Public Document Pack

Agenda

Audit Committee

Date: Thursday, 28 January 2021

Time: 5.00 pm

Venue: Microsoft Virtual Teams Meeting

To: Mr J Baker (Chair) Councillors H Thomas, M Whitcutt, K Thomas, L Lacey, P Hourahine, R White, J Jordan and R Mogford

Item

1 Apologies for Absence

2 Declarations of Interest

3 Minutes of the Last Meeting *(Pages 3 - 12)*

4 Corporate Risk Register (Quarter 2 July to September) *(Pages 13 - 68)*

5 Internal Audit Plan - Progress (Quarter 3) *(Pages 69 - 82)*

6 Code of Corporate Governance - Update (2020) *(Pages 83 - 112)*

7 Financial Memorandum on the 2019-20 Financial Audit *(Pages 113 - 120)*

8 Capital & Treasury Management Strategy *(Pages 121 - 178)*

9 Call in the Head of Children & Young Peoples Services and Service Manager of Resources re the Internal Audit Unsatisfactory Opinion on SGO/Kinship Payments *(Pages 179 - 188)*

10 Draft Work Programme *(Pages 189 - 192)*

11 Date of Next Meeting
25 March 2021

12 Webcast - Click on the link below:
https://youtu.be/gl7gQCmlbmY

Contact: Pamela Tasker, Governance Officer
Tel: 01633 656656
E-mail: democratic.services@newport.gov.uk
Date of Issue: Thursday, 21 January 2021

This document is available in welsh / Mae's ffurflen hon ar gael yn Gymraeg

Draft Minutes

Audit Committee

Date: 19 November 2020

Time: 2:00pm

Venue: Microsoft Teams Meeting

Present: Mr J Baker (Chair) Councillors J Jordan, L Lacey, H Thomas, P. Hourahine, K Thomas, M. Whitcutt, R White and R. Mogford.

In attendance: Meirion Rushworth (Head of Finance), Andrew Wathan (Chief Internal Auditor), Dona Palmer (Audit Manager) Robert Squance (Audit Manager), Gareth Lucey (WAO Audit Manager), Owen James (Assistant Head of Finance), Rhys Cornwall (Head of People and Business Change), Pamela Tasker (Goverance Support Officer), Neil Barnett (Governance Support Officer).

1. **Apologies for Absence**

   None

2. **Declarations of Interest**

   None

3. **Minutes of the Meeting**

   The Minutes of the meeting held on the 28 September 2020 were accepted as a true record.

4. **Corporate Risk Register Update (Q1 April to June)**

   The Chair reiterated for the Members of the Audit Committee that the present Committee was an Audit Committee, not a risk Committee and that the Committee was there to review processes undertaken by Newport City Council.

   The Head of People and Business Change presented the report to the Audit Committee stating that the report for Quarter 1 highlighted the key areas that were being worked on such as the Covid 19 pandemic and Brexit preparations, which both featured heavily.

   The report highlighted some changes to the previous risk report with 6 new risks which were not all new, some of these risks escalated to become part of the Risk Register.

   Key points:

   - There were 57 total risks recorded.
   - Out of the 57 risks recorded, 19 of these were considered to have a significant impact on the achievement of the Council's objectives.

- Out of the 19 risks, 1 was a completely new risk and 5 escalated risks were from the service areas risk registers which was pressure on Adult Community Services, pressure on the delivery of Children's Services, cyber security, pressure on Homelessness and Housing all primarily driven by Covid 19.
- A new risk emerged which was Ash Die Back Disease.
- Covid 19 was previously at a risk of 20 and was escalated to a risk of 25.
- Balancing the Councils medium term budget also increased as well as In year Financial Management as a result of the Covid 19 pandemic.
- City Centre security and safety also saw a reduction in risk as non-essential retail was closed which minimized the risk.
- There was a change in Newport Council's Property Estate due to remote working and a reduction in the Climate Change risk due to Council staff working remotely which had reduced the environmental impact due to changes in air quality.

The Chair questioned as to whether Capital spend was included in the Financial Management Risk, which had increased from 3 to 9. The Assistant Head of Finance confirmed that the In Year Financial Management looked at the revenue budget, and Capital in the future would have an impact on the medium term financial plan. The Chair questioned as to where Capital was picked up as over the last 5 to 6 years there had been a 20-25% underspend on Capital every year and stated that Covid should not be a reason for Capital spend not to be undertaken.

The Assistant Head of Finance confirmed that Capital spend was constantly monitored alongside MTFP as a risk, MTFP has Capital finance on it and was identified as part of the MTPF on the Corporate Risk Register as a specific risk but not the overall slippage.

The Head of Finance stated that this slippage was individual to individual projects as if a school had to be built by a certain date then this was an individual risk.

