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Agenda

Audit Committee

Date: Thursday, 24 January 2019

Time: 5.00 pm

Venue: Committee Room 1 – Civic Centre

To: Mr J Baker (Chair), Councillors D Davies, J Guy, J Jordan, L Lacey, H Thomas, K Thomas, H Townsend, R White, and D Williams

Item

1 Agenda yn Gymraeg / Agenda in Welsh *(Pages 3 - 4)*

2 Apologies for Absence

3 Declarations of Interest

4 Minutes of the Meeting held on 22 November 2018 *(Pages 5 - 14)*

5 Treasury Management Strategy 2019/20 *(Pages 15 - 62)*

6 Internal Audit Plan - Progress (Quarter 3) *(Pages 63 - 76)*

7 Internal Audit Unsatisfactory Audit Opinions (6 monthly report) *(Pages 77 - 88)*

8 Work Programme *(Pages 89 - 94)*

9 Date of Next Meeting - 28 March 2019

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Date of Issue: 17 January 2019

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Agenda

Pwyllgor Archwilio

Dyddiad:	Dydd Iau, 24 Ionawr 2019
Amser:	5 y.p.
Lleoliad:	Ystafell Bwyllgora, Canolfan Dinesig
At:	Mr J Baker (Cadeirydd), Y Cynghorwyr: D Davies, J Guy, J Jordan, L Lacey, H Thomas, K Thomas, H Townsend R White a D Williams

Eitem

Rhan 1

1. Agenda yn Gymraeg
2. Ymddiheuriadau am absenoldeb
3. Datganiadau o fuddiant
4. Cofnodion y cyfarfod a gynhaliwyd ar 22 Tachwedd 2018
5. Adroddiad Rheoli Trysorlys 2019/20
6. Cynllun Archwilio Mewnol Cynnydd (Chwarter 3)
7. Archwilio Mewnol-Barn Archwilio Anfoddhaol (adroddiad 6 mis)
8. Rhaglen Waith
9. Dyddiad y cyfarfod nesaf – 28 Mawrth 2019

Person cyswllt: Michèle Chesterman, Governance Officer
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Dyddiad cyhoeddi: 17 Ionawr 2019

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Minutes

Audit Committee

Date:	22 November 2018
Time:	5.00 pm
Present:	Mr J Baker (Chair) Councillors D Davies, J Guy, J Jordan, H Thomas, K Thomas and R White
In attendance	Robert Squance (Audit Manager), Owen James (Assistant Head of Finance - Technical and Development), Sue O'Brian (Families First Progarmme Manager), Tracy McKim (Partnership Policy & Involvement Manager), Paul Flint (Performance and Research Business Partner), Ben Hanks (Housing & Assets Manager) and Michele Chesterman (Governance Officer)
Apologies:	Councillors H Townsend

1 **Declarations of Interest**

There were none.

2 **Minutes of the Meeting held on 20 September 2018**

The minutes of the meeting held on 20 September 2018 were submitted.

Item 4 – Audit and Adoption of the 2017-18 Statement of Accounts (page 9)

Should read 'sign a letter of representation' not 'recommendation'

Item 5 – Call in Head of Service to respond to Unsatisfactory Audit Opinions within Streetscene (page 10)

The Governance Officer to follow up response from Service Manager, Waste & Cleansing (SGL) regarding an action to email a report of responses, to Audit actions, to Democratic Services for circulation to Audit Committee.

Agreed:

To confirm the minutes of the meeting held on 22 November 2018

3 **Corporate Risk Register**

Members considered an updated version of the Corporate Risk Register. At the end of Quarter 2 there were 14 risks identified in the risk register made up of 5 high risks and 9 medium risks. At the end of this quarter Risk 14 (Recruitment of specialist staff) was closed, the risk rating for Risk 6 (Medium Term Budget) increased from 16 to 20 due to budget pressures and Risk 2 (Capacity & Capability) reduced from 12 to 9 following the implementation of the Talent Management Framework and Management in Action course. All remaining 11 risk ratings remained the same in the last quarter.

At the end of the next quarter there would be a re-evaluation of all risks including the risks and mitigations relating to Brexit and a new risk relating to the city centre security and safety.

Risk 6 (Balancing of the Council's Medium Term Budget) – It was recognised by the Council that there are still significant challenges in balancing the 2019/20 budget and delivering the medium term plan because of ongoing demand pressures, pay awards and funding challenges. As a result of these challenges the impact of this risk has been increased to reflect the importance of setting a balanced budget.

Risk 14 – (Recruitment & Retention of Specialist Staff) – this risk had been closed because of the completion of the two mitigating actions assigned to the risk. It was also recognised that Risk 2 (Capacity & Capability to meet Council's objectives) was also managing aspects in relation to workforce planning, succession planning and the Council's Talent Management Framework.

Risk 2 (Capacity and Capability to meet the Council's Objectives) – During quarter 2, the Council launched two key programmes: Talent Management Framework and the Management in Action Course for all 350 managers. Both of these would enable the Council to provide its existing and future managers with the capability to deliver its objectives. As a result of this work it was agreed to reduce the risk score from 12 to 9.
Risk 4 (Brexit) – the Council had been in discussions with the WLGA and was also in the process of undertaking detailed exercise to identify any gaps across the organisation, which could be directly or indirectly affected by Brexit over the next 5 years. The outcome(s) of this work would enable the Council to reassess the risk and continue to put in place the necessary mitigation actions, which would be reported at the quarter 3 update.

Discussions included the following:-

Risk 4 (Brexit) - The Audit Committee discussed the activity undertaken by the Council's Corporate Management Team in managing this risk. The Committee would like to inform Cabinet Members that the risk had been identified but it was not known the totality of its impact in relation to the different Brexit scenarios and that senior management should be aware of that at the end of quarter two.

Risk 7 (Increased pressure on Demand Led Services) – The Committee noted that the management updates on the progress against the mitigating actions had not fully demonstrated the partnership / collaborative working that takes place between the Council, Health bodies and third sector organisations. This was exemplified in by the Older Persons Pathway (Risk 7.06) not demonstrating the work being undertaken between GP surgeries, and other organisations to reduce the demand on Health and Social Care:

· **Risk 13 (Asset Management: Carriageways and Buildings)** - The Committee discussed the rationale for the risk score of 25 and why this risk has stayed at the same score for the last 9 months and whether the mitigating actions identified in the risk register were effective in reducing risk for the Council. The Committee acknowledged the rationale for the scoring was a reflection on the cost to maintain the highway assets and council buildings and that there is a significant shortfall in the Council's revenue and capital budgets to meet these demands. The Committee also challenged why Highways assets and Council buildings were combined into one risk.

Agreed

Risk 4 (Brexit):

- o There should be more visibility at a higher level bringing together the knowledge and information from individual service areas;
- o There should be more reflection on the Partnership working being undertaken to address the Brexit Risk; and
- o The Brexit risk in the Corporate Risk Register should be re-examined and provide a more comprehensive overview of the mitigating activity being undertaken across the Council to address the risk.

Risk 7: (Increased pressure on Demand Led Services)

That Risk Owners and Action Owners consider the collaborative working being undertaken between the Council and its partners to help reduce the risk on the Council in delivering services.

Risk 13: (Asset Management: Carriageways and Buildings)
:

- o That Cabinet should take action to raise these concerns with the Welsh Government over the funding levels to maintain Council assets;
- o Senior Management re-evaluate this risk and determine whether the risk effectively covers both risk areas relating to highways / building assets and if mitigating actions are sufficient to address the risk;
- o That if the risk cannot be mitigated that the annual governance statement and accounts reflect this risk on the Council.

4 **Treasury Management Report (April - September)**

Members considered a report on treasury activities undertaken during the period to 30 September 2018 and confirmed that all treasury and prudential indicators had been adhered to in the first half of the financial year.

The Council continued to both a short term investor of cash and borrower to manage day-to-day cash flows. Current forecasts indicated that in the future, temporary borrowing would continue to be required to fund normal day to day cash flow activities. All borrowing and investments undertaken during the first half of the year was expected and within the Council's agreed limits.

As shown in Appendix B, during the first half of the year the amount of borrowing had reduced by a small amount of £0.7m to £146.8 m. This related to loans which had been taken out on an interest and principal repayment basis.

No further long term loans had been taken out in the first half of the financial year. However, it was anticipated that the Council would 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 was not expected that any additional long-term borrowing would be required in this financial year. However, the £40m stock issue was maturing on 10 April 2019, therefore it was deemed beneficial to do so with advice from the Council's external advisors that borrowing would be taken out early if the cost of carry was favourable.

Appendix B summarised the Council's debt position as at 30 September 2018. The changes in debt outstanding related to the raising and repaying of temporary loans.
With regards Investments Activity/Position the Council's strategies were (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.

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

The Authority had complied with the Prudential Indicators for 2018/19, set in March 2018 as part of the Treasury Management Strategy. Details of the treasury-related Prudential Indicators were found in Appendix B (Tables 5 and 6). The economic outcomes such as Brexit had been touched upon in the report. There would be more discussion around the risk in connection with Brexit in the Budget Strategy Report in December 2018 and the Treasury Management Report in January 2019. Finance would welcome any comments which would be taken to Cabinet before going to Council.

Comments from Members included:

- Page 90 Appendix B, Table 2 – the net borrowing figures in Tables 1 and 2 appeared to be different – The Assistant Head of Finance responded that Table 1 included cash and cash equivalents and was based purely on capital borrowing for capital purchases. Table 2, however, included everything. The true net borrowing figure was £123.3m. It was suggested that this be clarified in the tables.
- Page 92 Table 6 – (Debt Limits) – On 30.9.18 the operational boundary total debt was £192m. What was the Council's preferred debt level? – The Assistant Head of Finance responded that the debt level was at the minimum level – a mix of capital expenditure and borrowing. The Council was borrowing to a minimum to deliver the capital programme. The operational boundary was based on the estimate for capital expenditure to the end of the year. It was inevitable that the Council would undertake more borrowing and in the future there would be an increase in the pressure of borrowing. The Capital Strategy would soon be produced which would address borrowing over the longer term. The issues the Council would be concerned about in terms of borrowing were whether it was prudent, affordable in the current climate and over a longer term (20/30 years) and ratios around debt and expenditure. It was currently 6% excluding PFI 9%.
- The Council has one of the highest reserves in Wales. How much of the reserves was identified to be used as spend? - The Assistant Head of Finance responded that there was very little that was not earmarked for specific purposes. The reasons for the high reserve was PFI. There was £45m in reserves to fund PFI in the future. If the reserves were utilised for anything now it would put a pressure on future generations. There were a number of invest to save reserve and general reserves (£6.5m). Invest to save reserve was in place to facilitate cost savings in the future. To fund budgets from reserves was not prudent.
- The PFI was £45m total. Why was it not possible to pay that off? - The Council had engaged Treasury Management Advisers to assess whether it was cost effective to do that. Because of the interest rate on the contract the premium was so significant that it would be costly to do so.
- What impact would the stock issue release in 2019 have? – The Assistant Head of Finance noted that a decision could be made to go out of the operational boundary earlier if the interest rate rose but the advice from Treasury Management was that the interest rate was not going up. A number of Local Authorities in England had used reserves to fund budgets and were now finding themselves in difficulties. The Capital Strategy would address those issues.

Agreed:

To note the report on Treasury Management activities for the period to 30 September 2018

5 **Lessons Learned 2017/18**

Members considered a report presenting the findings of an initial lessons learned review carried out by Finance officers following the 2017/18 accounts closedown. It gave an assessment on the findings of the lessons learned review and the plans in place to implement for 2018/19 and the key risks to the closedown process for 2018/19. A meeting had already taken place with Wales Audit Office (WAO) to discuss what needed to be put in place to meet the earlier closing deadline and which areas of the accounts could be audited early.

The Assistant Head of Finance informed Members that the lessons learned process was carried out annually after the statement of accounts. This year there was greater importance due to the closing timetable coming forwards for draft accounts and audit for final accounts.

Whilst there was significant progress made again within 2017/18 there were still a number of improvements that needed to be made to ensure a better process and completion of accounts by an earlier closing deadline in the near future.
2018/19 year end would be the first year where the final date on which the accounts must be signed and published would be brought forward from 30 June to 15 June with an audited statement completed 15 September.

Early discussions had taken place with Wales Audit Office, and a meeting had already taken place to discuss lessons learned with Finance Officers, as well as discussing work that could be undertaken early by both the Accountancy Teams and WAO to ensure that the revised deadline could be met.

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

The process for challenge and improvement for 2017/18 accounts closedown and financial statements had already begun. Classification and coding of expenditure and income needed to be improved. Also improving the process in terms of efficiency in terms of the working audit with what can be done earlier. It built on what had been done in the last two years with Audit. The aim being to build on improvements each year. The early work on provisions had gone well and a couple of capital items, disposals had been dealt with early. A timetable had been drawn up in terms of what needed to be done.

A review of certain provisions such as accumulated absence was undertaken by finance staff during early 2018 to enable WAO to review early prior to the end of the year. Building on the work that was completed early, the same work was planned for early 2019. All other provisions and lease reviews would be completed within the same timescales.

This review would be especially important in regards to leases due to the new IFRS 16 standard which replaced the earlier leasing standard IAS 17. Whilst the new standard did not come into force until the 2019/20 financial year, IFRS 16 could lead to major changes in the way local authorities accounted for assets used under lease arrangements and the obligations under those leases. Early review of leases would not only be important for 2018/19 year end, but would provide a solid foundation for the change to the new standard in 2019/20.

Comments made included:-

- The document could benefit from the sorts of questions that Audit Committee would ask.
- The style of narrative and quality of writing was not as good as it could be with a lot of tables.
- It was noted that last year's working paper was not the same as the published document.
- Given that the Audit Committee was being asked to sign off assessed on the style of the document and how well it looked with regards the quality of the review, the review of Draft 1 in June and the final accounts and Audit Committee picked up on a number of spelling and grammatical errors. This raised questions in relation to the review process of the document.
- In the timetable there was no mention of the Annual Governance Statement.

Agreed:

To note the lessons learned process that had been carried out to date.

6 **Wales Audit Office - Final Accounts Memorandum**

Members considered the Wales Audit Office – Final Accounts Memorandum. The report followed on from the Audit of Financial Statements which was presented at the last meeting raising some of the less critical issues arising from the Audit.

The Auditor General had issued an unqualified opinion on the 2017-18 financial statements of Newport City Council and Newport City Council Group and pages 4 and 5 contained a summary of the report. Appendix 1 to 3 contained the main recommendations, all of which had been accepted by management. It followed the same theme as the Lessons Learned document. The group accounts and working papers had been completed in good time and looking ahead to an adjusted misstatement. In terms of coding of expenditure items in the accounts service areas the correct procedure was being followed and was correctly represented in the financial statement.

Agreed

To note the Wales Audit Office – Final Accounts Memorandum.

7 **Call in Head of Regeneration, Investment & Housing - SO24/Waiving of Contract Standing Orders Quarterly Report Reviewing Cabinet/CM Urgent Decisions or Waiving Contract Standing Orders**

Michaelstone y Fedw Village Hall – Urgent Decision - 22 March 2018

Members were made aware that at the last meeting it had been agreed to call in the Head of RIH in relation to SO24 Urgent Decisions. It was understood that he was not available to attend today but had nominated two Managers to respond on his behalf.

The Chair confirmed he had no objections to the managers responding on behalf of the Head of Service.

The urgent decision to grant lease to Michaelstone y Fedw Village Hall had been listed from page 113 onwards in the papers. The Welsh Government had provided funding for installation of High Speed Broadband for communities at this location (MyFi). The project was underway and would entail installation of service hubs and 25 kilometres of cabling by the end of 2018. At Michaelstone y Fedw, the location of the server hub was within the subject land. This was the first element of the construction project and installation must start during the first week of April 2018. Based on discussion, the MyFi project had committed contractually and facilitating work would start physically before the end of February 2018. To protect both parties and to facilitate the Broadband installation, it would be necessary to complete the new lease before the facilitating work commenced.

The Chief Internal Auditor had commented that there was no clear justification for the urgency of this decision recorded in the papers presented. A timeline of key events for the project programme was not included in the papers

A briefing note had now been prepared and included in the papers on page 117 setting out the timeline of events. The Chief Internal Auditor now believed this was better. The Housing and Assets Manager had been asked to attend the meeting by the Head of RIH to answer any queries members may have.

The Housing and Assets Manager explained that the justification for the urgent decision was on the basis that there had been insufficient time to use the normal course of action. He had tried to capture the situation in the timelines of the briefing note. Ultimately the broad band was required in village hall. In order for the upgrade to take place, Virgin Media required details of the lease. They wished to have certain terms agreed and the decision had to be taken by the Cabinet Member hence the need for the urgency of the report.

