, providing they meet strict new criteria and minimum liquidity requirements. MMFs will not be prohibited from having an external fund rating (as had been suggested in draft regulations). Arlingclose expects most of the short-term MMFs it recommends to convert to the LVNAV structure and awaits confirmation from each fund.

Regulatory Updates

MiFID II: Local authorities are currently treated by regulated financial services firms as professional clients who can "opt down" to be treated as retail clients instead. But from 3rd January 2018, as a result of the second Markets in Financial Instruments Directive (MiFID II), local authorities will be treated as retail clients who can "opt up" to be professional clients, providing that they meet certain criteria.

Regulated financial services firms include banks, brokers, advisers, fund managers and custodians, but only where they are selling, arranging, advising or managing designated investments. In order to opt up to professional, the authority must have an investment balance of at least £10 million and the person authorised to make investment decisions on behalf of the authority must have at least one year's relevant professional experience. In addition, the firm must assess that that person has the expertise, experience and knowledge to make investment decisions and understand the risks involved.

The main additional protection for retail clients is a duty on the firm to ensure that the investment is "suitable" for the client. However, local authorities are not protected by the Financial Services Compensation Scheme nor are they eligible to complain to the Financial Ombudsman Service whether they are retail or professional clients. It is also likely that retail clients will face an increased cost and potentially restricted access to certain products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice. The Authority has declined to opt down to retail client status in the past as the costs were thought to outweigh the benefits.

The Authority meets the conditions to opt up to professional status and intends to do so in order to maintain their current MiFID status.

CIPFA Consultation on Prudential and Treasury Management Codes: In February 2017 CIPFA canvassed views on the relevance, adoption and practical application of the Treasury Management and Prudential Codes and after reviewing responses launched a further consultation on changes to the codes in August with a deadline for responses of 30th September 2017. The Authority responded to this consultation with its feedback.

The proposed changes to the Prudential Code include the production of a new high-level Capital Strategy report to full council which will cover the basics of the capital programme and treasury management. The prudential indicators for capital expenditure and the authorised borrowing limit would be included in this report but other indicators may be delegated to another committee. There are plans to drop certain prudential indicators, however local indicators are recommended for ring fenced funds (including the HRA) and for group accounts. Other proposed changes include applying the principles of the Code to subsidiaries.

Proposed changes to the Treasury Management Code include the potential for non-treasury investments such as commercial investments in properties in the definition of "investments" as well as loans made or shares brought for service purposes. Another proposed change is the inclusion of financial guarantees as instruments requiring risk management and addressed within the Treasury Management Strategy. Approval of the technical detail of the Treasury Management Strategy may be delegated to a committee rather than needing approval of full Council. There are also plans to drop or alter some of the current treasury management indicators.

CIPFA intends to publish the two revised Codes towards the end of 2017 for implementation in 2018/19, although CIPFA plans to put transitional arrangements in place for reports that are required to be approved before the start of the 2018/19 financial year. The Department of Communities and Local Government (DCLG) and CIPFA wish to have a more rigorous framework in place for the treatment of commercial investments as soon as is practical. It is understood that DCLG will be revising its Investment Guidance (and its MRP guidance) for local authorities in England; however there have been no discussions with the devolved administrations yet.

Outlook for the remainder of 2017/18

The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. Both consumer and business confidence remain subdued. Household consumption growth, the driver of UK GDP growth, has softened following a contraction in real wages. Savings rates are at an all-time low and real earnings growth (i.e after inflation) struggles in the face of higher inflation.

The Bank of England's Monetary Policy Committee has changed its rhetoric, implying a rise in Bank Rate in "the coming months". Arlingclose is not convinced the UK's economic outlook justifies such a move at this stage, but the Bank's interpretation of the data seems to have shifted.

Arlingclose's central case is for gilt yields to remain broadly stable in the across the medium term, but there may be near term volatility due to shifts in interest rate expectations.

On 31 March 2017, the Authority had net borrowing of £254.5m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in table 1 below.

Table 1: Balance Sheet Summary

	31.3.17 Actual £m
General Fund CFR	276.1
Less: Other debt liabilities *	-47.4
Borrowing CFR	**228.7**
Less: Usable reserves	-107.2
Less: Working capital	88.0
Net borrowing	**209.5**

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt

The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 30 September 2017 and the change over the period is show in table 2 below.

Table 2: Treasury Management Summary

Newport City Council Debt	**Outstanding as at 31/03/17 £000's**	**Debt Raised £000's**	**Debt Repaid £000's**	**Outstanding as at 30/09/2017 £000's**
Public Works Loans Board	71,138	0	0	71,138
Market Loans	35,000	0	0	35,000
Stock Issue	40,000	0	0	40,000
Total Long Term Loans	**146,138**	0	0	**146,138**
Temporary Debt	63,075	44,300	104,375	3,000
Total Long Term and Temporary Debt	**209,213**	**44,300**	**104,375**	**149,138**

Borrowing Strategy during the half year

At 30/9/2017 the Authority held £149.1m of loans, (a decrease of £60.1m on 31/3/2017), as part of its strategy for funding previous years' capital programmes. The 30th September 2017 borrowing position is show in table 3 below.