Questions:

- Councillor Thomas stated that it was unclear as to the insight on the risks and how officers were mitigating risks. In relation to the Ash Die Back Disease risk, Councillor Thomas stated that it would have been useful to have comments on this regarding how risk was going to be mitigated for example by recanting, which could contribute to environmental aims.
- In relation to the Housing risk, Councillor Thomas stated that furlough had been extended until March 2021 and that there was a risk of a number of redundancies, which National Government have acknowledged by extending furlough, was there an estimate for the Council area of redundancies.

The Head of Business and People Change acknowledged that this was a looming problem and that the Committee could take this back to the Head of Service for more clarification if requested.

- Councillor Thomas stated that in relation to homelessness, all of the positive action that the Council has taken were a question of resources and funding for projects e.g. new accommodation units etc and they were not sure if it was a risk, as a lot of funding had been provided to make homeless people safe during the pandemic. They questioned as to whether the issue of homelessness should be on the Corporate Risk Register.

The Head of People and Business Change confirmed that the pressure was on the homelessness service and that the additional money made available had not changed the Council resource and more staff had not been able to be recruited, therefore the pressure was on the service area.

- Councillor Thomas stated that it was disappointing to see that the example used for climate change was electric vehicles and that there had been a lot done in this area but that there was still a lot more to be done, and that it was not certain if there were things that were significant that were not being reported in the risk register.

The Head of People and Business Change that there were lots of work going on in the background in relation to climate change. The Chair also commented that the report was a summary and that the committee were not here to audit the process.

- Councillor Thomas requested for consideration on the speculation on a raise in capital gains tax, which may lead to an exodus from the private housing rental market, and whether the Council had considered the pressures this would have on the provision for housing for people in the city.

The Head of Business and People Change confirmed that this point could be referred back to the service area for consideration, which was agreed by the Chair.

- Councillor Hourahine commented on the Ash Die Back risk, that the problem was well known for some time and asked for clarification on how any risk was identified and what was the lag time of the risk appearing on the risk register and the process in general.

The Head of Business and People Change explained that risks were being identified constantly, identified through service delivery, new legislation, intelligence gathering, and information from Welsh Government, all gathered on a daily basis.

They also explained that risks and mitigations were put in place very quickly and although there had been a bit more of a lag because of Covid they shouldn't take much time at all as the risks were dealt with in real time.

In relation to the Ash Die Back Disease, there had been an assessment of the trees and then the risk ended up on the Corporate Risk Register when the scale was understood. The Head of Business and People Change advised the Committee that they could go back to the service area to find out more detail.

- Councillor Hourahine commented that they felt that many risks were appearing on the Register that maybe could have been dealt with at the point of decision.

The Head of Business and People Change stated that the Council provided over 800 services and that only 57 risks on the register showed that other risks were being dealt with. They commented that some of the larger risks were not resolved easily and there was a reasonably good balance of things resolved at the point of source, and the bigger issues that were in the Risk Register that come to the Audit Committee.

Agreed:

That the report be noted and approved by the Council's Audit Committee.

5. Internal Audit Plan 2020/21 (Quarter 2 Progress against Plan)

The Chief Internal Auditor presented the report to the Committee and explained that this was a report that was a regular item on the agenda intended to provide the appropriate level of assurance. In September 2020, Committee Members approved the revised audit plan for the remaining 6 months of the financial year starting in October.

The Chief Internal Auditor stated that he wanted to make Members aware of the work that the Internal Audit team had been involved with in the first 6 months of the year due to the impact of Covid 19, as it was not possible to complete much of the audit work on the original audit plan for 2020/21, due to many service areas having more pressing priorities. The team was involved with extensive counter fraud work in relation to the business grants issued by Welsh Government along with supporting business grants administration and Track Trace & Prevent (TTP). Some audit opinion related work was undertaken where possible and this was shown in the Appendix.

The Chief Internal Auditor referred the Committee to Appendix A which contained information on the proportion of the original audit plan that had been achieved.

Key Points:

- Based on the original plan 24% of planned audits had been completed.
- There was a quarter-by-quarter comparison and a year on year comparison. Progress as at Quarter 2 had been affected significantly by Covid 19 in 2020/2021.
- Appendix B identified the individual Audit jobs undertaken and the corresponding opinions issued as a result of the audit work: the table showed 1 Good Opinion, 3 Reasonable, 1 Unsatisfactory and no Unsound opinions during the first 6 months of the year.
- The non-opinion work, which included providing financial advice to all service areas of the organisation, completion of the Annual Governance Statement and extensive counter fraud work as a result of Covid 19 business grants.