Members raised the following queries:

- Was it a funding issue? – No it related to the lease. There was a deadline of 12 February 2018 which was then brought forwards to 9 February. The risk could have been taken to operate on the previous lease but it was felt that it was more appropriate to update the lease so there was no liability for any further costs. It was felt to be more appropriate to follow the urgent report process as the normal process would have taken longer.
- Michaelstone won an EU Award for this system as it showed how communities worked together to get things done. Members felt it was a great scheme.
- The Chair asked if the Committee was satisfied the urgent process had been followed but that there was a need for more information at an earlier stage? – The Chief Internal Auditor had now contacted corporate directors to emphasise the need for valid reasons why an urgent report is required to allow the Audit Committee to decide whether it was due to external factors (as in this case) or whether it was due to internal systemic issues.

Families First Programme – Urgent Decision 16 May 2018

The reason for urgency was that in October 2017 Newport discovered it was to become an early adopter of Welsh Government's new grant funding initiative Flexible Funding from 1 April 2018. Little information however, was made available on how this new fund was to operate and the recommissioning of Families First, which was already in progress, was put on hold until a fuller understanding of how the funding would impact the service was understood. The current Families First contracts were due to expire on 31 March 2018 and as all extensions within the existing contract terms were exhausted it was being requested that Contract Standing Orders be waived so an extension for a further year be granted. This extension would allow a further review of the programme in accordance with the Flexible Funding guidance and result in either recommissioning services or commissioning new services from 1 April 2019.

The Chief Internal Auditor had stated in his report that there was no appropriate justification within the report to support the CM's decision to waive the Council's CSOs. However, there is very little justification in the report to support the urgency of the decision. The report was dated 16 May 2018, as was the CM decision even though action was required by the 1 April 2018; there is no valid reason within the report why the CM was asked to make a retrospective decision. The report clearly states that WG issued new guidance in April 2017 to become effective from April 2018 and that NCC had been notified of their Pathfinder status in October 2017. This would give ample time to request that the CM waive CSOs for the reasons stated in the report and therefore the need for an urgent decision was not required. The request to make an urgent decision should be justified.

The Preventative Services Manager explained that Families First came to Newport in 2012 with the contract running until April 2017. The then Cabinet Secretary, Carl Sargeant, decided to refocus the Families First Programme and gave the deadline of April 2018 to refocus. All throughout 2017 Families First recommissioning group meetings took place looking at assessing the needs of Newport in terms of the Future Generations assessment. In October 2017 it was announced there would be pathfindiner for flexible funding. Families First has had £2.4m of flexible funding which would join together 10 grants – £16 -17 mil to one large grant. In October the only information was that there was an intention that this was going to happen. In October a series of meetings took place with Welsh Government. It was necessary to meet to discuss duplication of work and funding between the 10 programmes. Then it was commission a full review in 2018/19 by an independent consultant (currently ongoing). The new flexible funding framework would then be introduced. Although it looked like there would be a lot of time it did not happen that way. A great deal of work had taken place at the end of October to Spring 2018. External contracts with all projects were expected to be recommissioned. It was necessary to tell them the Programme would be rolled over under the refocussing that the Cabinet Secretary had put into place occurred. One of the projects had to be decommissioned.

Members raised the following queries:

- At what stage in the writing of the report was it known that it would be necessary to waive standing orders? – January/February.
- In the summary it felt like there was a possible lack of planning in the process. Normally there was a robust planning process to avoid going outside standing orders. Was there a lesson that can be learned around the planning of these things? – This would be taken on board. There had been conflicting information from the Welsh Government and flexible funding.
- Timelines with dates would have been very helpful.
- With regards the decision taken to extend the programme for a year, were those processes now in place to ensure the Council would not be in the same position again? Consultation was due to go back next month to the Community Board and processes were now in place.

Agreed

To note the reasons for the urgency/waiving of contract standing orders reflected in the documentation supporting each decision and from the officers in attendance.

8 **Internal Audit Plan 2018/19**

Members received a report on the Internal Audit – Progress against audit plan 2018/19 (Quarter 2) to inform Members of the Internal Audit Section's progress against the 2018/19 agreed audit plan for the first 6 months of the year and for information on audit opinions given to date and progress against key performance targets. The report identified that the Internal Audit Section was making good progress against the 2018/19 audit plan and internal performance indicators.

The performance for Quarter 2 (2018/19) was summarised with the details shown at Appendix A:

- 36% of the audit plan had been achieved so far which was higher than the profiled target of 30%
- the promptness of issuing draft reports (comparing timescale between finalising all fieldwork and issuing the draft report to management) averaged at 9 days which was below the target time of 10 days;
- 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) averaged 3 days which was within the target time of 5 days.

Coverage of the plan at this stage of the year was above expectations; the target being 30% for Quarter 2. The team had lost one member of the Audit staff in Quarter 2. The post had been advertised for the third time as no suitable candidates had been found. Other options were being investigated such as agency/secondments, contract audits.

Audit opinions issued so far in 2018/19 were shown at Appendix B. The definition of audit opinions currently given was shown at Appendix D.

17 jobs had been completed to at least draft report stage by 30 September 2018 warranting an audit opinion: 2, *Good*, 11 *x Reasonable*, 3 x *Unsatisfactory* and 1 x *Unsound*. Further details would be provided on unsatisfactory and unsound jobs in the 6 monthly report to 24 January Audit Committee.

Work had been undertaken on grants, annual governance statement, national fraud initiative, provision of financial advice and training (Appendix 2).
Audit Committee was asked to note progress and if they had any comments.

Discussions included::

- Was Internal Audit content with staffing levels? – Subject to a vacancy being filled staffing levels were just about sufficient to deliver the plan to bring the audit opinion for the annual report. If the vacancy was not filled on a long term basis options were being explored for the short term. Beyond that if the post could not be filled it was cause problems.

Agreed

To note the Internal Audit Plan 2018/19

9 **Work Programme**

Members' attention was drawn to the Work Programme.

Agreed

To note the Work Programme

10 **Date of Next Meeting - 24 January 2019**

The date of the next meeting was confirmed as 24 January 2019

The meeting terminated at Time Not Specified

Report

Audit Committee

Part 1

Date: 24 January 2019

Item No: 5

Subject **Treasury Management Strategy 2019/20**

Purpose This report considers the Council's 2018/19

- Treasury Management Strategy including treasury management indicators,
- Investment Strategy; and
- Minimum Revenue Provision (MRP) policy
- Draft Capital Strategy

Author Assistant Head of Finance

Ward General

Summary

The overarching recommended Treasury Strategy is unchanged from our current strategy, which, in summary:

- The Council will continue to limit the need to actually borrow cash by using the positive cash-flow the Council has to fund capital expenditure funded from borrowing, wherever possible, known as 'internal borrowing'.

- However, the capacity for further internal borrowing has reached capacity and in 2019/20 the Council is expected to undertake external borrowing both for the refinance of maturing loans and to fund the capital programme.

- Borrowing will be kept to an affordable limit in line with the revenue budgets included in the Medium Term Financial Projections as outlined in the new Capital Strategy.

- Borrow and invest in the short-term to manage the shorter term cash-flow requirements of the Council.

To satisfy the requirements of the second Markets in Financial Instruments Directive (MiFIDII) it is expected that the authority will maintain a minimum investment balance of £10m at all times.

The strategies within this report set the Council's approved borrowing and investment limits, based on planned capital spending. This report has been prepared in line with the Council's draft Medium Term Financial Plan, and will be presented to full Council as part of the overall budget report for approval in February 2019.

Proposal **To review and provide comments to Cabinet for approval the Treasury Management Indicators, Minimum Revenue Provision Policy, the Treasury Management Strategy and the Annual Investment Strategy as detailed in the report. Also to review the draft Capital Strategy and provide any comments before finalisation for approval at Council.**

Action by Head of Finance – prepare budget papers for Cabinet in line with recommendations from this Committee

Timetable Immediate

This report was prepared after consultation with:

- The Council's Treasury Advisors
- Accountancy Staff
- Heads of Law and Standards and HR/Policy

Signed

Background

Background

1. The Council is involved in two types of treasury activity:

   - Borrowing long-term for capital purposes and short term for temporary cash flow
   - Investment of surplus cash

   Within this, the overarching strategy is

   - Limit the need to actually borrow cash by using the positive cash-flow the Council has to fund capital expenditure funded from long-term borrowing, wherever possible, known as ‘internal borrowing’.

   - The ability for to fund capital expenditure through further internal borrowing is forecast to end in 2019/20, therefore the Council will need to undertake external long-term borrowing both for refinancing of maturing debt and to fund the capital programme.

   - The treasury management strategy is inherently linked to the Capital Strategy which will be approved by Council alongside the budget report in February 2019. The overall strategy is to maintain a capital programme which is affordable and sustainable and does not put additional pressure on the revenue budget to that already included on the Medium Term Financial Plan. A draft copy of the Capital Strategy is included in Appendix 2 for review and Comment by the Audit Committee, figures are not included at this stage as the capital programme is being updated in readiness for the final budget report. The Capital Financing Requirement as outlined in table 1 below is not anticipated to change following the finalisation of the capital programme.

   - The Council will also be required to borrow and invest in the short-term to manage the shorter term cash-flow requirements of the Council.

2. The borrowing and investment activities are controlled primarily via the Council’s Treasury Management Strategy and various measures and limits set via its Prudential Indicators to regulate/control the implementation of that strategy.

3. CIPFA requires local authorities to determine their Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) on an annual basis. This requires approval by full Council following a recommendation from the Cabinet. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the Welsh Government’s (WG’s) Investment Guidance.

4. Our detailed Treasury strategies for 2019/20 are included at Appendix 1. In addition, planned strategies to 2022/23 are also included, in line with the Council’s 4-year Medium Term Projections. Key points of interest are summarised below.

5. The strategy and indicators here are based on the 2017 Prudential Scheme. This was updated recently and the new scheme was published January 2018. The biggest change is the need to include a ‘capital strategy’, with changes beyond that limited to smaller issues and updates to Prudential Indicators. The Capital Strategy will be approved by Council alongside the budget report in February 2019, the borrowing and investment figures included in this strategy are driven by the forecasts within the Capital Strategy, and the two strategies are inherently linked.

Treasury Management Strategy

6. The Council’s overall Treasury Management Strategy takes into account the current outstanding borrowing that it has due to capital expenditure incurred in the past, and links this into the future

expectations for future capital expenditure and future cash flows. As noted, as the capacity to utilise further internal borrowing.

7. This Treasury Management Strategy highlights that the Council has an inherent need to borrow and therefore the borrowing strategy discussed below is a vital part of the overall Treasury Management Strategy.

8. Due to the revenue implications of undertaking capital expenditure and the need to charge a Minimum Revenue Provision (MRP) for capital expenditure funded by borrowing, the strategy of the Council, is, where possible, to limit increases in the capital expenditure financing costs in the Medium Term Financial Plan. The capital strategy outlines the strategy over the current programme to 2022/23 and highlights the challenges over the long term.

9. In summary the Council is expected to limit the amount of long-term borrowing in the short-term to a minimum, but in conjunction with advice from our Treasury Advisors, there will become a point where current borrowing will need to be re-financed, and a decision will need to be taken as to the appropriate timing of that borrowing.

10. The detailed Treasury Management Strategy is shown in Appendix 1.

Borrowing Strategy

11. The Council has significant long term borrowing requirements but in recent years, the strategy has been able to fund its capital expenditure from reducing investments rather than undertaking more expensive new borrowing i.e. using 'surplus cash', known as 'internal borrowing'. This is because the rates achievable on the Council's investments are lower than the rates that would be payable on long-term borrowing and therefore this strategy is more cost effective. The ability to undertake further internal borrowing has now ended and there will be requirement to take out external borrowing. In summary the borrowing strategy is as follows:

    - The capital financing requirement will need to remain constant over time, or if possible reduce over time to remain at an affordable level, i.e. capital expenditure funded by borrowing cannot be higher than the current Minimum Revenue Provision budget.
    - The ability to use further internal borrowing has diminished, with internal borrowing reducing over time as reserves are utilised.
    - As existing borrowing matures there will be the need to refinance this debt over the long-term.
    - The need to borrow is increasing over time, meaning that the Council will be required to undertake new borrowing over time, therefore putting pressure on the revenue budget through increased interest payments.
    - The only way to reduce this need to borrow is to reduce the level of capital expenditure funded by borrowing, therefore prioritisation of capital expenditure is required.

12. In terms of the revenue budget, the Council must ensure it sets aside sums to repay capital expenditure funded from borrowing (irrespective of whether the borrowing itself is undertaken externally or through dis-investing). This is done via the 'Minimum Revenue Provision' (MRP). In addition, a budget is also needed to fund actual interest payable on loans taken out, which are based on predictions of actual external borrowing. Both are discrete budget lines in the Council's overall revenue budget.

13. The Capital Strategy in Appendix 2, highlights the challenges the Council faces in meeting the prudential code requirements of having a capital programme that is affordable, prudent and sustainable. The current Medium Term Financial Projections (MTFP) include sufficient capital financing revenue budgets to meet the current capital programme.

14. Local Authorities measure their underlying need for long-term borrowing through their 'Capital Financing Requirement' (CFR). This takes into account the amount of capital expenditure that needs to be funded through borrowing, (as opposed to external funding - from cash grants, capital

receipts or S106 contributions for example) irrespective of whether the borrowing itself is undertaken externally or through dis-investing.

15. The table below shows the estimated Capital Financing Requirement / New Net Borrowing Requirement position for Newport City Council for 2018/19 to 2020/21:

(all figures are cumulative)

Table 1: Newport City Council – CFR

	31.3.18 Actual £m	31.3.19 Estimate £m	31.3.20 Forecast £m	31.3.21 Forecast £m	31.3.22 Forecast £m
General Fund CFR	282.2	285.9	292.2	291.4	288.3
Less: Other debt liabilities *	(45.1)	(43.3)	(42.6)	(41.5)	(40.8)
Loans CFR	**237.1**	**242.6**	**249.6**	**249.9**	**247.5**
Less: External borrowing **	(147.5)	(145.8)	(104.2)	(101.9)	(98.4)
Less: Usable reserves	(102.9)	(93.2)	(87.5)	(84.0)	(79.8)
Less: Working capital	(10.2)	(10.2)	(10.2)	(10.2)	(10.2)
Preferred Investment position		10	10	10	10
Investments or (New borrowing)	**23.5**	**(3.4)**	**(57.7)**	**(63.8)**	**(69.1)**

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt
** shows only loans to which the Authority is committed and excludes optional refinancing

16. As the table shows, the inherent 'need to borrow' as shown by the CFR is predicted to be £69 million over the next four years. The CFR is expected to remain relatively steady over the next four years, as the capital strategy is to fund capital expenditure within the budgets of the current Minimum Revenue Provision, therefore keeping the CFR stable.

17. Given **current** borrowing levels a further c£58m long term borrowing is likely to be required during the remainder of 2018/19 and 2019/20. This is due to the refinancing of maturing debts of £41.6m (including the £40m stock issue and the remainder to replace internal borrowing from reducing reserves and to fund new capital expenditure funded by borrowing.

18. The Authority will adopt a flexible approach to any borrowing necessary in consultation with its treasury management advisers, Arlingclose Ltd. The following issues will be considered prior to undertaking any external borrowing:

- Affordability
- Maturity profile of existing debt
- Interest rate and refinancing risk
- Borrowing source

Investment Strategy

19. The Authority has held invested funds over the year, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £11 million and £46 million, the large balance being when the Council received the receipt from the sale of Friars Walk in 2018/19. In 2019/20, the level of investment is likely to remain between £10 million and £15 million, due to the continuation of the second Markets in Financial Instruments Directive (MiFIDII), where the Authority will be required to maintain a minimum investment balance of £10 million. Whilst this put's a limit to the extent the Council can be internally borrowed, it is a relatively small balance in the wider scheme of the

Councils cash-flows and borrowing and the strategy of keeping external borrowing to the minimum possible level still stands.

20. **Objectives:** Both the CIPFA Code and the WG 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.

21. Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority aims to diversify into more secure and/or higher yielding classes during 2019/20, this may include investing in pooled funds if the accounting arrangements are suitable.

22. **Approved Counterparties:** Whilst investment funds remain available and based on the treasury management advice from Arlingclose; the Authority may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown will invest in the following areas:

Table 2: Approved Investment Counterparties and Limits

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£5m 5 years	£10m 20 years	£10m 50 years	£5m 20 years	£5m 20 years
AA+	£5m 5 years	£10m 10 years	£10m 25 years	£5m 10 years	£5m 10 years
AA	£5m 4 years	£10m 5 years	£10m 15 years	£5m 5 years	£5m 10 years
AA-	£5m 3 years	£10m 4 years	£10m 10 years	£5m 4 years	£5m 10 years
A+	£5m 2 years	£10m 3 years	£5m 5 years	£5m 3 years	£5m 5 years
A	£5m 13 months	£10m 2 years	£5m 5 years	£5m 2 years	£5m 5 years
A-	£5m 6 months	£5m 13 months	£5m 5 years	£5m 13 months	£5m 5 years
None	£1m 6 months	n/a	£10m 25 years	Not Applicable	£5m 5 years
Pooled funds and real estate investment trusts		£10m per fund or trust			

23. Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. Whilst the credit ratings score drives the approved listing, the day-to-day operational counterparties are generally limited to named counterparty listing as documented in Appendix C. However, where it is prudent to do so the Authority may also use other approved investments based on the approved credit ratings as documented in the table above.