Table 3: Borrowing Position

	31.3.17 Balance £'000	Movement £'000	30.9.17 Balance £'000	30.9.17 Weighted average rate %	30.9.17 Weighted average maturity years
Public Works Loan Board	71,138	0	71,138	4.45	16.6
Banks (LOBO)	30,000	0	30,000	4.302	36.8
Banks (fixed-term)	5,000	0	5,000	3.77	60.5
Stock Issue	40,000	0	40,000	8.875	1.5
Local authorities (long-term)	0	0	0	-	-
Local authorities (short-term)	63,075	(60,075)	3,000	0.35%	0
Total borrowing	**209,213**	**(60,075)**	**149,138**	**5.52%**	**17.7**

The "cost of carry" analysis performed by the Authority's treasury management advisor Arlingclose did not indicate any value in borrowing in advance for future years' planned expenditure and therefore none was taken.

The Authority continues to hold £30m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the first half of 2017/18.

Investment Activity

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the first half of 2017/18 the Authority's investment balance ranged between £0 and £[X] million due to timing differences between income and expenditure. The investment position during the half year is shown in table 4 below.

Table 4: Investment Position

	31.3.17 Balance £m	Movement £m	30.9.17 Balance £m	30.9.17 Weighted average rate %	30.9.17 Weighted average maturity Years
Banks & building societies (unsecured)	2,300	(1,510)	790	0.15	0
Government (incl. local authorities)	0	32,500	32,500	0.23	0.27
Total investments	**2,300**	**30,990**	**33,290**	**0.22**	**0.26**

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

Compliance Report

The Head of Finance is pleased to report that all treasury management activities undertaken during the first half of 2017/18 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Table 7: Investment Limits

	30.9.17 Actual (£m)	2017/18 Limit (£m)	Complied
Banks Unsecured	**0.8**	**£5m**	✓
Banks Secured	**0**	**£10m**	✓
Government	**32.5**	**Unlimited**	✓
Corporates	**0**	**£5m**	
Registered Providers	**0**	**£5m**	✓
Unsecured investments with Building Societies	**0**	**£5m**	✓

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 8 below.

Table 8: Debt Limits

	H1 Maximum (£m)	30.9.17 Actual (£m)	2017/18 Operational Boundary (£m)	2017/18 Authorised Limit (£m)	Complied
Borrowing	209	149	288	308	✓
PFI & finance leases	46	46	46	46	✓
Total debt	**255**	**195**	**334**	**354**	✓

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed was:

	30.9.17 Actual	2017/18 Limit	Complied
Upper limit on fixed interest rate exposure	100%	100%	✓
Upper limit on variable interest rate exposure	0	50%	✓

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	30.9.17 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	22%	80%	0%	✓
12 months and within 24 months	27%	70%	0%	✓
24 months and within 5 years	3%	70%	0%	✓
5 years and within 10 years	25%	50%	0%	✓
10 years and within 20 years	8%	30%	0%	✓
20 years and within 30 years	0%	20%	0%	✓
30 years and within 40 years	9%	20%	0%	✓
40 years and within 50 years	3%	20%	0%	✓
50 years and above	3%	20%	0%	✓

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2017/18	2018/19	2019/20
Actual principal invested beyond year end	0	0	0
Limit on principal invested beyond year end	5	5	5
Complied	✓	✓	✓

In the next TM Strategy report we may need to adjust these limits taking into consideration the introduction of MiFID II.

APPENDIX C – MRP POLICY OPTION APPRAISAL

Table 1

		Current MRP		Option 1			Option 2		
Period	Year	CFR 4% Reducing Balance (£'000)	MRP Charge 4% RB (£'000)	CFR 2.5% Straight Line (£'000)	MRP Charge 2.5% SL (£'000)	Difference (£'000)	CFR 2.5% Annuity Method (£'000)	MRP Charge 2.5% AM (£'000)	Difference (£'000)
1	2017	161,278	6,451	161,278	4,032	**(2,419)**	161,278	2,253	**(4,198)**
2	2018	154,827	6,193	157,246	4,032	**(2,161)**	159,025	2,315	**(3,878)**
3	2019	148,634	5,945	153,214	4,032	**(1,913)**	156,710	2,379	**(3,566)**
4	2020	142,688	5,708	149,182	4,032	**(1,676)**	154,331	2,445	**(3,262)**
5	2021	136,981	5,479	145,150	4,032	**(1,447)**	151,885	2,513	**(2,966)**
6	2022	131,502	5,260	141,118	4,032	**(1,228)**	149,372	2,583	**(2,677)**
7	2023	126,242	5,050	137,086	4,032	**(1,018)**	146,790	2,654	**(2,395)**
8	2024	121,192	4,848	133,054	4,032	**(816)**	144,135	2,728	**(2,120)**
9	2025	116,344	4,654	129,022	4,032	**(622)**	141,408	2,803	**(1,851)**
10	2026	111,690	4,468	124,990	4,032	**(436)**	138,604	2,881	**(1,587)**
11	2027	107,223	4,289	120,959	4,032	**(257)**	135,724	2,961	**(1,328)**
12	2028	102,934	4,117	116,927	4,032	**(85)**	132,763	3,043	**(1,075)**
13	2029	98,817	3,953	112,895	4,032	**79**	129,720	3,127	**(826)**
14	2030	94,864	3,795	108,863	4,032	**237**	126,593	3,214	**(581)**
15	2031	91,069	3,643	104,831	4,032	**389**	123,380	3,303	**(340)**
16	2032	87,427	3,497	100,799	4,032	**535**	120,077	3,394	**(103)**
17	2033	83,930	3,357	96,767	4,032	**675**	116,683	3,488	**131**
18	2034	80,572	3,223	92,735	4,032	**809**	113,195	3,585	**362**
19	2035	77,349	3,094	88,703	4,032	**938**	109,610	3,684	**590**
20	2036	74,255	2,970	84,671	4,032	**1,062**	105,926	3,786	**816**
21	2037	71,285	2,851	80,639	4,032	**1,181**	102,140	3,891	**1,040**
22	2038	68,434	2,737	76,607	4,032	**1,295**	98,249	3,999	**1,261**
23	2039	65,697	2,628	72,575	4,032	**1,404**	94,250	4,110	**1,482**
24	2040	63,069	2,523	68,543	4,032	**1,509**	90,141	4,223	**1,701**
25	2041	60,546	2,422	64,511	4,032	**1,610**	85,917	4,340	**1,918**
26	2042	58,124	2,325	60,479	4,032	**1,707**	81,577	4,461	**2,136**
27	2043	55,799	2,232	56,447	4,032	**1,800**	77,116	4,584	**2,352**
28	2044	53,567	2,143	52,415	4,032	**1,889**	72,532	4,711	**2,568**
29	2045	51,424	2,057	48,383	4,032	**1,975**	67,821	4,842	**2,785**
30	2046	49,367	1,975	44,351	4,032	**2,057**	62,980	4,976	**3,001**
31	2047	47,393	1,896	40,320	4,032	**2,136**	58,004	5,114	**3,218**
32	2048	45,497	1,820	36,288	4,032	**2,212**	52,890	5,255	**3,435**
33	2049	43,677	1,747	32,256	4,032	**2,285**	47,635	5,401	**3,654**
34	2050	41,930	1,677	28,224	4,032	**2,355**	42,234	5,550	**3,873**
35	2051	40,253	1,610	24,192	4,032	**2,422**	36,684	5,704	**4,094**
36	2052	38,643	1,546	20,160	4,032	**2,486**	30,980	5,862	**4,316**
37	2053	37,097	1,484	16,128	4,032	**2,548**	25,118	6,024	**4,541**
38	2054	35,613	1,425	12,096	4,032	**2,607**	19,093	6,191	**4,767**
39	2055	34,189	1,368	8,064	4,032	**2,664**	12,902	6,363	**4,995**
40	2056	32,821	1,313	4,032	4,032	**2,719**	6,539	6,539	**5,226**
41	2057	31,508	1,260	- 0			0		