Questions:

- Councillor Whitcutt referred to paragraphs 9 and 10 on page 48 of the report, which referred to the pandemic and the audit team being unable to complete all planned work and had to change the way they operated. They referred to paragraph 14, which dealt with the knock on effect and paragraph 27 where it stated Heads of Service and service managers were responsible for addressing any weaknesses identified and demonstrated this by incorporating their agreed actions into the audit reports. Councillor Whitcutt questioned as to whether there was an effect on the Committee's monitoring function and does it affect the ability of service managers to review operational issues with reference to Audit.

The Chief Internal Auditor stated that this would have an impact on the Audit Committee as Internal Audit could only complete a certain number of audits in a year, given the resources, which had been reported in the plan. The Chief Internal Auditor stated that it was his role to also provide assurance to the Committee in terms of control environment, risk management and governance across the whole organisation. A revised plan was created on that basis to give as much coverage as possible.

The Chief Internal Auditor also reiterated that there were 75 opinion related jobs in the original plan and in the revised plan, there were 50 audit opinions related jobs. It was explained that there were no site visits allowed at present so no school audits could be undertaken. It was also difficult at present to get information from service areas who had paper related records.

Discussions have been on going with service managers regarding draft audit reports and the finalisation of audit reports. Most have these have subsequently been agreed with managers agreeing to be implement the agreed management actions within the audit reports

The Chief Internal Auditor also commented that the issue might be timeliness as there might be a lag where service managers found it difficult to implement the action plan. The action plan always contains who was responsible for implementing the action plan and the timescale. If there was an unfavourable audit opinion, the audit team could go back and revisit that in 6-12 months. If the opinion was favourable, then the audit team would generally not go back for 5-6 years to revisit the audit area for a number of years.

- Councillor Hourahine commented on Newport City Dogs Home and the unsatisfactory opinion and questioned as to when they would be readited.

The Chief Internal Auditor confirmed that the report was being finalised and then the audit team would re-visit that area within 6-12 months in order to complete the follow up audit. That particular report was being finalised and the follow up review would be in the audit plan for 2021/22 to give management ample time to implement the action plan.

- Councillor Hourahine asked how an audit was carried out and whether there was sensitivity ratings.

The Chief Internal Auditor explained that in relation to the opinions, which were Good, Reasonable, Unsatisfactory, Unsound. There was a colour code for the categorisation of weaknesses identified so if there was a critical / significant weakness the audit team could then prioritise the issues identified. Within the action plan in the individual report there were red, amber and yellow weaknesses. There was no particular sensitivity used.

- Councillor Thomas commented on point 12 of the report where the Audit Team took on extra work and commended the Audit team on their hard work. Councillor Thomas also questioned how many special investigations had been carried out.

The Chief Internal Auditor confirmed that there had been a handful of these, mainly completing ones that had been ongoing pre March 2020. Issues identified through the counter fraud work on the business grants would be classed as one job; there had been less special investigations carried out than in previous years.

- Councillor White commented on paragraph 11 where a lot of the Audit team had been seconded and enquired on whether there was a now a full team back out working.

The Chief Internal Auditor confirmed that the secondments had ended and that the team was engaging with an external provider to assist in catching up on the backlog.

Agreed:

That the report be noted and approved by the Council's Audit Committee.

6. Treasury Management Report

The Assistant Head of Finance presented the report to the Audit Committee and explained that the report informed the Committee of Treasury activities undertaken during the period for the first half of the year to the 30 September 2020. The report confirmed that the Council was following its strategy of maintaining investments to a minimum value rather than taking out new long-term borrowing. The Council was also minimising its cash holding as interest rates were very low during this period so investments were being kept to a minimum.

The Assistant Head of Finance requested Committee Members to view Table 2 on page 68, which contained a good summary of the borrowing and investment position of the authority. It showed that borrowing since the end of the financial year 31 March 2020 had reduced by £17.1 million and investments had increased by £15.7 million meaning that there was quite a big decrease in net borrowing from £153.8 million to £121.1 million in the first half of the year.

It was explained that at the end of the financial year there was some extra borrowing to assist with business grants going out to businesses prior to Welsh Government providing financial assistance. Welsh Government subsequently reimbursed this and the borrowing was repaid.

In terms of the investments levels increase this was due to the revenue support grant provided by Welsh Government, which was front-loaded in the first couple of months to help local authorities with their cash flow.

The main priority for investments was security so investments were on a very short term to minimise risk so the income returns were very low due to the current situation.

The Assistant Head of Finance also mentioned cash flow as Welsh Government was able to assist in the increase of costs as they assisted with hardship claims and reimbursement on any additional business grants so there was no big increase in borrowing. Welsh Government had largely supported authorities so there was no big increase in borrowing.

Cash would now decrease and investments would drop so borrowing may need to occur in line with the Treasury management strategy.

The Chair questioned that in January 2021; would the strategy document be presented to the Audit Committee for comments and asked whether it would provide a guidance as to what the level of borrowing should be rather than what it is. This was confirmed by the Assistant Head of Finance.