24. A more detailed explanation of the different approved counterparty types is included in Appendix 1 but for the sake of clarity, the Council's investment strategy will, as per the Welsh Governments Investment Guidance, give priority to security and liquidity and will aim to achieve a yield commensurate with these principles.

Minimum Revenue Provision (MRP) Policy

25. The MRP Policy is detailed in Appendix D.

Treasury Management Indicators

26. We recommend that the Audit Committee scrutinise the 2019/20 Treasury Management Strategy and Treasury Management Indicators detailed in Appendix 1 and 2 and provides comments, as needed, to Cabinet and Council.

27. Prudential Indicators that were previously included within the treasury management strategy have been moved to the capital strategy as these are better placed within that document.

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/duration available for relatively higher risk investment as measured by 'credit ratings' will also alleviate the risk.	Members, Head of Finance, Treasury staff, based on advice from treasury advisors
Interest Rates moving adversely against expectations	Low	Low	Base and short-term Interest rates are expected to remain at current levels until the second half of 2016. The Treasury strategy approved allows for the use of short term borrowing once investment funds are exhausted to take advantage of these low rates.	Head of Finance, Treasury staff, treasury advisors

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

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

Options Available and considered

The Prudential Code and statute requires that, during and at the end of each financial year, reports on these matters are presented to Cabinet/Council for approval. Best practice is for the reports to be scrutinised by the Audit committee prior to Council approval. Thus the only option available is to consider this report and provide comments prior to Council approval.

Preferred Option and Why

The preferred choice is to receive and scrutinise the contents of the report and provide feedback and comments prior to Council approval.

Comments of Chief Financial Officer

The treasury management strategy and the treasury management indicators included within this report are an important aspect of setting a prudent financial landscape for the Council. This includes ensuring a prudent and affordable capital programme, with a sight on the level of borrowing and risks associated with this.

Within the ever reducing medium term financial landscape this is as important as ever, and the on-going revenue impact of capital decisions needs to be at the forefront of any decisions that are made.

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.

Comments of Head of People and Business Change

There are no human resources implications within the report

Comments of Cabinet Member

N/A

Local issues

N/A

Scrutiny Committees

N/A

Equalities Impact Assessment and the Equalities Act 2010

The Equality Act 2010 contains a Public Sector Equality Duty which came into force on 06 April 2011. The Act identifies a number of 'protected characteristics', namely age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; sexual orientation; marriage and civil partnership. The new single duty aims to integrate consideration of equality and good relations into the regular business of public authorities. Compliance with the duty is a legal obligation and is intended to result in better informed decision-making and policy development and services that are more effective for users. In exercising its functions, the Council must have due regard to the need to: eliminate unlawful discrimination, harassment, victimisation and other conduct that is prohibited by the Act; advance equality of opportunity between persons who share a protected characteristic and those who do not; and foster good relations between persons who share a protected characteristic and those who do not. The Act is not overly prescriptive about the approach a public authority should take to ensure due regard, although it does set out that due regard to advancing equality involves: removing or minimising disadvantages suffered by people due to their protected characteristics; taking steps to meet the needs of people from protected groups where these differ from the need of other people; and encouraging people from protected groups to participate in public life or in other activities where their participation is disproportionately low.

Children and Families (Wales) Measure

N/A.

Wellbeing of Future Generations (Wales) Act 2015

The Wellbeing of Future Generations (Wales) Act 2015 is taken into account when looking at the long-term impact of treasury management and capital decisions. The Council has a prudent Minimum

Revenue Provision Policy and abides by the treasury management and prudential indicators detailed in the report.

Crime and Disorder Act 1998

Section 17(1) of the Crime and Disorder Act 1998 imposes a duty on the Local Authority to exercise its various functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent, crime and disorder in its area.

Consultation

N/A

Background Papers

Report on Treasury Management for the period to 30 September 2017

Dated:

Appendix 1

Treasury Management Strategy Statement 2019/20

Introduction

Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. In addition, the Welsh Government (WG) issued revised Guidance on Local Authority Investments in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the WG Guidance.

Revised strategy: In accordance with the WG Guidance, the Authority will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, in the Authority's capital programme or in the level of its investment balance.

External Context

Economic background: The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2019/20.

UK Consumer Price Inflation (CPI) for October was up 2.4% year/year, slightly below the consensus forecast and broadly in line with the Bank of England's November Inflation Report. The most recent labour market data for October 2018 showed the unemployment rate edged up slightly to 4.1% while the employment rate of 75.7% was the joint highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.3% as wages continue to rise steadily and provide some pull on general inflation. Adjusted for inflation, real wages grew by 1.0%, a level still likely to have little effect on consumer spending.

The rise in quarterly GDP growth to 0.6% in Q3 from 0.4% in the previous quarter was due to weather-related factors boosting overall household consumption and construction activity over the summer following the weather-related weakness in Q1. At 1.5%, annual GDP growth continues to remain below trend. Looking ahead, the BoE, in its November Inflation Report, expects GDP growth to average around 1.75% over the forecast horizon, providing the UK's exit from the EU is relatively smooth.

Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy has been made since. However, the Bank expects that should the economy continue to evolve in line with its November forecast, further increases in Bank Rate will be required to return inflation to the 2% target. The Monetary Policy Committee continues to reiterate that any further increases will be at a gradual pace and limited in extent.

While US growth has slowed over 2018, the economy continues to perform robustly. The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the current 2%-2.25% in September. Markets continue to expect one more rate rise in December, but expectations are fading that the further hikes previously expected in 2019 will materialise as concerns over trade wars drag on economic activity.

Credit outlook: The big four UK banking groups have now divided their retail and investment banking divisions into separate legal entities under ring-fencing legislation. Bank of Scotland, Barclays Bank UK, HSBC UK Bank, Lloyds Bank, National Westminster Bank, Royal Bank of Scotland and Ulster Bank are the ring-fenced banks that now only conduct lower risk retail banking activities. Barclays Bank, HSBC Bank, Lloyds Bank Corporate Markets and NatWest Markets are the investment banks. Credit rating agencies have adjusted the ratings of some of these banks with the ring-fenced banks generally being better rated than their non-ring-fenced counterparts.

The Bank of England released its latest report on bank stress testing, illustrating that all entities included in the analysis were deemed to have passed the test once the levels of capital and potential mitigating actions presumed to be taken by management were factored in. The BoE did not require any bank to raise additional capital.

European banks are considering their approach to Brexit, with some looking to create new UK subsidiaries to ensure they can continue trading here. The credit strength of these new banks remains unknown, although the chance of parental support is assumed to be very high if ever needed. The uncertainty caused by protracted negotiations between the UK and EU is weighing on the creditworthiness of both UK and European banks with substantial operations in both jurisdictions.

Interest rate forecast: Following the increase in Bank Rate to 0.75% in August 2018, the Authority's treasury management adviser Arlingclose is forecasting two more 0.25% hikes during 2019 to take official UK interest rates to 1.25%. The Bank of England's MPC has maintained expectations for slow and steady rate rises over the forecast horizon. The MPC continues to have a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. Arlingclose believes that MPC members consider both that ultra-low interest rates result in other economic problems, and that higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise when rate cuts will be required.

The UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. Whilst assumptions are that a Brexit deal is struck and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" Brexit still hangs over economic activity *(at the time of writing this commentary in mid-December)*. As such, the risks to the interest rate forecast are considered firmly to the downside.

Gilt yields and hence long-term borrowing rates have remained at low levels but some upward movement from current levels is expected based on Arlingclose's interest rate projections, due to the strength of the US economy and the ECB's forward guidance on higher rates. 10-year and 20-year gilt yields are forecast to remain around 1.7% and 2.2% respectively over the interest rate forecast horizon, however volatility arising from both economic and political events are likely to continue to offer borrowing opportunities.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.

For the purpose of setting the budget, it has been assumed that new investments (exc cash & cash equivalents) will be made at an average rate of 0.9%, and that new long-term loans will be borrowed at an average rate of 3%.

__Local Context__

On 31st December 2018, the Authority held £147.2m of borrowing and £14.6m of investments. This is set out in further detail at ***Appendix B***. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

<u>Table 1: Balance sheet summary and forecast</u>

	31.3.18 Actual £m	**31.3.19 Estimate £m**	**31.3.20 Forecast £m**	**31.3.21 Forecast £m**	**31.3.22 Forecast £m**
General Fund CFR	282.2	285.9	292.2	291.4	288.3
Less: Other debt liabilities *	(45.1)	(43.3)	(42.6)	(41.5)	(40.8)
Loans CFR	**237.1**	**242.6**	**249.6**	**249.9**	**247.5**
Less: External borrowing **	(147.5)	(145.8)	(104.2)	(101.9)	(98.4)
Less: Usable reserves	(102.9)	(93.2)	(87.5)	(84.0)	(79.8)
Less: Working capital	(10.2)	(10.2)	(10.2)	(10.2)	(10.2)
Preferred Investment position		10	10	10	10
Investments or (New borrowing)	**23.5**	**(3.4)**	**(57.7)**	**(63.8)**	**(69.1)**

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt
** shows only loans to which the Authority is committed and excludes optional refinancing

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. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. The Authority has an increasing CFR due to the capital programme, but minimal investments and will therefore be required to borrow up to £69.1m over the forecast period, this is broken down into £49.1m refinancing of maturing existing borrowing and £20m additional (£147.5m to £167.5m) external borrowing, while internal borrowing is forecast to reduce by £9.6m as shown in table 2 below.

Table 2: Year on year change in internal and external borrowing

	31.3.18 Actual £m	31.3.19 Estimate £m	31.3.20 Forecast £m	31.3.21 Forecast £m	31.3.22 Forecast £m
Loans CFR (as per table 1)	**237.1**	**242.6**	**249.6**	**249.9**	**247.5**
- Internal Borrowing	89.6	93.4	87.7	84.2	80.0
- External Borrowing	147.5	149.2	161.9	165.7	167.5
Increase in External Borrowing		**1.7**	**12.7**	**3.8**	**1.8**
Represented by:					
Change in loan CFR (Cap Exp funded by debt less MRP)		5.5	7	0.3	(2.4)
Reduction in reserves		9.7	5.7	3.5	4.2
Reduction in investments		(13.5)	0.0	0.0	0.0
Increase in External Borrowing		**1.7**	**12.7**	**3.8**	**1.8**

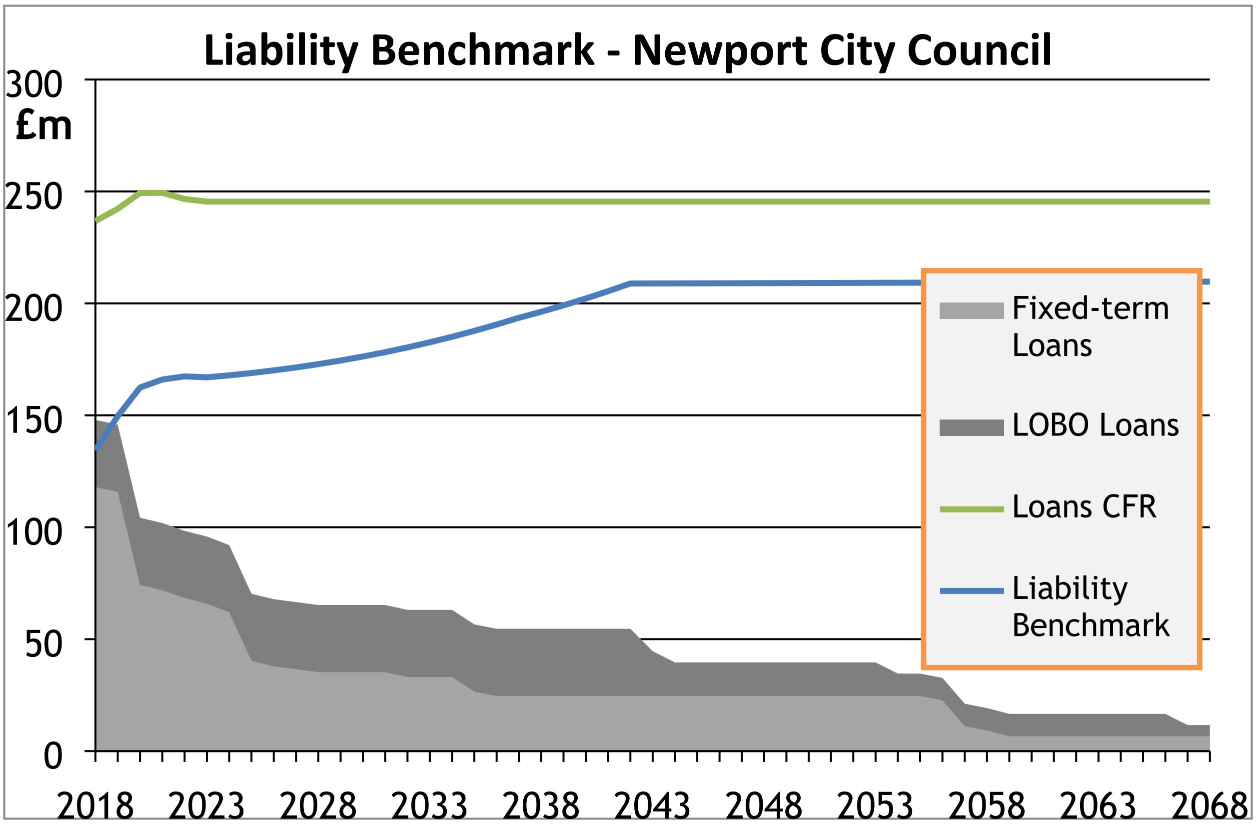
CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2019/20.

Liability benchmark: To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

Table 3: Liability benchmark

	31.3.18 Actual £m	31.3.19 Estimate £m	31.3.20 Forecast £m	31.3.21 Forecast £m	31.3.22 Forecast £m
Loans CFR	237.1	242.6	249.6	249.9	247.5
Less: Usable reserves	(102.9)	(93.2)	(87.5)	(84)	(79.8)
Less: Working capital	(10.2)	(10.2)	(10.2)	(10.2)	(10.2)
Plus: Minimum investments	10	10	10	10	10
Liability Benchmark	**124**	**149.2**	**161.9**	**165.7**	**167.5**

Following on from the medium-term forecasts in table 3 above, the long-term liability benchmark assumes capital expenditure funded by borrowing at the same level as the minimum revenue provision therefore not increasing the CFR, and reserves in regards to the Private Finance Initiative (PFI) reserves being utilised over the life of the PFI contract. This is shown in the chart below:



The chart above shows actual borrowing maturing over time (grey area reducing), however our need to borrow (the green CFR line), over the long-term, remains at a consistent level due to the assumption that capital expenditure funded from borrowing will be at a level the same as the MRP charge. The Council need to borrow up to the liability benchmark (blue line) with the remaining amount being covered by internal borrowing as previously discussed. Therefore, the chart is showing the following important points/assumptions:

- The capital financing requirement is assumed to remain at a consistent level over the long-term.
- The ability to use further internal borrowing has diminished, with internal borrowing reducing over time as reserves are utilised.
- As existing borrowing matures (grey area reducing) there will be the need to refinance this debt over the long-term.
- The liability benchmark is increasing over time, meaning that the Council will be required to undertake new borrowing over time, therefore putting pressure on the revenue budget through increased interest payments.
- The only way to reduce this need to borrow is to reduce the level of capital expenditure funded by borrowing.

Borrowing Strategy

The Authority currently holds £147.2 million of loans, a decrease of £0.3 million on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Authority expects to borrow a minimal amount (up to £1.7 million) in 2019/20. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £217 million.

Objectives: The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2019/20 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, the Authority may arrange forward starting loans during 2019/20, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Authority may borrow short-term loans to cover unplanned cash flow shortages.

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except the Greater Gwent Pension Fund)
- capital market bond investors
- Special purpose companies created to enable local authority bond issues

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

The Authority has previously raised the majority of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

LOBOs: The Authority holds £30m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. £25m of these LOBOs have options during 2019/20, and although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will be limited to £30m.

Short-term and variable rate loans: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Investment Strategy

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £11.0 million and £46.5 million, levels of c. £10 to £15 million are expected in the forthcoming year.

Objectives: Both the CIPFA Code and the WG 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. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative interest rates: If the UK enters into a recession in 2019/20, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy: Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority aims to diversify into more secure and/or higher yielding asset classes during 2019/20. This is especially the case for the estimated £10 million that is available for longer-term investment. All of the Authority's surplus cash is currently invested in short-term unsecured bank deposits and local authorities. This diversification will represent a change in strategy over the coming year.