Chart 1

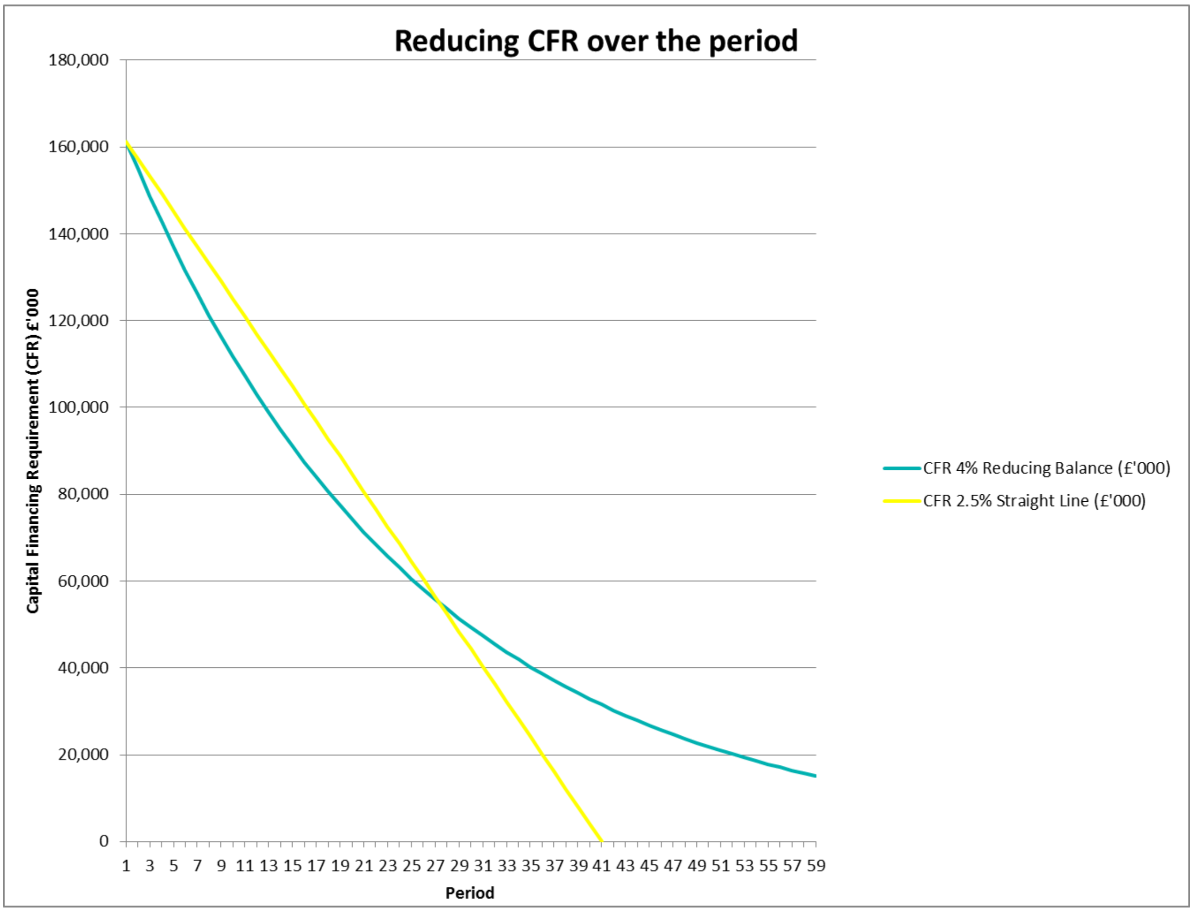
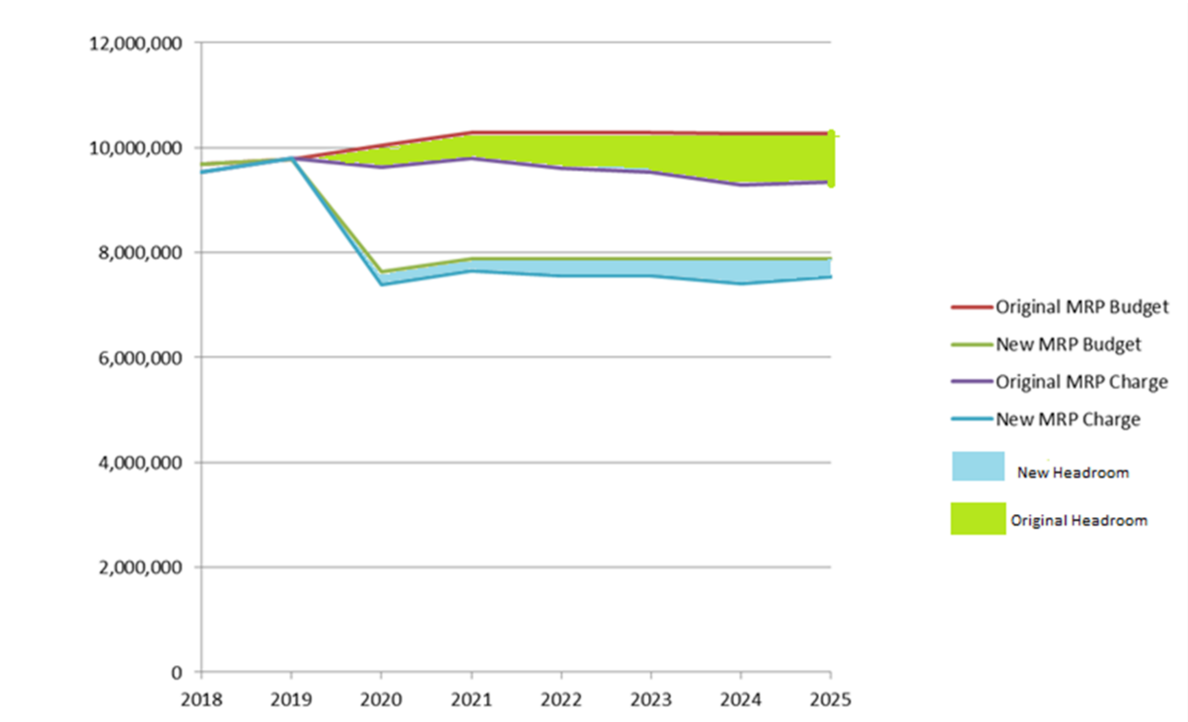