The Head of Finance confirmed that this was not the first time the Committee had commented on the Councils level of borrowing which was reaching a high level and the current capital programme would increase which involved borrowing over the next 2 to 3 years. In conjunction with this, internal borrowing had reached capacity and this was not for new expenditure so there was a pressure there. In addition, it was explained that Councils funding was low and there was uncertainty over future funding as the UK was currently in a lot of debt at present.

The Head of Finance explained that they were currently engaging with senior management colleagues and the Leader of the Council by providing information on the impact of the revenue budget and the level of borrowing. It would be favourable if the situation were restricted however, colleagues wanted more flexibility. The more borrowing that occurred meant that there was also less money to spend on front line services as the budget was spent on servicing the debt so there was some difficult trade-offs in the current situation.

The Head of Finance stated that they would bring to the council a position in February 2021 that beyond this programme that ends in 2 years' time annual new borrowing limits should be set. The borrowing capacity should drive the prioritisation of what is affordable. This could be achieved by setting out some borrowing limits to keep it updated as and when the situation progresses over the next 5 years. The new programme would not start for another 2 years.

Questions:

- Councillor Jordan questioned the treasury management summary table on page 68 as to whether the total borrowing figure of £17.1 million and total investment of £15.7 million added together should be £32.8 million instead of £32.7 million and the balance section of £149.2 million with a minus of £28.2million should this £21.0 million.

The Assistant Head of Finance confirmed that this was correct as a rounded figure in round millions and when rounded up would be higher.

The Chair commented that, as this report was a public document it was imperative that the figures added up and could that be taken back to the finance team, which was agreed.

- Councillor Whitcutt asked the Head of Finance about paragraph 12 on page 62 of the report in particular the sentence, "aside from the beginning of the year when the additional short-term borrowing was required, WG have mitigated the impact by reimbursing increased expenditure through the hardship fund and through loss of income claims." It was also pointed out how cash flow was improved and Councillor Whitcutt asked how this fitted into the overall legacy that the legacy of austerity in terms of restraints on the Council was the Head of Finance satisfied that Welsh Government had covered the impact of Corona virus on the Council.

The Head of Finance stated that the hardship fund does cover the vast majority of additional costs incurred. If councils make their own decision to make something free e.g. free parking in the city of Newport in December and January, this was a council decision, this was not reimbursable through the hardship fund. The biggest gap was council tax and there was no support for that loss of income. However, support for Homelessness etc councils in Wales have had good support from Welsh Government.

Agreed:
That the report be noted and approved by the Council's Audit Committee.

7. SO24 / Waiving of Contract SO's: Quarterly report reviewing Cabinet / CM urgent decisions or waiving Contract SO's (Quarter 1, April to June 2020)

The Chief Internal Auditor explained that Cabinet Members could put through reports urgently and the purpose of this report was to provide assurances to members that these decisions had been fully justified and were therefore appropriate.

There are two reports relating to School Admissions and NNDR have been identified as being urgent through the democratic process in quarter 1 of 2020/21. The NNDR report was in relation to Welsh Government's decision on business rates due to Covid -19.

The Chief Internal Auditor stated that they viewed the reports were reviewed to make sure that there was an appropriate justification given to the decision making for the urgency and was documented within the report. Often urgent decisions were taken this way as if there was no time for consultation with other members of the Council and therefore there would need to be an appropriate justification for doing so.

The Chief Internal Auditor requested members to view the table on page 77 and in particular, the Chief Internal Auditor comments on the right hand side. The first report on the table was in relation to School Admissions in relation to the change of catchment. It was an urgent decision but there was no justification for the need of urgency stated in the report. Normally there were timelines would be provided but this was not the case with this report. However, the report had gone out to stakeholders and all members as it related to a school admissions issue. Although there was no justification provided, the Chief Internal Auditor explained that they he deemed the decision as satisfactory as members saw the original report and had an opportunity to commented on it. Therefore they felt no call-in was needed.

The Chair agreed that this was satisfactory and there were no comments from any members of the committee.

In relation to the NNDR report, the Chief Internal Auditor stated that there was appropriate justification for this clearly stated in the report, guidance from Welsh Government came through on the 18th March 2020 and the scheme had to be implemented as close to 1st April 2020 as possible. Papers were also attached for members to look at in detail. The Chief Internal Auditor also deemed the report as justified and no call-in was required.

Agreed:

The Audit Committee were satisfied with the content of the report.

8. Call in the Chief Education Officer, Deputy Chief Education Officer & Head of Gwent Music re the Internal Audit Unsatisfactory Opinion on Gwent Music.

The Chair stated that the Audit Committee had requested for a call in for Gwent Music and there had been an email response provided rather than an attendance at Committee as parties in question could not attend until January 2021.