Business models: Under the new IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 3 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 3: Approved investment counterparties and limits

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£5m 5 years	£10m 20 years	£10m 50 years	£5m 20 years	£5m 20 years
AA+	£5m 5 years	£10m 10 years	£10m 25 years	£5m 10 years	£5m 10 years
AA	£5m 4 years	£10m 5 years	£10m 15 years	£5m 5 years	£5m 10 years
AA-	£5m 3 years	£10m 4 years	£10m 10 years	£5m 4 years	£5m 10 years
A+	£5m 2 years	£10m 3 years	£5m 5 years	£5m 3 years	£5m 5 years
A	£5m 13 months	£10m 2 years	£5m 5 years	£5m 2 years	£5m 5 years
A-	£5m 6 months	£5m 13 months	£5m 5 years	£5m 13 months	£5m 5 years
None	£1m 6 months	n/a	£10m 25 years	Not Applicable	£5m 5 years
Pooled funds and real estate investment trusts	£10m per fund or trust				

This table must be read in conjunction with the notes below

Credit rating: Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Banks unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Banks secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent.

Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Pooled funds: Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Operational bank accounts: The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Investment limits: The Authority's revenue reserves available to cover investment losses are forecast to be £90 million on 31st March 2019. In order that no more than 15% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £10 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£10m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£10m per group
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£5m per broker
Foreign countries	£2m per country
Registered providers and registered social landlords	£5m in total
Unsecured investments with building societies	£5m in total
Money market funds	£10m in total
Real estate investment trusts	£10m in total

Liquidity management: The Authority uses purpose-built cash flow forecasting software [to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium-term financial plan and cash flow forecast.

Treasury Management Indicators

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

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 borrowing will be:

	Upper	Lower
Under 12 months	60%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	40%	0%
10 years and within 20 years	30%	0%
20 years and within 30 years	20%	0%
30 years and within 40 years	20%	0%
40 years and within 50 years	20%	0%
50 years and above	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 a year: 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 will be:

Price risk indicator	2019/20	2020/21	2021/22
Limit on principal invested beyond year end	£10m	£10m	£10m

Related Matters

The CIPFA Code requires the Authority to include the following in its treasury management strategy.

Financial Derivatives: In the absence of any explicit legal power to do so, the Authority will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

Markets in Financial Instruments Directive: The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Head of Finance believes this to be the most appropriate status.

Government Guidance: Further matters required by the WG Guidance are included in Appendix C

Financial Implications

The budget for investment income in 2019/20 is £0.1 million, based on an average investment portfolio of £10 million at an interest rate of 0.9%. The budget for debt interest paid in 2019/20 is £7.1 million, based on an average debt portfolio of £1.7 million at an average interest rate of 3.6%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

The WG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Head of Finance believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Arlingclose Economic & Interest Rate Forecast December 2018

Underlying assumptions:

- Our central interest rate forecasts are predicated on there being a transitionary period following the UK's official exit from the EU.

- The MPC has a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. We believe that MPC members consider that: 1) tight labour markets will prompt inflationary pressure in the future, 2) ultra-low interest rates result in other economic problems, and 3) higher Bank Rate will be a more effective policy weapon if downside risks to growth crystallise.

- Both our projected outlook and the increase in the magnitude of political and economic risks facing the UK economy means we maintain the significant downside risks to our forecasts, despite the potential for slightly stronger growth next year as business investment rebounds should the EU Withdrawal Agreement be approved. The potential for severe economic outcomes has increased following the poor reception of the Withdrawal Agreement by MPs. We expect the Bank of England to hold at or reduce interest rates from current levels if Brexit risks materialise.

- The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in the middle quarters of 2018, but more recent data suggests the economy slowed markedly in Q4. Our view is that the UK economy still faces a challenging outlook as the country exits the European Union and Eurozone economic growth softens.

- Cost pressures are easing but inflation is forecast to remain above the Bank's 2% target through most of the forecast period. Lower oil prices have reduced inflationary pressure, but the tight labour market and decline in the value of sterling means inflation may remain above target for longer than expected.

- Global economic growth is slowing. Despite slower growth, the European Central Bank is conditioning markets for the end of QE, the timing of the first rate hike (2019) and their path thereafter. More recent US data has placed pressure on the Federal Reserve to reduce the pace of monetary tightening – previous hikes and heightened expectations will, however, slow economic growth.

- Central bank actions and geopolitical risks have and will continue to produce significant volatility in financial markets, including bond markets.

Forecast:

- The MPC has maintained expectations of a slow rise in interest rates over the forecast horizon, but recent events around Brexit have dampened interest rate expectations. Our central case is for Bank Rate to rise twice in 2019, after the UK exits the EU. The risks are weighted to the downside.

- Gilt yields have remained at low levels. We expect some upward movement from current levels based on our central case that the UK will enter a transitionary period following its EU exit in March 2019. However, our projected weak economic outlook and volatility arising from both economic and political events will continue to offer borrowing opportunities.

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.17**
Arlingclose Central Case	**0.75**	**1.00**	**1.00**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	1.17
Downside risk	0.00	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	**0.65**
3-mth money market rate														
Upside risk	0.10	0.10	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	**0.17**
Arlingclose Central Case	**0.80**	**1.00**	**1.10**	**1.20**	**1.30**	**1.30**	**1.25**	**1.20**	**1.20**	**1.20**	**1.20**	**1.20**	**1.20**	1.17
Downside risk	0.20	0.50	0.60	0.70	0.80	0.80	0.75	0.75	0.75	0.75	0.75	0.75	0.75	**0.68**
1-yr money market rate														
Upside risk	0.20	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	**0.33**
Arlingclose Central Case	**1.05**	**1.25**	**1.35**	**1.40**	**1.50**	**1.45**	**1.40**	**1.40**	**1.40**	**1.40**	**1.40**	**1.40**	**1.40**	1.37
Downside risk	0.35	0.50	0.60	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	**0.69**
5-yr gilt yield														
Upside risk	0.15	0.20	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	**0.32**
Arlingclose Central Case	**1.15**	**1.20**	**1.25**	**1.35**	**1.40**	**1.40**	**1.35**	**1.35**	**1.30**	**1.30**	**1.30**	**1.30**	**1.30**	1.30
Downside risk	0.30	0.35	0.45	0.50	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	**0.54**
10-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	**0.32**
Arlingclose Central Case	**1.60**	**1.65**	**1.65**	**1.70**	**1.75**	**1.75**	**1.75**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	1.70
Downside risk	0.30	0.45	0.50	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	**0.55**
20-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	**0.32**
Arlingclose Central Case	**1.90**	**1.95**	**1.95**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	1.98
Downside risk	0.30	0.40	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	**0.43**
50-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	**0.32**
Arlingclose Central Case	**1.80**	**1.85**	**1.85**	**1.90**	**1.90**	**1.90**	**1.90**	**1.90**	**1.90**	**1.90**	**1.90**	**1.90**	**1.90**	1.88
Downside risk	0.30	0.40	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	**0.43**

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB Local Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Appendix B - Existing Investment & Debt Portfolio Position

	31/12/2018 Actual Portfolio £m	31/12/2018 Average Rate %
External borrowing:		
Public Works Loan Board	69.2	4.52
Local authorities	3.0	0.77
LOBO loans from banks	30.0	4.43
Other loans	45.0	8.31
Total external borrowing	**147.2**	**5.58**
Other long-term liabilities:		
Private Finance Initiative	45.0	
Finance Leases	0.1	
Total other long-term liabilities	**45.1**	
Total gross external debt	**192.3**	
Treasury investments:		
Banks & building societies (unsecured)	4.6	0.65
Government (incl. local authorities)	10	0.9
Total treasury investments	**14.6**	**0.82**
Net debt	**177.7**	

Appendix C – Additional requirements of Welsh Government Guidance

Specified investments: The WG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of "high credit quality".

The Authority defines "high credit quality" organisations and securities as those having a credit rating of [A-] or higher that are domiciled in the UK or a foreign country with a sovereign rating of [AA+] or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of [A-] or higher.

Non-specified investments: Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table C1 below.

Table C1: Non-specified investment limits

	Cash limit
Total long-term investments	£30m
Total investments without credit ratings or rated below [A-] (except the UK Government and UK local authorities)	£20m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below [AA+]	£0m
Total non-specified investments	£30m

Investment training: The needs of the Authority's treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

Investment advisers: The Authority has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues.

Investment of money borrowed in advance of need: The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £217 million.

Appendix D – Minimum Revenue Provision Policy

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Welsh Government's *Guidance on Minimum Revenue Provision* (the WG Guidance) most recently issued in 2010.

The broad aim of the WG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The WG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance.

> For supported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments, this is currently deemed to be an average of 40 years.
>
> For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in on an annuity basis with an annual interest rate equal to the average relevant PWLB rate for the year of expenditure, starting in the year after the asset becomes operational.
>
> For capital expenditure loans to third parties that are repaid over a short time period or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead.

Capital expenditure incurred during 2019/20 will not be subject to a MRP charge until 2020/21.

Based on the Authority's latest estimate of its Capital Financing Requirement on 31st March 2019, the budget for MRP has been set as follows:

	31.03.2019 Estimated CFR £m	**2019/20 Estimated MRP £m**
Supported capital expenditure	163	4
Unsupported capital expenditure	80	3
Finance leases and Private Finance Initiative	43	2
Total General Fund	**286**	**9**

APPENDIX 2

NEWPORT CITY COUNCIL CAPITAL STRATEGY 2019/20 TO 2028/29

CONTENTS

1. OVERVIEW OF THE STRATEGY

1.1. INTRODUCTION

The prudential code for Capital Finance in Local Authorities (2017) placed a requirement on local authorities to determine a Capital Strategy in order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability.

This capital strategy is a new report for 2019/20 that sets out the long-term context in which capital expenditure decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

The report sets out:

- The prudential code the need for a capital strategy and the governance arrangements for the capital strategy and programme (Paragraph 2)
- The current capital programme (5 years) and its financing, and the revenue implications arising from demands on capital expenditure (Paragraph 3)
- The long-term (10 year) view on capital expenditure and the demand arising from the strategic plans across the Authority and the financial implications of these. Highlighting the fact that the Council will have difficult choices to make over the next programme and prioritisation is essential (Paragraph 4)
- Links between the Capital Strategy to Treasury Management strategy and treasury decision making. (Paragraph 5)
- A look at the commercial activity of the Council and its strategy going forward (Paragraph 6)
- Overview of other long-term liabilities the Council has, which members need to be aware of when looking at the capital strategy. (Paragraph 7)
- Summary of the skills and knowledge the Council has to carry out its duties for capital and treasury matters. (Paragraph 8)

2. PRUDENTIAL CODE & GOVERNANCE

2.1. PRUDENTIAL CODE – KEY OBJECTIVES

The objective of the Prudential Code is to ensure, within a clear framework, that the capital expenditure plans of local authorities are;

- **AFFORDABLE -** Total capital investment of the authority remains within sustainable limits. A local authority is required to consider the resources currently available to it and those estimated to be available in the future, together with the totality of its capital plans and income and expenditure forecasts in assessing affordability.

- **PRUDENT –** The full Council set an authorised limit and operational boundary for external debt, these need to be consistent with the authority's plans for affordable capital expenditure and financing, and with its treasury management policy statement and practices. Authorities should consider a balance between **security, liquidity and yield** which reflects their own risk appetite but which prioritises security and liquidity over yield.

- **SUSTAINABLE –** taking into account the arrangements for repayment of debt (including through Minimum Revenue Provision (MRP) and consideration of risk and the impact, and potential impact, on the authority's overall financial sustainability. This strategy will look at the sustainability over the period of 10 years.

and treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved and how these risks will be managed to levels that are acceptable to the organisation.

2.2. GOVERNANCE FOR APPROVAL AND MONITORING OF CAPITAL EXPENDITURE

Member responsibility for assets rests with a cabinet member, currently the cabinet member for assets and member development (Deputy Leader). The main governance and approval process for capital expenditure is summarised as follows:

- Council approve the overall revenue and capital budgets following recommendations from the Cabinet. They also approve the borrowing limits of which the capital programme will need to remain within. These limits are a key performance indicator for treasury management. This ensures that capital expenditure and borrowing remains within an affordable limit.
- This borrowing limit drives the headroom available for Capital Expenditure to be included on the programme.
- Council approve the Treasury Management and Investment strategies, which are intrinsically linked to capital expenditure and the capital strategy. Further details of these are provided in paragraphs X and X.
- The detailed capital programme within the overall budget is approved by Cabinet following individual project appraisals by officers, containing the views of the Head of Finance.
- Items of capital nature, are discussed at the Capital Strategy Asset Management Group (CSAMG), which is made up of senior officers from all service areas and our property advisors, Newport Norse. Discussions include asset disposals, where capital expenditure is required and prioritisation of those areas and the overall asset management agenda.
- Decisions on Capital Expenditure will be made by the Senior Leadership Team (SLT) following review of the project appraisal.
- Cabinet approve capital expenditure to be added to the capital programme.
- Monitoring of Capital Expenditure is reported to Cabinet, and includes update on capital receipts and impact on the revenue budget of decisions made.

Affordability and sustainability is a key focus on the approval of expenditure, and therefore the agreed framework detailed in paragraph 2.1 is used. There is a process map for the approval of capital expenditure which is used, this is shown in Appendix 1.

Decisions made on the approval of capital expenditure will be made with the liaison of the capital accountancy team and understanding of the long-term revenue implications of the expenditure is assessed before being added to the programme. Cabinet approve additions and deletions, as well as slippage, from the capital programme alongside the monitoring report.

3. CAPITAL EXPENDITURE AND FINANCING

Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. It is the Councils policy not to treat any expenditure under £10,000 as capital, and therefore under this value will be charged as revenue in the year of expenditure.

3.1. CURRENT CAPITAL PROGRAMME

The current 5-year capital programme (2018/19 to 2022/23) was approved at Council in February 2018. As part of the approval, a 'borrowing headroom' was agreed. This headroom enabled further capital projects to be added to the programme over the next 5 years, and not put additional pressure on the revenue budget over the Medium Term Financial Projection (MTFP).

Given the current financial constraints facing the authority, Cabinet and Council established a framework in order maximise capital expenditure but keep within a sustainable revenue budget to fund new borrowing, this was as follows:

a. **Funding from sources other than borrowing needs to be maximised, by securing grant funding whenever possible and, maximising capital receipts**

b. **Regeneration schemes would be funded from ring-fencing the capital works reserve only and Joint Venture funds. Other kinds of support through the making of loans etc. would then be considered to support schemes, where it was needed and appropriate.**

c. **Any change and efficiency schemes or schemes which save money requiring capital expenditure would be funded by netting off the capital funding costs from the savings achieved**

d. **Schemes and projects which generate new sources of income would need to fund any capital expenditure associated with those schemes.**

This framework ensures that the capital programme can be maximised but those schemes which cannot fund any resulting borrowing costs e.g. new schools programme, can be afforded and maximised within the headroom available. The headroom is made up of identified uncommitted capital reserves and capital receipts, an estimated level of borrowing which is within the MRP budget and a prudent estimate of future capital receipts

In February 2018 Council approved a new 5-year capital programme from 2018/19 to 2022/23. This was in line with the above framework and additions are made to the programme as demand is required and capital bids are approved.
In 2019/20, the Council is planning capital expenditure of £X.Xm as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	5 YEAR CAPITAL PROGRAMME				
	2018/19 forecast	**2019/20 budget**	**2020/21 budget**	**2021/22 budget**	**2022/23 Budget**
General Fund services	34.2	xx.x	xx.x	xx.x	xx.x
Uncommitted headroom to invest in council assets / regeneration	**X**				
TOTAL PROJECTED 5-YEAR PROGRAMME	**XXX.X**				

Paragraph 3.2 illustrates the revenue impact of the capital programme. The framework agrees that the **capital programme would set at a level that does not put additional revenue pressure on the Medium Term Financial Projections (MTFP).** This is vitally important to maintain capital expenditure at a level that is affordable over the medium term. The headroom that is available allows for additional capital expenditure without increasing the pressures on revenue.
The programme has been compiled with regard for the latest demands on the capital programme which include:

- **21st Century Schools Programme – completion of Band A in 2018/19 and Band B from then on.**
- **Fleet Replacement Programme**
- **Gypsy & Traveller Site Development**
- **A number of HLF grant funded schemes including Transporter Bridge and Newport Market Arcade**
- **Cardiff Capital Region City Deal (CCRCD)**
- **Neighbourhood Hubs scheme**
- **Replacement of current street lighting to LED**

There are a number of demands on the authority which will require significant capital expenditure which are not yet included on the programme, these will utilise the headroom available. It is important that capital expenditure is maintained at an affordable level within the framework agreed. Therefore, **prioritisation of capital expenditure is essential** and needs to be affordable and sustainable in the long-term to remain within the headroom available.