Chart 2



The difference in the shaded area between the current MRP policy and the proposed policy is reduced "headroom" which relays to capital expenditure of c£10m over the programme to 2023/24.

Report

Audit Committee

Part 1

Date: 30 November 2017

Subject **Lessons Learned – 2016/17 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 2016/17 accounts closedown. It gives an assessment on the findings of the lessons learned review and the plans in place to implement for 2017/18 and the key risks to the closedown process for 2017/18.

Author Assistant Head of Finance

Ward General

Summary Following the closedown of the 2016/17 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 2016/17 accounts, this review is of high importance to ensure improvements are delivered for 2017/18.

While there was a number of positives that came out of the closedown process in 2016/17 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 2017/18 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 much improved closedown process in 2015/16, the 2016/17 year end saw further improvements again and a number of the actions from the lessons learned reported to Audit Committee in November 2017 were implemented.

This saw a number of overall improvements implemented which included:

- Completion of both the single entity and group accounts by June 10th
- Draft accounts came to Audit committee on the 26th June signed by the Head of Finance
- Finance accounts and ISA260 went out for briefing early September which was earlier than in 2015/16.
- Further improvements made to working papers provided to Wales Audit Office and in a more timely manner
- Number of audit issues on the audit matrix log and ISA260 were also reduced from 2015/16

2016/17 also saw the introduction of reporting the CI&E on a management accounts basis (as reported to Cabinet), rather than on a Service Reporting Code of Practice (SeRCOP) basis, as part of the 'telling the story' approach that CIPFA has now adopted. This was also included a new statement called the Expenditure and Funding Analysis, as well as updates of the document and notes to the accounts which also included comparative prior year figures. This exercise was completed prior to year-end and allowed WAO to audit the comparative year before the end of the 2016/17 financial year.

While there was significant progress made again within 2016/17 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 meeting has already taken 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 2017/18 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

2017/18 year end accounts. Some of the key themes that have come from the initial review are as follows:

- A number of the notes and tasks were completed earlier in the closedown process/during the financial year, such as finance leases, depreciation and landfill provision as well as income and expenditure testing for the first 9 months of the year.
- Grant income coding has further improved for both the Statement of Accounts and Whole of Government Accounts
- Improvement still needs to be made to processes for internal recharges ensuring consistency across the team
- Continued improvement of working papers
- Weekly meetings with External Auditors meant that there was good, open engagement from both sides. Issues were raised early which enabled review and discussion with Key Finance staff.
- 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 continue 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 where applicable.