The Chair expressed their disappointment that there was no attendance from the Head of Service as the meeting had been moved to accommodate attendance.

The Chief Internal Auditor stated that one Head of Service had stated that they could not attend the changed committee date and the other had requested their attendance be delayed until Spring 2021.
Therefore, the Audit Team had put together a template, which was a briefing note format so assurances could be provided to members so they could be reassured that issues were being addressed.

Within Gwent Music there was a response received stating that most of the staff were furloughed from March 2020 so could not respond to all issues raised in the audit report. The key issue was the stock control of musical instruments. This was not a second unsatisfactory audit opinion but members asked the question due to concerns.

A template was set up to give an overview of the situation to provide assurance that action would be taken against the agreed action plan. It identified the weaknesses identified as part of the audit report and it identified what the manager agreed to implement to make the improvement along with timescales. The Audit team would be going back to review this to make sure changes had been made and this would be reported back to the Audit Committee in due course.

The Chair requested that the Committee receive an update in January 2021 as there was still an issue around tracing musical instruments and in particular what would happen to the lost item.

Action:

For the agenda item to be reviewed at January's 2021 Audit Committee.

9. Call in the Head of Children & Young Peoples Services and Service Manager of Resources re the Internal Audit Unsatisfactory Opinion on SGO/Kinship Payments.

The Chief Internal Auditor presented the report to the committee stating that this was an audit on SGO/Kinship payments carried out some time ago which was unsatisfactory in its opinion. The Audit team had gone back and followed up the original audit, which resulted in a second Unsatisfactory opinion; this was the reason it was brought to Audit committee. Members then decided to call in the Head of Service and the manager to give assurances that issues would improve as a third audit visit would be required.

Information had been provided for the Committee with a background on the situation. This was a team that should have been set up but this did not happen effectively and issues identified previously were not addressed. The Chief Internal Auditor explained that the audit team could not therefore go back to that team and re-audit the situation as no progress had been made since the previous audit. An action plan was in place with timescales and management responsibilities to address the situation.

Questions:

- Councillor Thomas asked had there been national guidance on SGO payments and when did NCC implement it.

The Audit Manager confirmed that there was national guidance and there were issues about calculation of payments identified locally. The broader issue was how things were structured within the service to deal with payments.

- Councillor Thomas expressed concern around the payments situation, and explained that the background circumstances in these cases were very often tragic as often grandparents have the SGO role and it was not easy. Financial support was then needed as those children often had special needs and Councillor Thomas stated that they were pleased audit would look further at this.

The Audit Manager confirmed that it was in the audit plan to go back again and that some progress had been made following the original audit. There had been a big change in the structure of the service area in terms of delivering support to families. There was new management in place and this would feed through into the subsequent audit.

Councillor Thomas questioned the agreed management action on page 165 as the 'By When' action stated immediate and was this immediate from 2018 or immediate from now.

The Chief Internal Auditor confirmed that this action was immediate from date of discussion so it would be the date of the report and not 2018. Councillor Thomas stated that it would be useful to have that explained on the report for future reference, which was agreed by the Chief Internal Auditor.

Councillor Whitcutt stated that it was fair to the Head of Service that it was a difficult time at present in that service area and that the service manager was a conscientious person and would have attended if they would have been able to.

The Chair stated that taking the impact of Covid 19 into account the papers were fine to be left as they were at this point as issues were also moving in a positive direction.

Councillor Thomas stated that stresses should be recognised however, there were now two unsatisfactory audits of SGO payments and there was stress on families in relation to the family situation and therefore a clear system was needed and that it was being implemented properly and fully.

The Chair asked the Committee whether they would want the Head of Service to be called in to the Audit Committee.

Agreed:

The Audit Committee agreed for the Head of Service to be called in to the Audit Committee on the 29 January 2021.

10. Lessons Learned 2019/20

The Assistant Head of Finance stated that the statement of accounts had been brought to Audit Committee for sign off in September and they were now published on the Councils website and were signed off by Audit Wales. A review had also been completed on what could be learned from the previous process. This year was even more of a challenge as it was the first year that the team had to work remotely so ideas were put forward to improve that process. Meetings have been held with Audit Wales on improving the process, as there was technology like Microsoft Teams that could be utilised to share data etc.

It was confirmed by the Assistant Head of Finance that the audit dates would be brought forward next year and the draft deadline would be the 31st May 2021 and the audit deadline would be the 31st July 2021. 2021 would also become the first year that the deadlines would become statutory and the 31st July would become the final date for the accounts to be prepared.

The ISA 260 report was also taken on board in relation to the statements and misstatements from Audit Wales and the team would be putting in robust quality control and some assurance measures.