3.2. MEDIUM-TERM REVENUE IMPLICATIONS OF CAPITAL (CAPITAL FINANCING)

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). All debt has to be repaid and this includes both the actual debt principal plus interest costs on the debt. The planned financing of the expenditure shown in Table 1 is as follows:

Table 2: Capital financing in £ millions- Current 5-year programme

	5 YEAR CAPITAL PROGRAMME				
	2018/19 forecast	**2019/20 budget**	**2020/21 budget**	**2021/22 budget**	**2022/23 budget**
Projected 5-year programme	X	X	X	X	X
Financed by:					
Grants and contributions	X	X	X	X	X
Reserves, capital receipts, revenue	X	X	X	X	X
New Borrowing	X	X	X	X	X
TOTAL	**X**	**X**	**X**	**X**	**X**

When capital expenditure is financed by debt/borrowing, you are essentially locking the Council into a long-term revenue commitment. The Council is required to repay debt from our revenue budget over time; this is done through the Minimum Revenue Provision (MRP). Planned MRP payments (excluding PFI and leases) are as follows:

Table 3: Replacement of debt finance (MRP) in £ millions

	2018/19 forecast	**2019/20 budget**	**2020/21 budget**	**2021/22 budget**	**2022/23 budget**
MRP budget	X	X	X	X	X

The table above shows the budgeted amount of MRP that is included within the MTFP, the amount is increasing on annual basis, and this will continue to do so over the longer term due to the MRP charge increasing. This shows an increasing pressure over the next 5 years while there is still a funding gap within the MTFP, which emphasises the importance of maintaining capital expenditure within the headroom available in order not to put even more additional pressure on the revenue budget.

➢ The Council's full minimum revenue provision statement is available here: [link]

Although capital expenditure is not charged directly to the revenue budget, as discussed above, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable - the net annual charge is known as ‘financing costs’. The table below shows the financing costs as a percentage of the Council’s net budget, which is one of the Councils Prudential Indicators.

Table 4: Prudential Indicator: Proportion of financing costs to net revenue stream

	2018/19 forecast	**2019/20 budget**	**2020/21 budget**	**2021/22 budget**	**2022/23 budget**
Financing costs (£m)					
Proportion of net revenue stream	%	%	%	%	%

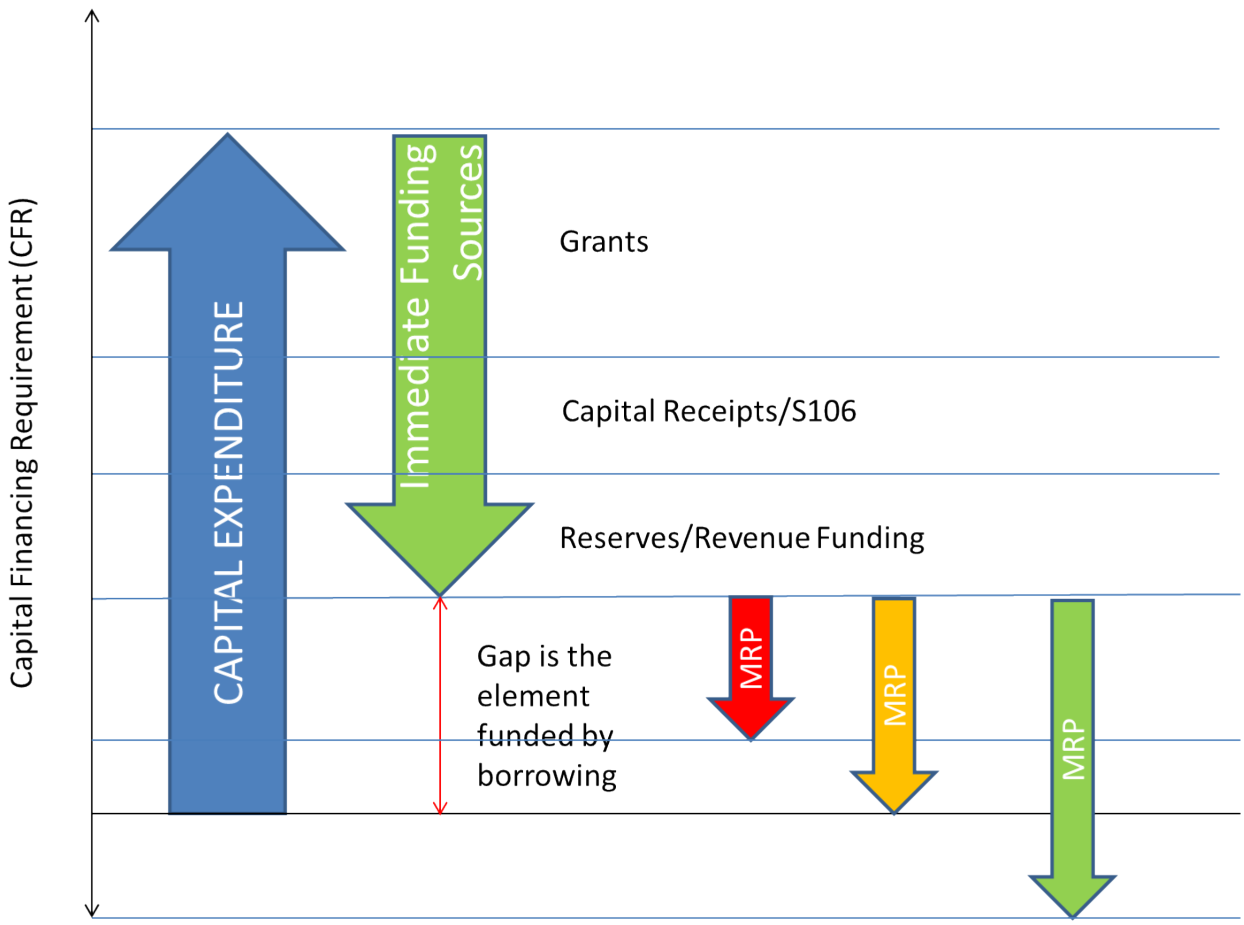
The ability to fund capital expenditure through internal borrowing is no longer applicable due to reserves being utilised, therefore this will need to be externally borrowed. External (or actual) borrowing will have interest rates payable on them which leads to increase in financing costs.

From the table above it is evident that the proportion of the budget set aside to finance capital expenditure is due to increase over the life of the current programme, again reiterating the pressure that capital expenditure, funded from debt, puts on the revenue budget.

- Further details on the revenue implications of capital expenditure are on pages [X] to [X] of the 2019/20 revenue budget [link]

Capital Financing Requirement (Our need to borrow)

The Council’s cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The diagram below shows the impact of capital expenditure, financing and the MRP on the CFR:



The diagram above shows the following:

1. CFR **increases** when capital expenditure is incurred.
2. CFR **decreases** when capital expenditure is immediately financed i.e. through grants, capital receipts, revenue funding, reserves, S106 income.
3. If the MRP charge is **less than** capital expenditure funded by borrowing (Red) the net CFR increases
4. If the MRP charge is **equal to** the capital expenditure funded by borrowing (Amber) then net CFR stays the same
5. If the MRP charge is **more than** the capital expenditure funded by borrowing (Green) then net CFR decreases

This is an important concept, as it shows how decisions on the level of capital expenditure and the level of MRP budget has on our long-term borrowing and the capital financing implications of this. If the strategy is to minimise the impact on the revenue budget i.e. MRP & interest budget, then the options are to **restrict capital expenditure** and/or **increase the level of capital grants or capital receipts through disposals**.

The CFR is expected to increase by £X during 2019/20. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 5: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	31.3.2018 actual	**31.3.2019 forecast**	**31.3.2020 budget**	**31.3.2021 budget**	**31.3.2022 budget**
General Fund services					
Capital investments					
TOTAL CFR					

The greater the CFR the larger the impact will be on the revenue budget, therefore in the long-term there will be a need to keep capital expenditure funded by borrowing at a level below the MRP budget in order to maintain the revenue budget at a sustainable level.

- For full details of the Council's capital programme as included in February budget report 2018, see: [link]

4. LONG-TERM VIEW OF CAPITAL EXPENDITURE

Expenditure on capital assets/projects are often for assets which have a long-term life i.e. buildings may have an asset life of 40 years+. The financing of these assets could also be over a long-term period. Therefore, as well as the Capital Programme highlighted in paragraph 2.1., it is important to take a long-term view of capital expenditure plans and the impact that may have on the affordability and sustainability of capital expenditure. Once a decision has been made to fund capital expenditure from borrowing, the Council is locked into the revenue implications for that borrowing for a long-period.

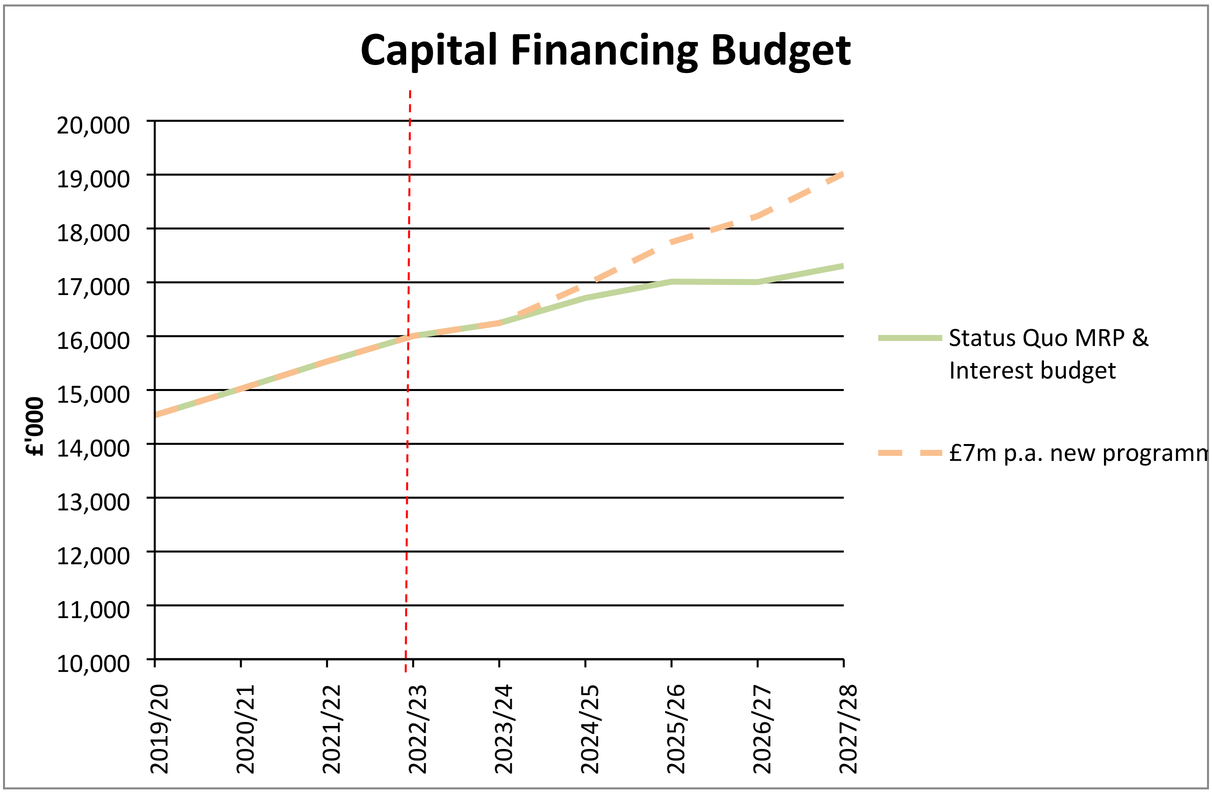
Due to the financial constraints that the Council is currently facing, assumptions on future available finances are likely to remain tight and therefore over the long-term it is anticipated that revenue to fund capital financing will remain restricted. The amount of capital expenditure that is funded from borrowing over the long-term is predicated on the level of revenue budgets that are available to fund the capital financing of this borrowing over the long-term.

Recent changes to the MRP charging methodology and the fact that the capacity to use internal borrowing is reducing means that in the long-term if the authority is to maintain budgets at an affordable level capital expenditure funded from borrowing over the long-term will need to be prioritised and restricted.

The chart below shows the increasing capital financing costs based on a number of future assumptions over the next 10 years. As is evident, based on the current programme the revenue cost of implementing a challenging capital programme is increasing year on year, and alongside a revenue budget Medium Term Financial Projection showing a funding gap this provides a significant challenge.

Following the current programme, if we were to assume a programme which included capital funded by borrowing of £7m per annum, this would increase the capital financing budget to c£19m by 2027/28, an increase of over £4m from current budgets.

Chart 1



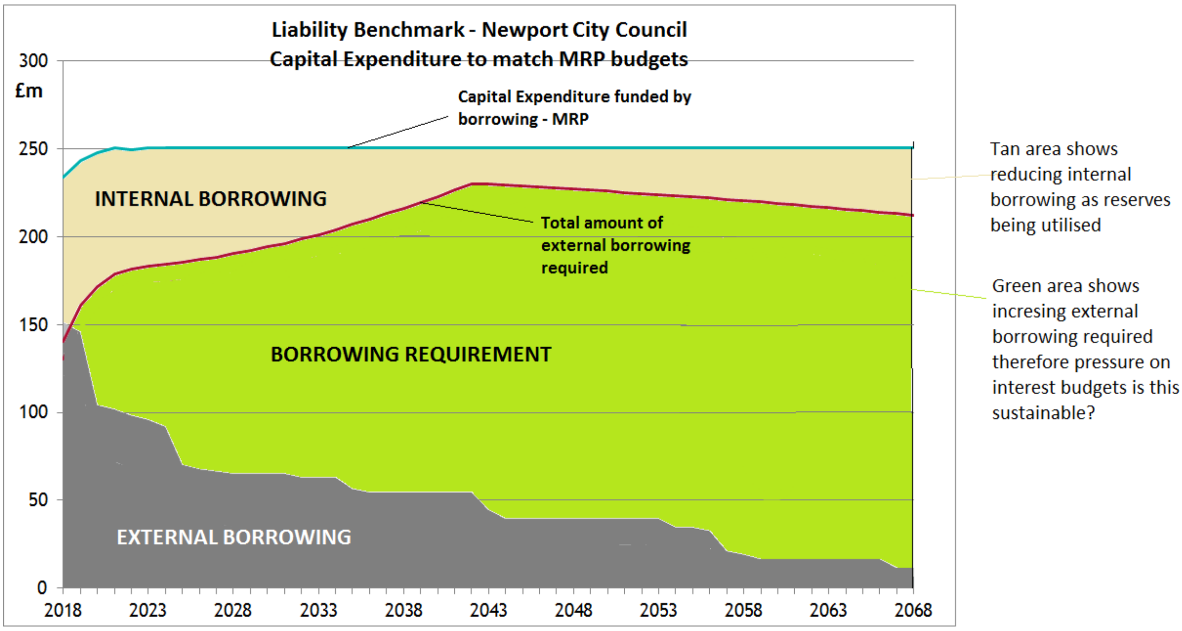
The above will obviously be affected by a number of factors including amount of capital funding from Welsh Government, achievement of capital receipts and use and level of earmarked reserves.

Long-Term Revenue Budget Implications

- Earlier in paragraph X it highlighted the future demands on capital expenditure; the CFR is integral to understanding the affordability and sustainability of the capital programme. If the CFR is increasing over the long-term this puts pressure on the revenue budget to both repay that debt and also on the interest rates to fund the borrowing.

- Over the long-term, in order to maintain an affordable and sustainable capital programme, the CFR cannot be increasing and there is a need to maintain the CFR level or preferably reducing. The chart below shows the CFR over the long-term if we were to maintain capital expenditure funded by borrowing at the same value as MRP.

Chart 2



- The chart above illustrates the following:
  - Assumption that capital expenditure funded by borrowing will be at a level equal to the MRP budget (level blue line) – with MRP and interest budgets increasing over time, to remain affordable, capital expenditure funded by borrowing should be no higher than the MRP budget and ideally should be lower to limit the level of external borrowing that is required over time.
  - As earmarked reserves are utilised the amount we are internally borrowed (using our own cash to fund capital expenditure) reduces. We have reached the capacity of internal borrowing, and any further capital expenditure which is not financed at source (i.e. grants, capital receipts, reserves) will require external borrowing.
  - As current external borrowing matures, we will need to re-finance this debt rather than re-pay debt. This is due to the inherent need to borrow over the long-term.
  - The above puts additional pressure on the capital financing budgets through additional interest costs.
  - Therefore, it is vital that the CFR is at a level which is affordable and sustainable, preferably reducing over time.
  - Recent decisions to change the MRP methodology for charging to annuity method for unsupported borrowing and to a 40-year asset life for supported borrowing put future pressures on the revenue budget without any additional capital expenditure (While over the long-term borrowing is still repaid, the charge today is less and increases over future years). The chart in appendix 2, shows that the MRP charge with current capital expenditure doesn't decrease significantly until 2030. Therefore, we know that any additional expenditure funded by borrowing will put additional pressure on the revenue budgets in the future.
  - Overall this shows a significant challenge for the next capital programme, onwards, and will mean prioritising all forms of capital expenditure in order to keep additional borrowing to a minimum is essential.

- Capital Financing costs are discussed further in the Treasury Management Paragraph X.

Sustainability

Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Head of Finance is satisfied that the capital programme is prudent, affordable and sustainable, although there is currently a funding gap in the Medium Term Financial Projections, the increasing capital financing costs and challenges are included within these and plans for closing this gap will need to be put in place by the authority and this is understood by Senior Managers and Members. The next capital programme will be challenging due to the increasing capital financing costs and demands. Therefore, there is the need for prioritisation for the next capital programme and to reduce, or at minimum keep level, the capital financing requirement over the medium to long term, unless the current financial climate changes.