Key Risks

There are also a number of key risk 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. Continued early review of provisions, leases and PPE valuations
II. Notes/accounts that can be reviewed by WAO prior to year end
III. Internal recharges and income
IV. QA undertaken by Members as part of the draft and final accounts timetable

I. <u>Review of provisions and leases</u>

A review of the landcapping and aftercare provision was undertaken by appropriate officers of the council during early 2017 to enable WAO to review early prior to the end of the year. Building on the work that was completed early, the same work and early review is planned for early 2018. All other provisions and lease reviews will also be completed within the same timescales.

II. <u>Notes/accounts that can be reviewed by WAO prior to year end</u>

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. Some discussion has already happened but a timescale for these will need to be formalised.

III. <u>Internal Recharges</u>

2016/17 saw the introduction of a new note, the Income and Expenditure Analysis. This note identified that a number of internal recharges were being coded, and therefore classified as external income. An income review has already commenced and another training session will be given at the next Accountancy development day to ensure consistency across the teams.

IV. <u>QA undertaken by Members as part of the draft and final accounts timetable</u>

Members' involvement as part of the QA done during both the draft and final statement of accounts would ensure that the number of audit queries raised at audit committee would be minimal. This will also help with early closure of the 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

October 2017	Carry out lessons learned review with relevant officers on accounts closedown 2015/16 – **Completed**
November 2017	Meeting with Wales Audit Office to agree lessons learned and action plan - **completed**
November - December 2016	Review of Oracle system to review coding structure and balances on accounts. Update word document and excel tables in preparation for 2016/17. Review of income and ensure that internal recharges are being dealt with correctly and consistently.
Early December 2017	First "closing" meeting set up with relevant officers to discuss lessons learned log, assign responsibilities, and discuss closing timetable.
December 2017 – January 2018	Provisions, leases and PPE valuations reviewed. Highways Network Asset systems reviewed by internal audit.
Early February 2018	**FINAL** timetable and memo to be agreed with responsible officers and HoF
January 2018	Review deliverables document with WAO with WAO undertaking early review of relevant notes where agreed.
February 2018	Final timetable and memo sent out to appropriate officers
February/March 2018	Completion of earlier closedown tasks to take pressure off closedown periods
3rd week April 2018	**ALL** transactions relating to Outturn to have been completed
4th week April 2018	All "technical" transactions to be complete
Continuous	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.
Throughout May	Put financial statements together as per agreed timetable.
Third week May	Completed draft SOA ready for QA and review QA undertaken by members
Last week of May	Approval of SOA by HoF – dates of Audit Committee to be confirmed

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?
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

There are no specific legal issues arising from the Report. Under the Public Audit (Wales) Act and the Accounts and Audit Regulations, the Council is required to prepare their draft statement of accounts for the previous financial year by 30th June and publish the final statement of Accounts by 30th September. The closure of the accounts for 16/17 was completed earlier than previous years as a result of lessons learned and improvements identified and were certified as a true record by the WAO in accordance with the CIPFA Code of Practice. This Report sets out further lessons and recommended improvements for the 17/18 accounts closure and financial statements process, for approval by Audit Committee.

Comments of Head of People and Business Change

There are no HR or People and Business Change related matters arising directly from this 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

The report is mindful of the Act, especially in terms of the principles of transparency. The report sets outs the development made to date in the Authority's year end work and the particularly how we can continue making progress and securing financial resilience and managing risk.

Crime and Disorder Act 1998

N/A

Consultation

N/A

Background Papers

Statement of Accounts 2016/17 - available to public.
ISA 260 Audit of Financial Statements 2016/17 – available to public

Dated: 11/11/2017

WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Final Accounts Memorandum 2016-17 **Newport City Council and Newport City Council Group**

Audit year: 2016-17

Date issued: November 2017

Document reference: **503A2017**

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 2016-17 financial statements and Whole of Government Accounts return.

Appendix 1 contains recommendations to Newport City Council's management.
Appendix 2 summarises our performance against agreed measures.

Summary report

Introduction

1 The financial statements are an essential means by which Newport City Council (the Council) and Newport City Council Group (the Group) account for their stewardship of the resources at their disposal and their 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 and the Group. 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 2016-17 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 2016-17 financial statements of Newport City Council and Newport City Council Group

7 On 28 September 2017, the Auditor General issued an unqualified auditor's report on the financial statements of the Council and the Group.

8 We received an approved draft Statement of Accounts prior to 30 June 2017. This was in line with the requirements of the Accounts and Audit (Wales) Regulations 2014. There have been further improvements in the quality of the draft financial statements and the information available to support them. However, there remain some improvements to be made, the more significant of which 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 25 September 2017. 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 was one unadjusted misstatement. The Newport Transport Ltd bus depot was held in the Group accounts at a value £376,000 lower than that provided by an external valuer.
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 further improvement in the working papers provided to support the financial statements. We have worked with management to review more significant or complex account areas earlier in the audit process.
Matters specifically required by other auditing standards to be communicated to those charged with governance	There were 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	There were no other relevant matters of governance interest to be reported.

10 Recommendations arising from our audit of the financial statements are set out in Appendix 1.

We identified some issues with Newport City Council's Whole of Government Accounts return for 2016-17

11 Our 2015-16 Final Accounts Memorandum raised recommendations in respect of the WGA return, including:

- the Management Review Checklist should be completed to assist with the preparation of the return; and
- supporting working papers should be provided at the same time as the return is provided for audit.

12 Working papers were provided at the start of the 2016-17 audit, and were of a higher standard than those provided for the prior year. However, a number of amendments were still required to the WGA return this year.