The IFRS 16, which was a change in the leases accounting policies, was a resource issue in that there was a change in the leasing policy across all the authorities. The implementation of that would probably take some time. The team were working alongside Audit Wales on delivering the implementation, which was due in 2021/2022 and would coincide with the teams work.

Agreed:

That the report be noted and approved by the Council's Audit Committee.

11. Forward Work Programme

The Work Programme was approved by the Council's Audit Committee.

12. Date of Next Meeting

29 January 2021 5pm

Report

Audit Committee

Part 1

Date: 28 January 2021

Item No: 4

Subject **Quarter 2 2020/21 Corporate Risk Register Update**

Purpose To present an update of the Corporate Risk Register for the end of quarter 2 (30th September 2020).

Author Head of People and Business Change

Ward All

Summary The Council's Corporate Risk Register monitors those risks that may prevent the Council from achieving its Corporate Plan or delivering services to its communities and service users in Newport.

At the end of quarter 2, the Council was monitoring 56 risks across its eight service areas. Nineteen of the 56 risks were recorded in the Council's Corporate Risk Register and considered to have a significant impact on the achievement of the Council's objectives and statutory obligations. At the end of quarter two, there were no new or escalated risks from service area risk registers; and no risks were closed / de-escalated. Overall, there were 11 Severe risks (risk scores 15 to 25); 6 Major risks (risk scores 7 to 14) and 2 Moderate risks (risk scores 4 to 6) that are outlined in the report.

The role of Audit Committee is to review and monitor the corporate governance and risk management arrangements in place, with comments and recommendations of the Committee on risk process considered by Cabinet.

Proposal Audit Committee is asked to consider the contents of this report and assess the risk management arrangements for the Authority, providing any additional commentary and/or recommendations to Cabinet.

Action by Corporate Management Team and Heads of Service

Timetable Immediate

This report was prepared after consultation with:

- Corporate Management Team

Signed

Background

The Wellbeing of Future Generations (Wales) Act 2015, requires Newport City Council to set Wellbeing Objectives in its Corporate Plan 2017-22. With any Corporate Plan there will be risks that may prevent the Council from achieving its objectives. The Council's Risk Management Policy and Corporate Risk Register enables the Council to effectively identify, manage and monitor those risks to ensure that the Council realises its Plan and ensure service delivery is provided to its communities and citizens. In July 2020 the new Risk Management Policy for 2020-22 was approved by the leader of the Council. This policy is attached as part of the background papers of this report for reference.

As outlined by the terms of reference in the Council's Constitution, the Audit Committee is required to review and monitor the corporate governance and risk management arrangements in place, with comments and recommendations of the Committee on risk process considered by Cabinet.

It is anticipated in 2021/22 that the new Local Government and Elections Bill will receive Royal Ascent and will change the role of the Council's Audit Committee. The Bill proposes changes in relation to its membership, inclusion of Council Self-Assessment reports on delivery of its objectives and receipt of Panel Performance Assessments. It is anticipated that councils will not need to implement these changes until 1st April 2022.

Covid-19 / Brexit, Newport City Council Response

Much like the quarter one period, during quarter two Newport City Council's continued to focus on supporting front-line services, protecting lives and minimising the spread of Covid-19. As part of the Council's Civil Contingencies arrangements, the Council's Gold Command group consisting of Heads of Service and Chief Executive to monitor the situation; and to manage emerging operational / community risks. This group also links into the wider Strategic Coordination Group and Welsh Government structures and these arrangements remain in place at the time of this report.

Similarly, the Council has continued to monitor the situation in the Brexit Trade negotiations between the UK Government and European Union. The Brexit risk score presented in this report reflects the position at the time (30th September 2020) which was still uncertain. However, at the time of this report the outcomes of the Trade negotiations are now known and therefore in the quarter 3 update, the risk score will reflect these impacts and the preparations that have been undertaken to date and will be reported at the next Audit Committee.

Risk Management Process

In Newport City Council risks that may prevent or impact on the delivery of our services is continuously monitored and managed at all levels of the organisation. The following diagram below summarises how risks are continuously managed in Newport City Council.

There are many different sources of risks, such as civil contingencies, health & safety, service delivery and projects throughout the organisation where risks to the delivery of the Corporate Plan, or services might be identified and included on the Council's risk register. New risks identified to be included on the register have to be assessed and evaluated to determine their risk scores (Inherent / Residual / Target), existing controls that are in place and where further mitigating controls are required to respond and reduce the overall impact of the risk to the Council. To assess risk scores Newport City Council uses a standard 5x5 matrix that is commonly adopted across Welsh and English local authorities. Appendix 1 of this report shows a heat map of the Council's corporate risks using this matrix.

All risks identified have to be initially agreed by the Head of Service. If the residual risk score is 15 or above or if the Head of Service considers the risk to have an impact on the delivery of services / achievement of objectives in Council, it is escalated to the Council's Corporate Management Team (CMT) to determine whether it is included on the Council's Corporate Risk Register or if the risk should be managed by the relevant service area(s).