In light of the above, the authority needs to understand the demands and risks associated with the deliverability of meeting these demands. The key drivers of the Council's capital plans are captured through various plans across the authority, these include:

- **Corporate Plan 2017-2022**
- **Strategic Asset Management Plan**
- **Highways Asset Management Plan**
- **Service Plans**

Corporate Plan

Within the Corporate Plan there are a number of commitments that are required to be reflected in the Council's capital plans, these include:

- City has a modern, increased tertiary education capacity.
- 3 New state of the art schools
- Redeveloped Heritage Discovery Centre
- Transforming Newport City Centre
- Civil Parking Enforcement
- New household waste recycling facility
- Four multi-agency Neighbourhood Service Hubs
- Creating an inviting and inspiring work environment including Civic Centre
- Citizens in Newport to have access to a 'My Account' online portal

Strategic Asset Management Plan (SAMP)

The SAMP provides a framework within which NCC can secure the operational and financial benefits of an estate that aspires to standards of best practice. It will address the need to secure the maximum potential economic benefit whilst supporting delivery of the council's objectives through providing services, enabling community participation, delivery, growth and regeneration. The objectives of the SAMP are to:

- Articulate a vision for council land and property assets over the coming years.
- Set out a strategic approach in respect of the land and property assets so the portfolio is managed as a whole rather than considering assets in isolation.
- Shape the Council's operational estate to optimise service provision and meet the needs of customers.
- Ensure that the procurement of works for buildings meet sustainable design criteria and those buildings are maintained and managed for maximum energy and resource efficiency.
- Support longer term regeneration and growth by preparing business cases for retaining, acquiring or disposing of assets ensuring best consideration is achieved and where relevant community and social value is taken into consideration.
- Provide a framework against which strategies for council assets, such as schools, leisure facilities and parks, can be developed.
- Develop an approach that maximises income and where relevant, this should be balanced against community or social value.
- Achieve efficiencies by sharing assets across the public sector.
- Seek to ensure that operational properties are appropriately located and accessible to all. This will incorporate an office accommodation strategy, incorporating efficiency in the use of space through agile / remote working and to maximise co-location of services working with partners.

Highways Asset Management Plan (HAMP)

Plan sets out City Services plans for the management of the council's highway asset for the next 5 years. It is based upon assessment of service user's expectations and the anticipated demands on the asset including projected traffic levels.

The plan is designed to ensure that all highway funding is used in the most efficient and cost effective way. This plan is based upon the choices made by the council in terms of the level of investment in the highway asset, what specific asset(s) that investment is to be directed at and the standards that highway users can expect as a result of the works undertaken to achieve those standards.

- Carriageways – Strategy is to repair defects to response times in the maintenance manual. Minimising deterioration by targeting resurfacing works at the roads in the worst condition.
- Footways - Strategy is to repair defects to response times in the maintenance manual. Minimising deterioration by targeting resurfacing works at the roads in the worst condition.
- Streetlighting – Strategy consist of repair of defects (reactive and routine repair) to meet targeted standards; LED lighting invest to save project; Preventative maintenance of lighting columns; and planned maintenance (structural condition) of lighting columns.

- Structures – Strategy allows for only reactive repairs to be carried out. There is currently no planned maintenance, apart from bridge assessment carried out on George Street Bridge.
- Traffic Signals - Strategy for the maintenance of traffic signalised junctions and pedestrian crossings is to carry out reactive emergency and some non-emergency repairs only
- Road Markings - Strategy for the maintenance of road markings is to carry out reactive emergency relining only prioritised on a safety critical basis.
- Drainage - Strategy for the maintenance of drainage is to carry out reactive emergency and some non-emergency repairs along with cyclic maintenance such as gully cleansing.
- Traffic signs - Strategy requires the replacement of worn, damaged signs, etc and the removal of obsolete signs to reduce street clutter. These works are prioritised on a safety critical basis; strategy does not allow for a programme of cleaning and testing of reflectivity or removal of obstructive foliage; strategy does not allow for a programme of planned renewal/replacement of traffic signs.

Schools

Over the past number of years there has been an extensive investment programme in the schools' estate. This has included both investment in the form of Band A and Band B 21st Century schools programme and a number of developer built schemes through S106 monies. For the future programme, there needs to be visibility against capacity and demand for school places across the City and the future projections of that demand and supply.

There will be the need to use developer and other support in more efficient ways in order to build schools which minimise the revenue impact of delivery.

The focus over the last two programmes has largely been on capacity issues, whilst there continues to be deterioration in the asset condition across schools which provides a significant challenge. Alongside the capacity issue focus will need to be given on the current asset portfolio and prioritisation given accordingly.

Service Plans

Service managers need to be aware of the upcoming needs and prioritisations for the delivery of their service and give due consideration to both risk and reward and impact on the achievement of priority outcomes. These will need to be reflected within service plans.

In conclusion, there are key issues coming out of all of these documents, over the long-term we know the Council has a difficult challenge in sustaining and building upon the current assets it has; it therefore will need to make some difficult choices and prioritise on the basis of risk and need on where to spend its money.

5. TREASURY MANAGEMENT

5.1. TREASURY MANAGEMENT

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council limits the need to take out actual borrowing by using positive cash-flow, largely from reserves, to fund capital expenditure funded by borrowing, known as internal borrowing.

Due to decisions taken in the past, the Council currently has £147m borrowing at a weighted average interest rate of 5.6% and £23m treasury investments at a weighted average rate of 0.7%.

5.2. BORROWING STRATEGY

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.

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.

The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.75%) and long-term fixed rate loans where the future cost is known but higher (currently 2.0 to 3.0%).

Projected levels of the Council's total outstanding debt (which comprises borrowing, PFI liabilities, leases are shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31.3.2018 actual	31.3.2019 forecast	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget
Debt (incl. PFI & leases)					
Capital Financing Requirement	282				

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Council expects to comply with this in the medium term.

Affordable borrowing limit: The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2018/19 limit	2019/20 limit	2020/21 limit	2021/22 limit
Authorised limit – borrowing Authorised limit – PFI and leases Authorised limit – total external debt				
Operational boundary – borrowing Operational boundary – PFI and leases Operational boundary – total external debt				

- Further details on borrowing are in pages [X] to [X] of the treasury management strategy [link]

5.3. INVESTMENT STRATEGY

Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

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.

Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Table 8: Treasury management investments in £millions

	31.3.2018 actual	31.3.2019 forecast	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget
Near-term investments					
Longer-term investments					

TOTAL					

- Further details on treasury investments are in pages [X] to [X] of the treasury management strategy [link]

Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Head of Finance and staff, who must act in line with the treasury management strategy approved by Council. Half-year and end of year reports on treasury management activity are presented Council. The audit committee is responsible for scrutinising treasury management decisions.

Loans to other organisations

The Council can and does make investments to assist local public services, including making loans to businesses to promote economic growth. The Council will assess these opportunities and will only plan that such investments at least break even after all costs. Loans to such organisations will be approved following a due diligence process and formal governance arrangements.

The Council will also use other methods of assisting businesses to promote economic regeneration by providing grants or by allowing rent free periods where the Council is the freehold, such as the case at Chartist Tower.

Decisions on service investments are made by the relevant service manager in consultation with the Head of Finance and monitoring officer and must meet the criteria and limits laid down in the investment strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme.

6. COMMERCIAL ACTIVITIES

6.1. COMMERCIALISATION

The Council is currently developing a commercialisation strategy which sets out the approach and policy for the Council's commercialisation agenda. This strategy will include the need to continuously assess all of the Council assets to understand what of the Council's assets can and should be making a financial return and maximising those and stop or dispose of them where they are not and is best way forward. To maximise on the Council's financial strength and covenant and skill's within its workforce and partners where appropriate.

Council Assets:

- We will look to use our existing infrastructure for commercial gain and use our land and buildings where we can to deliver housing and growth in such a way as to maximise benefits to the Council

- We will look to share and collaborate with our partners in use of buildings and other assets and generate capital receipts and reduce costs

- We will, through the Councils Treasury Strategy, consider changing our risk appetite for investing in higher return / less liquid assets and recalibrate the cost/benefit of the Councils current practices.

- Implementing this strategy will require, in some areas, financial resources and this will need to be made available via the Councils Invest to Save reserve and where appropriate, prudential borrowing. This will need to be approved via the governance framework upon business cases meeting assessment criteria, in particular payback period and levels of return.

The Council has an existing investment portfolio which is 100% based within the city including retail, industrial and office. The Council are currently undertaking a project alongside our property advisors, Norse Newport Ltd, assessing the performance of our Commercial & Industrial portfolio and potential for maximising returns on those assets (which may require up-front investment). The Council will consider, if the opportunities arise, the purchase of land and property as an investment – to both generate an ongoing income stream or to realise an increased capital value in the future.

The decision making on this would be based on a number of factors which would take into account potential for returns and risk and take into account other costs such as interest and Minimum Revenue Provision if financed through borrowing. The priorities for the Council when acquiring property interests for investment purposes are (in order of importance):

- **Covenant Strength**
- **Lease Length**
- **Rate of Return**
- **Risk**
- **Lease Terms**
- **Growth**
- **Location**
- **Sector**
- **Building Age and Specification**

We will use our property advisors, Newport Norse in the appraisal and evaluation process to inform decision making. Due diligence during this decision making process is of upmost importance and a set due diligence process is required to be adhered to.

Appropriate new governance arrangements are required for the commercialisation agenda and will be included in the ongoing commercial strategy.

Asset disposals

As part of the commercial activity, we will look at decisions about our Council assets and this could include disposal. When a capital asset is no longer needed or is not used as an investment opportunity, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts. The Council forecasts to receive £1.7m of capital receipts in the coming financial year as follows:

Table 9: Capital receipts in £ millions

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
Asset sales					
TOTAL					

- Further details of planned asset disposals are on pages [X] to [X] of the capital programme: [link]

7. OTHER LONG-TERM LIABILITIES

In addition to debt of £147m detailed above, the Council has a number of other long-term liabilities (potential call on future Council resources) as follows:

Private Finance Initiative (PFI)

The Council has two PFI arrangements for the provision of the Southern Distributor Road (25 years remaining) and for Glan Usk Primary School (16 years remaining). As at 31 March 2018 the value of the liability was £45.1m. The Council holds an earmarked reserve which covers the future costs of the PFI.

Pension Liability

The Council is committed to making future payments to cover its pension fund deficit (valued at £324.1m).

Provisions and Guarantees

The Council has set aside provisions and reserves for risks in relation to outstanding insurance claims and guaranteed subsidies in relation to Friars Walk. The Council has also entered into a number of financial guarantees where the Council has entered into agreements to act as a guarantor in particular safeguarding of former employee pension rights when their employment is transferred to third party organisations.

8. KNOWLEDGE AND SKILLS

IN-HOUSE EXPERTISE

The overall Capital Programme and Treasury Management Strategy are overviewed by the Head of Finance and Assistant Head of Finance, who are both professionally qualified accountants with extensive Local Government finance experience between them. There is a Capital Accounting team consisting of qualified and part-qualified accountants who follow Continuous Professional Development Plan (CPD) / attend courses on an ongoing basis to keep abreast of new developments and skills. There is a small Treasury Management team who manage the day-to-day cash-flow activities and banking arrangements of the authority, these again attend the necessary courses and training and have a vast amount of experience.

EXTERNAL EXPERTISE

All the Council's commercial projects have project teams from all the professional disciplines from across the Council and when required external professional advice is taken from the property advisors, Newport Norse, or other professional advice if required.

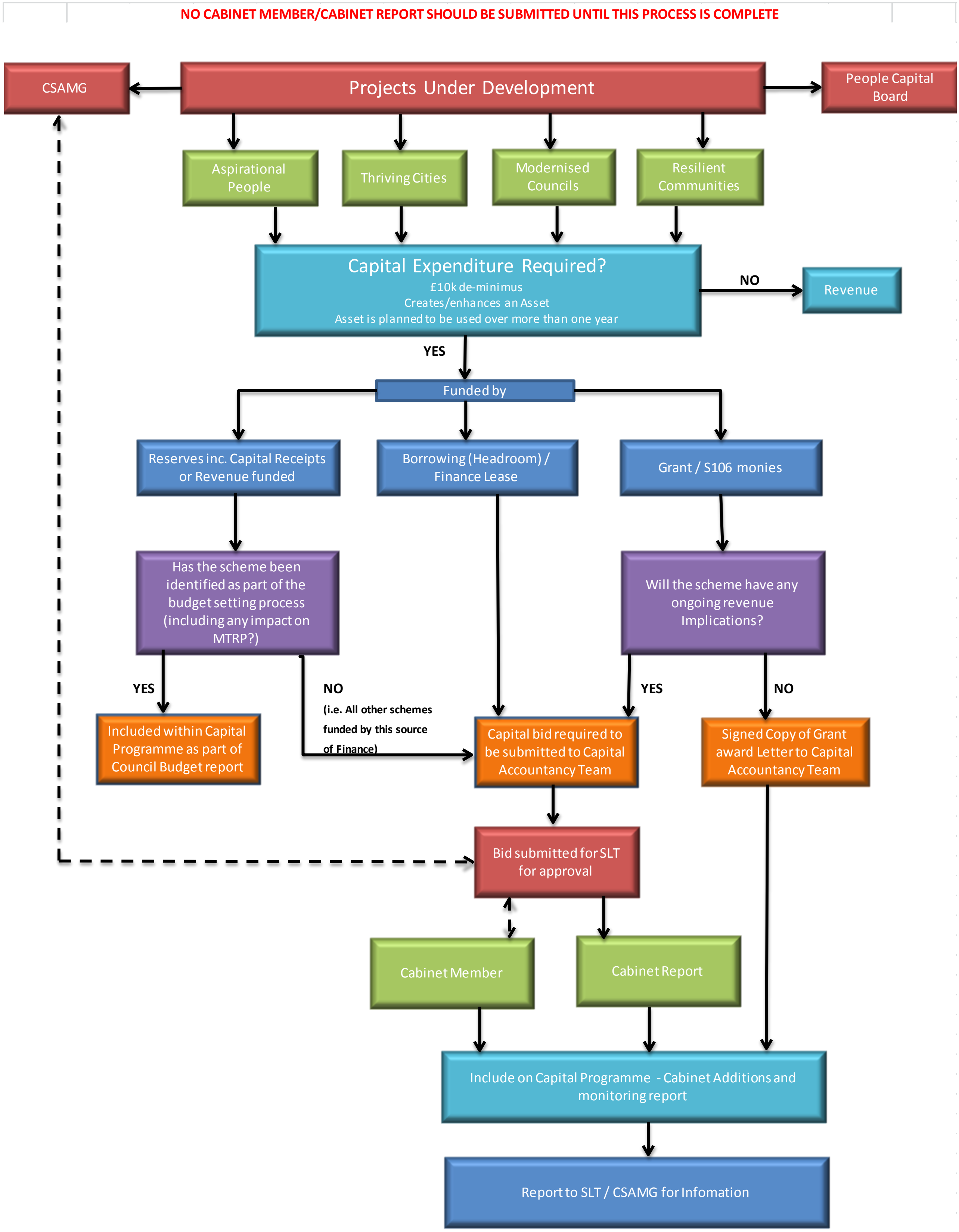
MEMBERS

Training is offered to members to ensure they have up to date skills to make capital and treasury decisions. A register is also kept on member attendance. The Council also involves members at a very early stage of a projects life cycle.