13 Management did not complete the mandatory Management Review Checklist. This checklist asks management to perform a quality assurance review over the WGA return. It notes that: '*Auditors have been advised not to start their audit until they receive a properly completed management review checklist'.* At the request of the audit team, the checklist was completed and signed by management on 4 October 2017, after submission of the unaudited return.

14 Recommendations arising from our WGA audit are set out in Appendix 1.

Appendix 1

Recommendations from our 2016-17 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:

Exhibit 2: Recommendation 1

Recommendation 1 – initial review of draft accounts	
Findings	In our 'audit of financial statements' report for 2016-17, we noted that management have continued to improve the quality of accounts and working papers provided for audit. Despite these improvements, our audit did identify some errors in the 2016-17 draft accounts such as casting errors and incorrect note tables. In addition, we identified a number of significant year-on-year movements on balances and transactions which were not accompanied by explanations when the draft accounts were receipted for audit. The Audit Committee also identified some narrative and presentational issues at its meeting on 25 September. An effective quality assurance review by management should identify and clear such errors before approval of the draft accounts. A high-level analytical review (comparing balances and transactions from year to year) would also identify significant movements which could result in potential misstatements within the financial statements. The above issues did not affect the successful delivery of the audited accounts in 2016-17. However, as deadlines for the approval and audit of financial statements become tighter in future years, such errors could impact on future delivery.
Priority	Medium
Recommendation	We recommend that management review and formalise their quality assurance and analytical review processes, to ensure that they identify any such errors within the draft accounts. Elimination of these errors will become more important as the Council moves towards faster closing of its financial statements. If such errors are not cleared, they could delay the audit process.
Accepted in full by management	Yes

Recommendation 1 – initial review of draft accounts	
Management response	As the Council moves towards faster closing, we will need to continue to build in checks and balances to aid cross-casting issues as they arise. We also built a QA into the timetable, which needs to be adhered to. Due to the size and complexity of the document and the tight timescales in which they are completed, there will inevitably be some narrative and presentational issues that are not fully picked up via a QA session. We do ask for responses from members and others on any errors they spot prior to submission of the draft accounts, as this provides another level of QA.
Implementation date	May 2018

Exhibit 3: Recommendation 2

Recommendation 2 – documentation of exit package approvals	
Findings	Our audit identified one exit package that required separate disclosure in Note 30 of the financial statements (officer remuneration). As part of our audit work we reviewed this exit package to ensure that it was appropriately disclosed in the financial statements and the decision supporting the exit package was approved at an appropriate level. Our review confirmed that: • appropriate approval procedures were in place supporting the exit payment; and • the amount relating to the exit payment was correctly disclosed in the final 2016-17 financial statements. Notwithstanding the above, our review identified that this exit package was not supported by a formal business case. Management explained that this is because this related to a negotiated settlement, as opposed to an offer of redundancy or early retirement.
Priority	Medium
Recommendation	All future exit packages need to be supported by a formal business case. The business case should document the rationale for the decision coupled with any legal advice obtained to support the decision. It should also detail the ‘value for money’ basis for providing the exit package.
Accepted in full by management	Yes
Management response	Future exit packages will be subject to a formal business case process, including consideration of value for money as part of any decision.

Recommendation 2 – documentation of exit package approvals	
Implementation date	Immediate

Exhibit 4: Recommendation 3

Recommendation 3 – assets coming into operational use	
Findings	Our audit identified three separate assets classified as assets under construction (AUC) in note 14 of the draft accounts, despite being brought into operational use during the year. Two of these assets (both relating to landfill sites) were revalued by Newport Norse during the audit. They were initially held at cost within AUC at a combined value of £4.9 million but have now been transferred to 'other land and buildings' (OLB) within the final accounts at a final value of £1. As these assets relate to landfill sites, it is reasonable for them to have such a low value. The third asset (relating to a public space) remains in AUC in the final accounts at a cost value of £1.3 million, as a valuation report had not been received for the asset before 30 September. In line with the Council's accounting policy, assets must be revalued before they are transferred out of AUC. Our audit testing confirmed that the correct accounting treatment has been applied to these three assets in the final accounts.
Priority	Medium
Recommendation	We recommend that in future years, the Council review all AUC at year-end, to ensure that there are no assets classified as AUC that have in fact been brought into operational use. Such a review will assist management in confirming that the classification of property, plant and equipment in the financial statements is appropriate.
Accepted in full by management	Yes
Management response	We will work with Newport Norse to ensure the correct classification of assets in line with the policy.
Implementation date	March 2018

Exhibit 5: Recommendation 4

Recommendation 4 – Whole of Government Accounts (WGA)	
Findings	Our 2015-16 final accounts memorandum raised a recommendation that the Management Review Checklist is completed to assist with the preparation of the WGA return, as this assists management in performing an effective quality assurance review over the return. The checklist should be completed before the unaudited return is submitted to the Welsh Government. It also notes that: '*Auditors have been advised not to start their audit until they receive a properly completed management review checklist*'. Management did not complete the 2016-17 checklist before submission of the unaudited WGA return. At the request of the audit team, the checklist was completed and signed by management on 4 October 2017.
Priority	Low
Recommendation	We recommend that in future years, the Management Review Checklist is completed before the unaudited WGA return is submitted to the Welsh Government. This checklist will assist management in performing an effective quality assurance review over the return.
Accepted in full by management	Yes
Management response	A checklist will be completed prior to submission.
Implementation date	July 2018

Appendix 2

Wales Audit Office performance measures

We agreed a range of targets for the delivery of our work as set out in our 2017 Audit Plan. I have summarised our performance against these targets below.