All risks are recorded in the Council's 'Management Information Hub'. Every quarter, risk owners, and risk action owners are required to assess and provide an update on the risk score and mitigating actions in place. Any risk that has escalated to 15 or above is automatically escalated and requires the Directors team to consider whether it should be included on the Corporate risk register or if they are satisfied that the responsible owner and mitigating actions are effective to be managed within the service area / team.

As risk mitigating actions are completed and the risk is reduced to meet the target risk score, an assessment will be undertaken by the risk owner to determine whether the risk is closed and if the risk mitigation actions have been sufficient to mitigate the overall risk. For risks on the Corporate Risk Register this responsibility would fall onto the Risk Owner and CMT to determine if the risk can be closed.

Quarter two risk update

Service areas' have aligned the objectives and actions in the 2020/21 service plans with the Council's Strategic Recovery Aims. Service areas also continue to consider any new and/or emerging risks that are impacting on the delivery of their services.

At the end of second quarter (to 30th September 2020), service areas had 56 risks (including Corporate Risks) recorded in their risk registers. Since quarter one there was one risk in Finance Services (Finance Staffing: Recruitment & Resilience) that was closed following a review by the Head of Service.

Service Area	Number of Unique Risks	New risks since last Quarter.	Closed Risks since last Quarter.
Adult & Community Services	3	0	0
Children & Young People Services	4	0	0
City Services	7	0	0
Education Services	10	0	0
Finance	7	0	1
Law and Regulation	3	0	0
People & Business Change	12	0	0

Regeneration, Investment & Housing	10	0	0
Total Unique Risks	**56**	**0**	**1**

The role of the Corporate Management Team (CMT) is to determine whether the risk should be included on the Corporate Risk Register for monitoring or if the risk should remain in the service area(s) as a result of sufficient management action being undertaken to manage the overall risk. For the end of Quarter two there were no new corporate risks or risks to be escalated from service areas on the Corporate Risk Register.

5 existing risks on the Corporate Risk Register had changed direction as result of the risk scores increase or decreasing. 14 risks had remained at the same score since quarter one. The quarter two Corporate Risk Register was presented at the Council's Cabinet meeting on 16th December 2020.

Of the 56 risks, there are 19 risks that are recorded and monitored in the corporate risk register. These risks are:

- COVID-19 Pandemic Outbreak (Cross-cutting, led by People & Business Change)
- Stability of Social Services Providers (Adult & Community Services)
- Highways Network (City Services)
- Educational Out of County Placements (Education Services)
- Pressure on Adult & Community Services (Adult & Community Services)
- Ash Die Back Disease (City Services)
- Pressure on the delivery of Children Services (Children & Young People Services)
- Demand for ALN and SEN support (Education Services)
- Balancing the Council's Medium Term budget (Finance Services)
- Schools Finance / Cost Pressures (Education Services / Finance Services)
- Cyber Security (People & Business Change)
- Pressure on Homelessness Service (Regeneration, Investment & Housing)
- Pressure on Housing Service (Regeneration, Investment & Housing)
- Brexit – Trade Agreement (Cross Cutting, led by People & Business Change)
- City Centre Security and Safety (City Services / People & Business Change)
- In year financial management (Finance Services)
- Climate Change (Cross Cutting, led by Regeneration, Investment & Housing)
- Newport Council's Property Estate (Regeneration, Investment & Housing)
- Safeguarding (Cross Cutting, led by Children & Young People Services).

A summary of where risk scores have changed since the last quarter:

<u>Change in direction of risk score (Quarter Two)</u>

- **Brexit (Increase from 12 to 16) –** Risk score has increased to 16 in quarter 2 as the rhetoric from UKG and EU is that there are gaps in the trade negotiations and there is an increased probability of the UK leaving without a deal in place. Further examination of this risk will need to be undertaken pending the outcomes of the final negotiations. For the Council, it is increasingly difficult to effectively prepare until the final outcomes are known and the Council's Brexit Task and Finish group is monitoring this process closely with monthly reports to the Council's Cabinet**.**