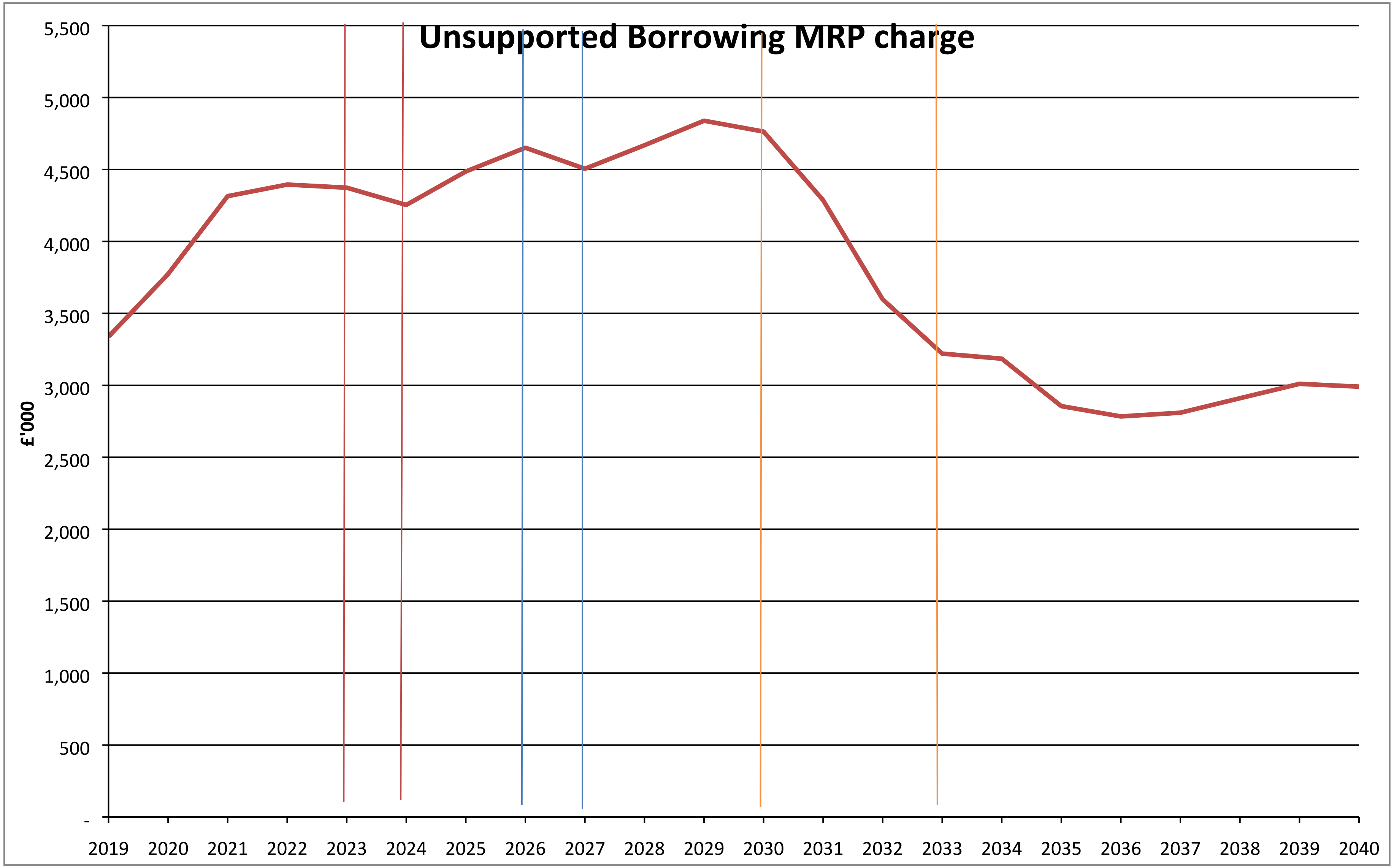
9. SUMMARY

- Capital expenditure plans for the Council need to be affordable, prudent and sustainable.
- The MTFP includes the current revenue costs for the capital programme, which includes level of headroom for additional capital projects to be added without impacting further on the revenue budget.
- As per the agreed framework the current programme needs to be maintained within the affordability headroom, therefore not putting additional pressure on the MRP budget.
- There are a number of demands on the capital programme, there is the need to link the capital strategy with a number of strategic plans across the organisation to ensure the pressures on the capital programme are known and the risks are assessed and prioritised within an affordable framework. This will include clear visibility and assessment of demand for schools, highways and other operational assets.
- Decisions on funding capital expenditure through borrowing locks the Council into committing revenue funding over a very long period (as long as 40 years +). With the MRP budget increasing over the long-term as shown in chart X, the Council will need to make some difficult decisions going into the next programme to ensure the capital plans remain affordable and sustainable.

APPENDIX 1 – Capital Additions Process Map



Appendix 2



Unsupported Borrowing MRP charge
£'000
5,500
5,000
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
-
2019
2020
2021
2022
2023
2024
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2026
2027
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2035
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2040

Report

Audit Committee

Part 1

Date: 24 January 2019

Item No: 6

Subject **Internal Audit – Progress against audit plan 2018/19 Quarter 3**

Purpose To inform Members of the Council's Audit Committee of the Internal Audit Section's progress against the 2018/19 agreed audit plan for the first 9 months of the year by providing 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 2018/19 audit plan and internal performance indicators. The majority of Internal Audit reviews have been given a **Reasonable** opinion; *adequately controlled although risks identified which may compromise the overall control environment; improvements required; reasonable level of assurance.*

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

Signed

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 9 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 Q3.

Internal Audit Staffing

3. The team currently operates with an establishment of 8 audit staff. At the start of the year there were 8 audit staff in the team, reduced to 7 during Q2 due to an internal promotion; we have had a vacancy in the team since August 2018.

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 and reduced in numbers in 2016/17.

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 (updated March 2017) which the team needs 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 took place in 2017/18; the outcome being that the team is generally compliant with the Standards, with no significant areas of non-compliance; this is the highest standard of compliance.

8. The 2018/19 Draft Audit Plan was agreed by the Audit Committee on the 28th March 2018 with the Final being approved on the 24th May 2018.

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 time consuming 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; there have also been a few 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 3 2018/19 is summarised below with the detail shown at **Appendix A**:

    a. 53% of the audit plan has been achieved so far which is higher than the profiled target of 50%;

    b. The promptness of issuing draft reports (comparing timescale between finalising all fieldwork and issuing the draft report to management) averages at 11 days which is just 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 3 days which is below the target time of 5 days.

12. Coverage of the plan at this stage of the year is above expectations; the target being 50% for Quarter 3, despite the team being involved with a number of 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. 19 days have been spent finalising 17 2017/18 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.

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.

16. From time to time the team does get involved with non-planned audit work which often results in special investigations.

<u>Quality Control</u>

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 2018/19.

<u>Financial Training</u>

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; 7 sessions have been delivered up to the end of Q3 to 163 delegates.

Audit Opinions 2018/19

20. Audit opinions issued so far in 2018/19 are shown at **Appendix B.** Definition of audit opinions currently given is shown at **Appendix D**.

21. 29 jobs completed to at least draft report stage by 31 December 2018 warranted an audit opinion: 4 x *Good*, 19 x *Reasonable, 5* x *Unsatisfactory* and 1 x *Unsound.* In addition 5 grant claim audits have been undertaken during the year; 4 were *Unqualified,* 1 was *Qualified.* Other work completed related to the Annual Governance Statement, National Fraud Initiative (NFI), provision of financial advice and training (**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. If the plan is not completed due to a lack of resource in the team, the Chief Internal Auditor may have to qualify his year end assurance opinion provided to the Audit Committee.

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	L	Passed potential management issues back to management ; Will take on agency staff to cover long term vacancy	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, hence Improving People's Lives.

- 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 to be considered. 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. 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. It is also critical in ensuring that the organisation meets its statutory responsibilities under the Well-being of Future Generations Act (2015).

Comments of Cabinet Member

35. N/A

Local issues

36. N/A

Scrutiny Committees

37. N/A

Equalities Impact Assessment and the Equalities Act 2010

38. The Equality Act 2010 contains a Public Sector Equality Duty which came into force on 06 April 2011. The Act identifies a number of ‘protected characteristics’, namely age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; sexual orientation; marriage and civil partnership. The new single duty aims to integrate consideration of equality and good relations into the regular business of public authorities. Compliance with the duty is a legal obligation and is intended to result in better informed decision-making and policy development and services that are more effective for users. In exercising its functions, the Council must have due regard to the need to: eliminate unlawful discrimination, harassment, victimisation and other conduct that is prohibited by the Act; advance equality of opportunity between persons who share a protected characteristic and those who do not; and foster good relations between persons who share a protected characteristic and those who do not. The Act is not overly prescriptive about the approach a public authority should take to ensure due regard, although it does set out that due regard to advancing equality involves: removing or minimising disadvantages suffered by people due to their protected characteristics; taking steps to meet the needs of people from protected groups where these differ from the need of other people; and encouraging people from protected groups to participate in public life or in other activities where their participation is disproportionately low.

39. As this is a progress report on performance and audit opinions there is no need for an Equalities Impact Assessment. All audits are undertaken in a non-discriminatory manner.

Children and Families (Wales) Measure

40. N/A

Wellbeing of Future Generations (Wales) Act 2015

41. In compiling this report the principles of this Act have been considered:

- Long term: The Internal Audit workload is based on an annual operational plan supported by a 5 year strategic plan
- Prevention: Internal Audit identify strengths and weaknesses within the control environment of Newport City Council; addressing the weaknesses gives management the opportunity of preventing gaps in service provision getting worse. This should also minimise the potential for fraud, theft, loss or error.
- Integration: Internal Audit opinions provide an objective opinion on the adequacy of the internal control environment in operation and support sound stewardship of public money.
- Collaboration: Internal Audit work with operational managers to develop an appropriate action plan in order to address identified concerns.
- Involvement: Heads of Service and Senior Managers are invited to contribute to the audit planning process each year in order to prioritise audit resources.

Crime and Disorder Act 1998

42. The work undertaken by Internal Audit should minimise potential fraud, corruption, theft or misappropriation within the Council. Allegations of potential criminal activity will be investigated and reported to the police where appropriate.

Consultation

43. N/A

Background Papers

44. N/A

Dated:

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

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%	54%	84%	[Profiled Target 50%]
Proportion of planned audits complete within estimated days	65%	N/A	50%	73%	68%	Cumulative figures
Directly chargeable time against total time available	50%	52%	63%	64%	62%	Quarterly performance
Directly chargeable time against planned	84%	62%	92%	84%	91%	Quarterly performance
Proportion of Special Reviews responded to within 5 working days	100%	N/A	100%	100%	100%	Cumulative figures
Number of sessions provided to train staff in all Service Areas on best financial practice	11	2	4	6	9	Cumulative figures
Staff turnover rate (number of staff)	1	1	0	0	0	Quarterly performance
Promptness of draft report issue (end of fieldwork to draft report issue date)	10 days	4 days	13 days	16 days	14 days	Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	8 days	6days	4 days	4 days	Cumulative figures

2018/19	2018/19 Target	1st Qtr 18/19	2nd Qtr 18/19	3rd Qtr 18/19	4th Qtr 18/19	Comments
Proportion of planned audits complete	82%	20%	36%	53%		[Profiled Target 50%]
Proportion of planned audits complete within estimated days	65%	50%	56%	47%		Cumulative figures
Directly chargeable time against total time available	50%	59%	59%	58%		Quarterly performance
Directly chargeable time against planned	84%	92%	92%	87%		Quarterly performance
Proportion of Special Reviews responded to within 5 working days	100%	N/A	100%	100%		Cumulative figures
Number of sessions provided to train staff in all Service Areas on best financial practice	11	3	6	7		Cumulative figures
Staff turnover rate (number of staff)	1	0	1	0		Quarterly performance
Promptness of draft report issue (end of fieldwork to draft report issue date)	10 days	3 days	9 days	11 days		Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	2 days	3 days	3 days		Cumulative figures

Appendix B
Opinions as at 31 December 2018, Qtr 3

Good	4
Reasonable	19
Unsatisfactory	5
Unsound	1
Total	29

Internal Audit Services - Management Information for 2018/19 Q3

Job number	Group	Service Area	Section or Team	Job Title	Risk Rating / Priority	Complete when FINALISED	Opinion given
P1819-6	CE	Finance	Income Collection	Council Tax	Medium	Finalised	Good
P1819-50	Place	RI&H	Community Regeneration	Inspire to Achieve	Medium	Draft	Good
P1819-82	People	Education Serv	Primary Schools	St. Andrew's Primary	Medium	Draft	Good
P1819-85	People	Education Serv	Secondary Schools	St Joseph's High	Medium	Finalised	Good
P1819-2	CE	Finance	Accountancy	Taxation (VAT)	Medium	Finalised	Reasonable
P1819-3	CE	Finance	Accountancy	Income Returns	Medium	Finalised	Reasonable
P1819-8	CE	Finance	Procurement	Petty Cash / Imprest Accounts	Medium	Finalised	Reasonable
P1819-14	CE	People & Bus Change	Business Improvement & Performance	Performance Indicators	Medium	Draft	Reasonable
P1819-16	CE	People & Bus Change	Human Resources	Members' Allowances	Medium	Finalised	Reasonable
P1819-17	CE	People & Bus Change	Human Resources	Payroll CAATs	Medium	Draft	Reasonable
P1819-27	People	Children & Young People Serv	Operations	Adoption Fees	High	Draft	Reasonable
P1819-34	People	Adult & Comm Serv	Managed Care	NCN Teams (x 3 - East, North, West)	High	Draft	Reasonable
P1819-38	People	Adult & Comm Serv	Care & Support Services	Parklands	Medium	Finalised	Reasonable
P1819-43	CE	Law & Regulation	Public Protection	Food Safety	Medium	Draft	Reasonable
P1819-49	Place	RI&H	Community Regeneration	Families First	High	Finalised	Reasonable

Job number	Group	Service Area	Section or Team	Job Title	Risk Rating / Priority	Complete when FINALISED	Opinion given
P1819-55	Place	RI&H	Housing, Regeneration & Property	Housing Needs (Common Register)	Medium	Finalised	Reasonable
P1819-58	Place	Streetscene & City Serv	Customer Experience	Housing Benefits	High	Draft	Reasonable
P1819-77	People	Education Serv	Primary Schools	Milton Primary (PAR) (2017/18)	Medium	Finalised	Reasonable
P1819-78	People	Education Serv	Primary Schools	Charles Williams Primary (Follow-Up)	High	Draft	Reasonable
P1819-79	People	Education Serv	Primary Schools	Maindee Primary	Medium	Finalised	Reasonable
P1819-80	People	Education Serv	Primary Schools	Pillgwenlly Primary	Medium	Finalised	Reasonable
P1819-81	People	Education Serv	Primary Schools	Ysgol Gymraeg Ifor Hael	Medium	Draft	Reasonable
P1819-84	People	Education Serv	Secondary Schools	Llanwern High (Follow-Up)	High	Finalised	Reasonable
P1819-19	CE	People & Bus Change	Digital & Information	General Data Protection Regulation (GDPR)	High	Finalised	Unsatisfactory
P1819-21	CE	People & Bus Change	Digital & Information	Subject Access Requests	Medium	Finalised	Unsatisfactory
P1819-22	CE	People & Bus Change	Digital & Information	SRS Client Relationship Management	High	Draft	Unsatisfactory
P1819-61	Place	Streetscene & City Serv	Highways Maintenance	Highways	High	Draft	Unsatisfactory
P1819-68	Place	Streetscene & City Serv	Waste & Cleansing	Street Cleansing	High	Finalised	Unsatisfactory
P1819-73	People	Education Serv	Inclusion	Bridge Achievement Centre (PRU)	High	Draft	Unsound
P1819-75	People	Education Serv	Education Grants	Education Improvement Grant 2017/18	High	Finalised	Qualified

Job number	Group	Service Area	Section or Team	Job Title	Risk Rating / Priority	Complete when FINALISED	Opinion given
P1819-36	People	Adult & Comm Serv	Service Development & Commissioning	Supporting People Programme Grant (SPPG) Certification (Outcomes)	Medium	Finalised	Unqualified
P1819-37	People	Adult & Comm Serv	Service Development & Commissioning	Supporting People Programme Grant (SPPG) Certification (Finances)	Medium	Finalised	Unqualified
P1819-46	CE	Law & Regulation	Public Protection	Scambusters Grant Claim 2017/18	High	Finalised	Unqualified
P1819-76	People	Education Serv	Education Grants	Pupil Deprivation Grant 2017/18	Medium	Finalised	Unqualified

Appendix C

Non Opinion work 2018/19 Q3

Job number	Group	Service Area	Section or Team	Job Title	Risk Rating / Priority
P1819-10	CE	Finance	General	Annual Governance Statement	Not applicable
P1819-11	CE	Finance	General	National Fraud Initiative (NFI)	Not applicable
P1819-12	CE	Finance	General	Financial Advice	Not applicable
P1819-23	CE	People & Bus Change	General	Financial Advice	Not applicable
P1819-24	CE	People & Bus Change	General	Financial Regulations Training	Not applicable
P1819-31	People	Children & Young People Serv	General	Financial Advice	Not applicable
P1819-39	People	Adult & Comm Serv	General	Financial Advice	Not applicable
P1819-47	CE	Law & Regulation	General	Financial Advice	Not applicable
P1819-56	Place	RI&H	General	Financial Advice	Not applicable
P1819-65	Place	Streetscene & City Serv	Transport	Civil Parking Enforcement (Consultancy)	Not applicable
P1819-69	Place	Streetscene & City Serv	General	Financial Advice	Not applicable
P1819-87	People	Education Serv	Other - Schools Related	CRSA's / Healthcheck - Secondary / Primary / Nursery	Not applicable
P1819-88	People	Education Serv	General	Schools Financial Regulations Training	Not applicable
P1819-89	People	Education Serv	General	Financial Advice	Not applicable

Appendix D

INTERNAL AUDIT SERVICES – OPINION DEFINITIONS

	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: 24 January 2019

Item No: 7

Subject **Internal Audit – Progress against unfavourable audit opinions previously issued [to September 2018]**

Purpose To inform Members of the Council's Audit Committee of the progress made by operational managers to implement agreed management actions in order to improve the control environment, minimise risk and obtain a more favourable audit opinion within their service or establishment.

Author Chief Internal Auditor

Ward General

Summary The attached report identifies current progress of systems or establishments which have previously been given an unsatisfactory or unsound audit opinion. Although there will always be concerns over reviews given an unsatisfactory or unsound audit opinion, managers are allowed sufficient time to address the issues identified and improve the financial internal controls within their areas of responsibility.

During **2016/17** 35 audit opinions had been issued; 5 were *Unsatisfactory,* 1 was *Unsound*. The new Head of Streetscene & City Services was called into Audit Committee in June 2017 to respond to concerns raised by Members of the Audit Committee regarding further unfavourable audit opinions in that service area. This was reported, in part, to Audit Committee in March 2017.