Exhibit 6 – Performance measures

Planned output	Target	Outcome
Audit of the Financial Statements Report	September 2017	Presented to Audit Committee on 25 September 2017
Opinion on Financial Statements	September 2017	Audit Opinion signed on 28 September 2017
Final Accounts Memorandum	November 2017	Presented to Audit Committee on 30 November 2017

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Report

Audit Committee

Part 1

Date: 30 November 2017

Subject **Internal Audit – Progress against audit plan 2017/18 Quarter 2**

Purpose To inform Members of the Council's Audit Committee of the Internal Audit Section's progress against the 2017/18 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 2017/18 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 8 audit staff. At the start of the year there were 7 audit staff with 1 vacancy in the team. One Auditor left and one Auditor was appointed and started in the team during quarter 1. The remaining vacant post was recently filled and the Auditor started in October.

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.

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 S 151 Officers of local authorities in Wales. Newport's peer review will take place before April 2018.

8. The 2017/18 Audit Plan was agreed by the Audit Committee on 30th May 2017.

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 have been no unplanned reviews.

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 2017/18 has been compared to the same period of the previous year (shown in brackets). The figures (**Appendix A**) are cumulative and show that:

    a. 35% (35%) 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 30%;

    b. The promptness of issue of draft report (comparing timescale between finalising all fieldwork and issuing the draft report to management) averages at 13 days which is above 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 6 days (1 day) which is above 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. 16 (40) days have been spent finalising 14 (18) 2016/17 audit reviews; all of which have now 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, 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.

16. From time to time the team does get involved with non-planned audit work which often results in special investigations. The team has been involved with one such issue for a number of months relating to an allegation of a senior manager colluding with a contractor; this matter has subsequently been referred to the police.

Quality Control

17. 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. Generally, there has been positive feedback 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

18. 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, quarterly, 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.

19. The training programmes will continue throughout the year; 4 sessions have been delivered up to the end of Q2 to 73 delegates.

Audit Opinions 2017/18

20. Audit opinions issued so far in 2017/18 are shown at **Appendix B.** Definition of audit opinions currently given is shown at **Appendix D**.

21. 13 jobs completed to at least draft report stage by 30 September 2017 warranted an audit opinion: 4 x *Good*; 7 x *Reasonable, 2 x Unsatisfactory and no Unsounds.* 3 grant claims were undertaken during Q2; opinions on both were *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, provision of financial advice and external clients (**Appendix C**).

22. 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

23. 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.

24. 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

25. 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

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

Risks

27.

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

28. 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

29. 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.

30. 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

31. N/A

Comments of Chief Financial Officer

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

Comments of Monitoring Officer

33. 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

34. There are no specific HR issues arising as a result of the report. 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

35. N/A

Local issues

36. N/A

Consultation

37. N/A

Background Papers

38. N/A

Appendix A **Newport City Council** **Internal Audit Service** **Performance Indicators**

2016/17	2016/17 Target	1st Qtr 16/17	2nd Qtr 16/17	3rd Qtr 16/17	4th Qtr 16/17	Comments
Proportion of planned audits complete	77%	16%	35%	50%	89%	[Profiled Target 30%]
Proportion of planned audits complete within estimated days	65%	N/A	90%	74%	72%	Cumulative figures
Directly chargeable time against total time available	50%	52%	54%	57%	60%	Quarterly performance
Directly chargeable time against planned	84%	62%	66%	72%	83%	Quarterly performance
Proportion of Special Reviews responded to within 5 working days	100%	N/A	N/A	100%	100%	Cumulative figures
Number of sessions provided to train staff in all Service Areas on best financial practice	11	0	6	7	9	Cumulative figures
Staff turnover rate (number of staff)	1	0	0	0	0	Quarterly performance
Promptness of draft report issue (end of fieldwork to draft report issue date)	10 days	1 days	9 days	14 days	13 days	Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	4.5 days	3.5 days	3 days	3 days	Cumulative figures

2017/18	2017/18 Target	1st Qtr 17/18	2nd Qtr 17/18	3rd Qtr 17/18	4th Qtr 17/18	Comments
Proportion of planned audits complete	80%	21%	35%			[Profiled Target 30%]
Proportion of planned audits complete within estimated days	65%	N/A	50%			Cumulative figures
Directly chargeable time against total time available	50%	52%	63%			Quarterly performance
Directly chargeable time against planned	84%	62%	92%			Quarterly performance
Proportion of Special Reviews responded to within 5 working days	100%	N/A	100%			Cumulative figures
Number of sessions provided to train staff in all Service Areas on best financial practice	11	2	4			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	4 days	13 days			Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	8 days	6days			Cumulative figures