During **2017/18** 40 audit opinions had been issued; 6 were *Unsatisfactory,* none were *Unsound*. The audit of Agency / Overtime – Refuse resulted in a second unfavourable audit opinion.

As at 30 September 2018, during **2018/19**, 22 audit opinions had been issued; 3 were Unsatisfactory, 1 was Unsound.

Proposal

1) The report be noted and endorsed by the Council's Audit Committee
2) To consider calling in any specific heads of service if members of the Audit Committee feel they require further assurance that improvements will be made to the control environment following unfavourable audit opinions.

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

Signed

Background

1. This report aims to inform Members of the Audit Committee of the current status of audit reviews previously given an *unsatisfactory* or *unsound* audit opinion and to bring to their attention any areas which have **not** demonstrated improvements within the financial control environment. The previous report was presented to Audit Committee in June 2018 which related to opinions as at 31 March 2018. The then new Head of Streetscene & City Services was called into Audit Committee in June 2017 to respond to concerns raised by Members of the Audit Committee regarding further unfavourable audit opinions in that service area. He gave a commitment that improvements would be made within 12 months. The same Head of Service also attended Audit Committee in September 2018 to respond to concerns raised about a second consecutive unfavourable audit opinion in relation to Refuse Agency & Overtime .

2. Since bringing this report to the Audit Committee there have been 13 reviews (excluding Agency / Overtime - Refuse) which had been given two consecutive *unsatisfactory* or *unsound* audit opinions and these have previously been brought to the attention of the Audit Committee by the Chief Internal Auditor; in each case the relevant Head of Service and Cabinet Member attended a meeting of the Audit Committee.

3. It is pleasing to report that improvements were made in 12 of the 13 areas and have been reported to Audit Committee previously. These reviews will now be picked up as part of the audit planning cyclical review and will be audited as part of that process.

4. Where the Internal Audit team comes across obstacles in undertaking follow up work, for example managers stating that the issues will be addressed by the implementation of a new system, the Chief Internal Auditor will take a view as to the usefulness of a follow up review at the time and report back to the Audit Committee.

5. Definitions of the audit opinions are shown at Appendix A

History of unfavourable audit opinions

6. In **2015/16**, 34 audit opinions were issued; 8 of which were deemed to be *Unsatisfactory*; a summary of the significant issues has previously been reported. 5 out of the 8 audits have been followed up and were given a more favourable audit opinion which has been reported previously.

	Original Date of follow up	Current Status
Joint Venture – Newport Norse	Unsatisfactory 2015/16 Follow up: 2018/19	Not yet followed up. Delay in finalising original report. Senior Managers requested follow up to be put back. Now planned for Q4 2018/19 following the outcome of the independent CIPFA review.
Highways Improvements Contracts – Project Management	Unsatisfactory 2015/16 TBC	Not yet followed up. No further project management / contracts being undertaken in the service area.
CCTV / Security Telford Depot	Unsatisfactory	Follow up planned for 2017/18

– Follow Up	2014/15 Unsatisfactory 2015/16	but delayed due to new cameras installation. Now planned for Q4 2018/19.

7. In **2016/17**, 35 audit opinions were issued; 5 were deemed to be *Unsatisfactory,* 1 was *Unsound.* 1 out of the 5 has been followed up and was given a more favourable audit opinion which has been reported previously.

	Original Opinion / Date of follow up	Current Status
Payment Card Industry Data Security Standards	Unsatisfactory *1 July 2016	Now within SRS monitored by Information Governance Group
Highways Network Assets Valuation	Unsatisfactory *2 February 2017	N/A
Charles Williams Church in Wales School	Unsatisfactory July 2017 Follow up: Q3 2018/19	
Agency / Overtime - Refuse (incl. Follow-up)	Unsound November 2016 Unsatisfactory March 2018 Follow up: Q4 2018/19	

*1 Still a number of actions outstanding which require work by the Shared Resource Service (SRS). These are behind due to the current workload of the SRS which includes a large number of projects. The matter is on the agenda and being monitored by the Council's Information Governance Group.

*2 The risk profile has reduced substantially as a result of CIPFA deciding not to proceed with the introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities and the fact that the valuation figures are no longer a mandatory requirement for the whole of government accounts.

8. In **2017/18**, 40 audit opinions were issued; 6 were deemed to be *Unsatisfactory,* none were *Unsound*. In addition, an audit of Freedom of Information & Subject Access Requests revealed

that the internal controls in relation to Subject Access Requests were *Unsatisfactory* and a follow-up review of this specific area has been scheduled. A summary of the significant issues follows in the table:

	Original Opinion / Date of follow up	Current Status
Llanwern High School	Unsatisfactory December 2017	Reasonable August 2018 (Draft)
Cemeteries	Unsatisfactory January 2018 Follow up: Q4 2018/19	
SGO / Kinships	Unsatisfactory March 2018 Follow up: Q4 2018/19	
Trips & Visits (Evolve)	Unsatisfactory March 2018 Follow up: Q4 2018/19	
Outside Preferred Catering Contractor (Schools)	Unsatisfactory March 2018 Q1 2019/20 A follow up audit is subject to the School entering into a new contract	
Agency / Overtime – Refuse Follow Up	Unsound November 2016 Unsatisfactory March 2018 [Head of City Services called into Audit Committee September 2018.] Follow up: Q4 2018/19	

9. In **2018/19 (as at 30 September 2018)**, 22 audit opinions had been issued; 3 were deemed to be *Unsatisfactory,* 1 was deemed to be *Unsound.*

	Revised Opinion / Date of follow up	Current Status
General Data Protection Regulation (GDPR)	Unsatisfactory Sept 2018 Draft	
Subject Access Requests	Unsatisfactory Sept 2018 Draft	
Street Cleansing	Unsatisfactory August 2018 Final	
Bridge Achievement Centre (PRU)	Unsound Sept 2018 Draft	

a. General Data Protection Regulation (GDPR)

Ref.	SIGNIFICANT
1.06	There was no action plan in place to document and demonstrate the Authority's level of compliance against the GDPR legislation.
1.07	Corporate and service area policies and procedures had not been reviewed to ensure that they were aligned with GDPR changes.
1.08	Privacy notices for specific data processing activities undertaken by the Council and schools were not in place.
2.04	There was minimal communication, advice and guidance provided corporately to NCC staff before and after GDPR implementation.
2.05	There was no mandatory requirement for staff to complete GDPR training. Where training was provided through online e-learning courses these had not been updated to reflect the GDPR changes or promoted to staff to complete.
3.05	The form audit completed by service areas had: • not fully captured and documented information collected by the Council; • not been completed by all service areas; and • not been subject to review / validation by the Information Management team / Task & Finish Group.
4.01	There was no corporate policy in place for the management and processing of SARs to ensure compliance with the Data Protection Act 1998 and future compliance with GDPR 2018.

Ref.	SIGNIFICANT
4.02	There were no corporate procedures and/or guidance in place to ensure that officers comply with the Data Protection Act when processing SARs.
4.03	There was no performance indicator in place to enable the monitoring and reporting of compliance with SARs processed within 30 calendar days in accordance with GDPR.
4.04	There was no corporate approach to ensure that all SARs received were logged in a central corporate system.

b. Subject Access Requests

Incorporated within the GDPR Report.

c. Street Cleansing

Ref.	SIGNIFICANT
1.07	There was insufficient evidence recorded to demonstrate the completion of the Street Cleansing schedule / responsive work.
1.08	Official Work Instructions' have been implemented without fully consulting with Human Resources and ensuring alignment with the Council's Disciplinary Policy.
1.09	Responsive requests received from members of the public were not being completed within the agreed timescales. It was not documented as to how Service Request Ticket (SRT) requests were to be prioritised.
1.10	Supervision of the work undertaken by the Operatives was not regularly completed and did not include the cleanliness of the street.
2.10	Annual leave entitlement was sometimes incorrectly calculated with annual leave taken not annotated on records as being approved by their line manager.
2.11	There was a high usage of agency staff with some agency working up to 2 years' service to deliver the cleansing service whilst it was running unadvertised vacancies.
2.12	High levels of TOIL were claimed by a Supervisor for undertaking 'mustering' duties which should be completed as part of their normal working time / day.
2.13	There were high sickness levels within Street Cleansing for the period covering 1st April 2017 to 30th April 2018. In addition there was insufficient recording of the reasons for the management actions taken to demonstrate that the Management of Attendance Policy had been followed.
3.04	There was no inventory in place to record all of the Street Cleansing equipment held at Telford Depot, Park Square and Caerleon.
3.05	There was no key list in place and vehicle keys were not stored in a lockable cabinet and were easily accessible to non-authorised staff.

d. **Bridge Achievement Centre (PRU)**

Although included within the 2018/19 Internal Audit Plan, due to initial concerns raised by the Chief Education Officer, this review was undertaken as a special investigation. The findings have therefore been reported directly to the Chief Education Officer, who along with the Strategic Director, is addressing the issues identified. Internal Audit will undertake a follow up review in due course in line with the agree protocol.

General

10. Internal Audit will continue to cover the service areas and specific sections identified in the 2018/19 operational plan and will endeavour to revisit any areas which have been given an *Unsatisfactory* or *Unsound* audit opinion within a twelve month timescale.

11. Heads of Service and service managers are responsible for addressing any weaknesses identified in internal systems and have agreed to do this by incorporating their comments within the audit reports and taking on board the agreed management actions.

12. Internal Audit are continuing to raise the awareness of financial regulations and contract standing orders within the Council by delivering seminars to all service areas; during recent years this training has been further targeted towards areas that have had *Unsatisfactory* audit opinions.

13. Where managers are compliant with Council policies and procedures and sound financial management can be demonstrated then audit reviews should result in an improved audit opinion being given. If, as a result, improvements are made to internal controls then greater assurance can be given by Internal Audit to the Audit Committee, the Leader and the Chief Executive on the overall effectiveness of all the Council's internal controls

Financial Summary

14. There are no direct financial issues related to this report.

Risks

15. One of the key objectives of an audit report is to outline compliance against expected controls within a system, an establishment or the duration of a project or contract. The report should give management assurance that there are adequate controls in place to enable the system to run effectively, efficiently and economically. If adequate controls are not in place then there is greater exposure to the risk of fraud, theft, corruption or even waste.

16. Newport Internal Audit reports outline strengths of the system under review along with any weaknesses in internal control. The reports are discussed with operational management where the issues identified are agreed. The operational manager will then add his / her action plans to the report which will address the agreed issue and mitigate any further risk.

17. Reduced audit staff reduces the audit coverage across service areas which provides reduced assurance to management.

Risk	Impact of Risk if it occurs*	Probability of risk occurring	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

	(H/M/L)	(H/M/L)		risk?
Audit Plan not completed	M	M	Passed potential management issues back to management; Agency staff taken on board to cover longer term vacancies.	Chief Internal Auditor

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

18. 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

19. 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.

20. The Audit Committee is asked to note progress on

Preferred Option and Why

21. N/A

Comments of Chief Financial Officer

22. This report is compiled on behalf of the Head of Finance. Areas of unsatisfactory / unsound audit opinions are a concern and in particular for 2017/18, those affecting significant amount of money in overtime/on-call arrangements. But having highlighted issues, it is expected that local managers implement appropriate improvements as soon as they can. Further on-going unsatisfactory / unsound opinions are then of even more concern and the Committee will need to come to a view, having made enquiries of the Chief Internal Auditor, what, if any further action may be required. For example, they may request that the relevant Head of Service and service manager come to a future meeting to explain the lack of progress and what changes they have planned and timescales.

Comments of Monitoring Officer

23. There are no legal implications. The report has been prepared in accordance with the Council's internal audit procedures and the Performance Management framework.

Staffing Implications: Comments of Head of People and Business Change

24. There are no direct Human Resources issues arising from this report. Internal Audit provide a critical function within the Council to provide assurance on financial systems and monitoring and to highlight weaknesses so that issues can be identified and addressed.

Comments of Cabinet Member

25. N/A

Local issues

26. N/A

Scrutiny Committees

27. N/A

Equalities Impact Assessment and the Equalities Act 2010

28. The Equality Act 2010 contains a Public Sector Equality Duty which came into force on 06 April 2011. The Act identifies a number of 'protected characteristics', namely age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; sexual orientation; marriage and civil partnership. The new single duty aims to integrate consideration of equality and good relations into the regular business of public authorities. Compliance with the duty is a legal obligation and is intended to result in better informed decision-making and policy development and services that are more effective for users. In exercising its functions, the Council must have due regard to the need to: eliminate unlawful discrimination, harassment, victimisation and other conduct that is prohibited by the Act; advance equality of opportunity between persons who share a protected characteristic and those who do not; and foster good relations between persons who share a protected characteristic and those who do not. The Act is not overly prescriptive about the approach a public authority should take to ensure due regard, although it does set out that due regard to advancing equality involves: removing or minimising disadvantages suffered by people due to their protected characteristics; taking steps to meet the needs of people from protected groups where these differ from the need of other people; and encouraging people from protected groups to participate in public life or in other activities where their participation is disproportionately low.

29. As this is a progress report on performance and audit opinions there is no need for an Equalities Impact Assessment. All audits are undertaken in a non-discriminatory manner.

Children and Families (Wales) Measure

30. N/A

Wellbeing of Future Generations (Wales) Act 2015

31. In compiling this report the principles of this Act have been considered:

- Long term: The Internal Audit workload is based on an annual operational plan supported by a 5 year strategic plan

- Prevention: Internal Audit identify strengths and weaknesses within the control environment of Newport City Council; addressing the weaknesses gives management the opportunity of preventing gaps in service provision getting worse. This should also minimise the potential for fraud, theft, loss or error.
- Integration: Internal Audit opinions provide an objective opinion on the adequacy of the internal control environment in operation and support sound stewardship of public money.
- Collaboration: Internal Audit work with operational managers to develop an appropriate action plan in order to address identified concerns.
- Involvement: Heads of Service and Senior Managers are invited to contribute to the audit planning process each year in order to prioritise audit resources.

Crime and Disorder Act 1998

32. The work undertaken by Internal Audit should minimise potential fraud, corruption, theft or misappropriation within the Council. Allegations of potential criminal activity will be investigated and reported to the police where appropriate.

Consultation

33. N/A

Background Papers

34. N/A

Dated:

Appendix A

INTERNAL AUDIT SERVICES – OPINION DEFINITIONS

	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.

Report

Audit Committee

Part 1

Date: 24 January 2019

Agenda Item: 8

Subject **Work Programme**

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

Author Governance Officer

Ward General

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

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

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

Action by Audit Committee

Timetable Immediate

This report was prepared after consultation with:

- Head of Law and Regulation
- Head of Finance
- Head of Human 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.

28 March 2019
Corporate Risk Register Update (Quarter 3)
Annual Audit outline for the 2018/19 Financial Audit
WAO Annual Report on Grants Works 2017-18
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)

24 May 2018
Appointment of Chairman
Internal Audit Annual Report 2017/18
Internal Audit Annual Plan 2018/19
Annual Governance Statement
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 4, Jan to March)
Corporate Risk Register Update (considered by Cabinet in April)
Regulatory Reports
Treasury Management covering the Financial Year 2017/18
Referrals to Audit Committee

21 June 2018
Internal Audit Unsatisfactory Audit Opinions (6 monthly report)
Call in Head of Service, Regeneration, Investment & Housing – Standing Order 24 (Urgent Decisions) Quarter 4 – January – March 2018
Draft Financial Accounts 2017/18
Audit Enquiries Checklist 2017/18
Referrals to Audit Committee

20 September 2018
Progress Against Internal Audit Plan 2018/19 – Qtr 1
Call in Head of Streetscene & City Services to respond to Unsatisfactory Audit Opinions within Streetscene
Call in Head of Regeneration, Investment & Housing – SO24/Waiving of Contract Standing Orders: Quarterly report reviewing Cabinet/CM Urgent Decisions or Waiving Contract SOs (Quarter 1 April – June 2018)
Public Sector Internal Audit Standards – External Review
Statement of Accounts 2017-18
Audit of Financial Statements Report 2017-18
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)
Report on Audit Committee Self Evaluation Exercise
Referrals to Audit Committee

22 November 2018
Internal Audit Plan 2018/19 – Progress (Quarter 2)
Wales Audit Office – Final Accounts Memorandum
Call in Head of Regeneration, Investment and Housing – SO24/Waiving of Contract Standing Orders: Quarterly Report Reviewing Cabinet/CM Urgent Decisions or Waiving Contract Standing Orders
Treasury Management Report
Lessons Learned 2017/18
Corporate Risk Register

24 January 2019
Internal Audit Plan – Progress (Quarter 3)
Treasury Management Report
Internal Audit Unsatisfactory Audit Opinions (6 monthly report)
Referrals to Audit Committee

28 March 2019
Corporate Risk Register Update (Quarter 3)
Annual Audit outline for the 2018/19 Financial Audit
WAO Annual Report on Grants Works 2017-18
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 (Dates to be agreed)

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