Appendix B
Opinions as at 30 September 2017, Qtr 2

Good	4
Reasonable	7
Unsatisfactory	2
Unsound	
Total	13

Internal Audit Services - Management Information for 2017/18 Q2

Job number	Group	Service Area	Section or Team	Job Title	Risk Rating / Priority	Opinion given
P1718-4	CE	Finance	Accountancy	Treasury Management 2016/17	Medium	Good
P1718-46	People	Education Serv	Primary Schools	Clytha Primary	Medium	Good
P1718-49	People	Education Serv	Primary Schools	St David's RC Primary	Medium	Good
P1718-59	People	Education Serv	Engagement & Learning	Gwent Education Minority-Ethnic Service	Medium	Good
P1718-1	CE	Finance	Accountancy	Social Services Financial Assessment & Charging	High	Reasonable
P1718-32	People	Adult & Comm Serv	Care & Support Services	Brynglas Day Opportunities 2016/17	Medium	Reasonable
P1718-45	People	Education Serv	Primary Schools	Alway Primary 2016/17	Medium	Reasonable
P1718-58	People	Education Serv	Improvement & Inclusion	Education Welfare Service 2016/17	Medium	Reasonable
P1718-64	Place	RI&H	Economic Regeneration & Policy	Vibrant & Viable Places Programme 2016/17	High	Reasonable
P1718-68	Place	RI&H	Housing Renewals / Improvements	Disabled Facilities Grants 2016/17	High	Reasonable
P1718-74	Place	Streetscene & City Serv	Operational Areas	Parking Services	High	Reasonable
P1718-53	People	Education Serv	Secondary Schools	Llanwern High	Medium	Unsatisfactory
P1718-77	Place	Streetscene & City Serv	Green Services	Cemeteries	Medium	Unsatisfactory
P1718-30	People	Adult & Comm Serv	Service Development & Commissioning	Supporting People Programme Grant (SPPG) Certification	N/A	Unqualified

Job number	Group	Service Area	Section or Team	Job Title	Risk Rating / Priority	Opinion given
P1718-39	Place	Law & Regulation	Trading Standards	Scambusters Grant Claim 2016/17	Medium	Unqualified
P1718-76	Place	Streetscene & City Serv	Passenger Transport Unit	Bus Services Support Grant 2016/17	Medium	Qualified

Appendix C

Non Opinion work 2017/18 Q2

Job number	Group	Service Area	Section or Team	Job Title	Opinion given
P1718-9	CE	Finance	General	Annual Governance Statement	Not applicable
P1718-11	CE	Finance	General	National Fraud Initiative (NFI)	Not applicable
P1718-12	CE	Finance	General	Financial Advice	Not applicable
P1718-20	CE	People & Bus Change	General	Financial Advice	Not applicable
P1718-21	CE	People & Bus Change	General	Financial Regulations Training	Not applicable
P1718-26	People	Children & Young People Serv	General	Financial Advice	Not applicable
P1718-33	People	Adult & Comm Serv	General	Financial Advice	Not applicable
P1718-40	Place	Law & Regulation	General	Financial Advice	Not applicable
P1718-60	People	Education Serv	Schools	Financial Regulations Training	Not applicable
P1718-61	People	Education Serv	General	Financial Advice	Not applicable
P1718-71	Place	RI&H	General	Financial Advice	Not applicable
P1718-80	Place	Streetscene & City Serv	General	Financial Advice	Not applicable
P1718-82	External	Ext Audits	WCAG Training Co-ordinator	WCAG Training Co-ordinator	Not applicable

Appendix D

INTERNAL AUDIT SERVICES – OPINIONS

➡	**GOOD**	**Well controlled with no critical risks identified which require addressing; substantial level of assurance.**	**Green**
	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	The Financial Statement is free from material misstatement and presents fairly the activities of the organisation. The terms and conditions of the grant funding have been complied with.
Qualified	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. The terms and conditions of the grant funding have not been fully complied with.

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Report

Audit Committee

Part 1

Date: 30 November 2017

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 is required.**

Action by Audit Committee

Timetable Immediate

This report was prepared after consultation with:

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

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.

25 January 2018

Internal Audit Plan – Progress (Quarter 3)
Treasury Management Report
Corporate Risk Register (Considered by Cabinet in Jan)
Regulatory Reports Summary (6 monthly report)
Internal Audit Unsatisfactory Audit Opinions (6 monthly report)
Anti - Fraud, Bribery and Corruption Policy Statement
Referrals to Audit Committee

29 March 2018

Annual Audit outline for the 2017/18 Financial Audit
WAO Annual Report on Grants Works 2016-17
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 3, October to December)
Annual Governance Statement (draft statement)
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)

30 May 2017
Appointment of Chairperson
Internal Audit Annual Report 2016/17
Internal Audit Annual Plan 2017/18
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 4, Jan to March)
Treasury Management Year End Report 2016/17
Corporate Risk Register Update (considered by Cabinet in April)
Regulatory Reports
Audit Committee Self Evaluation Exercise
Referrals to Audit Committee

26 June 2017
Internal Audit Unsatisfactory Audit Opinions (6 monthly report)
Annual Governance Statement
Draft Financial Accounts 2016/17
Referrals to Audit Committee

25 September 2017
Internal Audit Plan 2017/18 – Progress (Quarter 1)
Statement of Accounts 2016-17
Audit of Financial Statements Report 2016-17
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)
Referrals to Audit Committee

30 November 2017
Internal Audit Plan 2017/18 – Progress (Quarter 2)
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 2, July to September)
Financial Accounts Memorandum 2016-17
Treasury Management Report (April to September)
Lessons Learned 2016/17
Report on Audit Committee Self Evaluation Exercise
Referrals to Audit Committee

25 January 2018
Internal Audit Plan – Progress (Quarter 3)
Treasury Management Report
Corporate Risk Register (Considered by Cabinet in Jan)
Regulatory Reports Summary (6 monthly report)
Internal Audit Unsatisfactory Audit Opinions (6 monthly report)
Anti - Fraud, Bribery and Corruption Policy Statement
Referrals to Audit Committee

29 March 2018
Annual Audit outline for the 2017/18 Financial Audit
WAO Annual Report on Grants Works 2016-17
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 3, October to December)
Annual Governance Statement (draft statement)
Member Development Self Evaluation Exercise
Referrals to Audit Committee

Unallocated work
Treasury Management Training – All Member Seminar was held on Wed, 11 October 2017 4-6pm
Issues Outstanding – Member Development Self Evaluation Exercise