- **Pressure on Housing Service (Reduction from 16 to 12)** - Since Quarter 1 this risk has reduced from a 16 to 12. This reflects that while pressures remain with the demand for housing and homelessness, additional support has been received through the Welsh Government funding and continuous strengthening of our partnership working with Registered Social Landlords, Council teams and third sector to provide accommodation and support to the most vulnerable.
- **Educational Out of County Placements (Reduction from 16 to 12)** – Due to the increase of demand for additional specialist placements the LA has developed a ten place specialist ASD Learning Resource Base in a mainstream primary school and is piloting an ASD Outreach service from Ysgol Bryn Derw. There has also been a need to commission additional placements with Newport Live and Catch 22 to reduce the need for out of county placements.
- **Demand for ALN and SEN support (Reduction from 16 to 12)** – During the lock down there has been an increase of requests for Formal Assessment for pupils who may require specialist placements or additional support. The budget for 2020/21 include the new Additional Learning Needs funding formula agreed with head teachers which reduces the immediate risk.
- **In Year Financial Management (Reduction from 9 to 6) -** The latest monitoring report taken to Cabinet as at the mid year point showed a small in-year overspend. While this would not be a significant issue for the Council to deal with due to reserves it has set aside. There is still a risk that the position could worsen over the rest of the period depending on the impact of a second wave of the pandemic and the actions that are required to be put in place. To date this has been funded by Welsh Government, but there could be a finite amount of money on which to call upon which may ultimately impact on the Council's budget.

Appendix 2 of this report is the Council's Corporate Risk Register.

Financial Summary
There are no direct costs associated with this report.

Risks

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
The Council does not achieve its objectives as corporate level risks are not adequately managed and monitored.	M	L	Risk Management Strategy has been adopted and mechanisms are in place to identify, manage and escalate emerging and new risks / mitigation strategies. Audit Committee oversight of risk management process.	Directors, Heads of Service and Performance Team

*Taking account of proposed mitigation measures

Links to Council Policies and Priorities
Corporate Plan 2017-22
Strategic Recovery Aims
Service Plans 2020/21

Robust risk management practices increase the chances that all of the Council's priorities and plans will be implemented successfully.

Options Available and considered

1. To consider the contents of this report and assessment of the risk management arrangements for the Authority, providing any additional commentary and/or recommendations to Cabinet.
2. To request further information or reject the contents of the risk register

Preferred Option and Why

1. Option 1 is the preferred option with recommendations raised by the Audit Committee to be considered and reported to Cabinet and Officers in accordance with the Council's Constitution.

Comments of Chief Financial Officer
There are no direct financial implications arising from this report. The corporate risk register forms an important part of the governance and budget setting arrangements for the council and the risk register is used to guide the internal audit plan. Risks that result in financial pressures will be reflected in established ongoing monitoring and MTFP arrangements.

Comments of Monitoring Officer
There are no specific legal issues arising from the report. As part of the Council's risk management strategy, the corporate risk register identifies those high-level risks that could impact upon the Council's ability to deliver its corporate plan objectives and essential public services. Although Audit Committee are responsible for reviewing and assessing the Council's risk management, internal control and corporate governance arrangements, the identification of corporate risks within the risk register and monitoring the effectiveness of the mitigation measures are matters for Cabinet.

Comments of Head of People and Business Change
Risk Management in the Council is a key area to implementing Wellbeing of Future Generations Act (Wales) 2015 and also provides assurance over our control and governance arrangements in the Council. As the report has highlighted, Covid 19 has had a significant impact on the delivery of Council services which have been managed through the Council's business continuity arrangements. As the Council is moving towards recovery and operating in a 'new normal' emerging opportunities and risks will have an impact on how we deliver services both in the short and long term. Having an effective risk management system and culture will be important for the Council's Cabinet and senior officers to make evidence based decisions.

Comments of Cabinet Member
The Chair of Cabinet has been consulted and has agreed that this report goes forward to Audit Committee for consideration with Audit Committee comments and recommendations reported back to Cabinet in the next quarters update.

This quarter two Corporate Risk Register was reported to the Council's Cabinet on 16th December 2020.

Local issues
None.

Scrutiny Committees
Not Applicable. Audit Committee have a role in reviewing and assessing the risk management arrangements of the Authority.

Equalities Impact Assessment
Not applicable.

Children and Families (Wales) Measure
Not applicable.

Wellbeing of Future Generations (Wales) Act 2015

Under the Wellbeing of Future Generations Act (Wales) 2015 and its 5 ways of working principles this report supports:

Long Term – Having effective risk management arrangements will ensure that the opportunities and risks that will emerge consider the long term impact on service users and communities.
Preventative – Identifying opportunities and risks will ensure the Council is able to implement necessary mitigations to prevent or minimise their impact on Council services and service users.
Collaborative – The management of risk is undertaken throughout the Council and officers collaborate together within service areas, Corporate Management Team and the Council's Cabinet to ensure decisions are made in a timely manner and are evidence based.
Involvement – The Council's Risk Management process involves officers across the Council's service areas and Cabinet Members.
Integration – Risk Management is being integrated throughout the Council and supports the integrated Planning, Performance and Risk Management Framework. The Framework ensures that planning activities consider the opportunities and risks to their implementation and overall supports the delivery of the Council's Corporate Plan and legislative duties.

Crime and Disorder Act 1998

Not applicable.

Consultation

As above, the Risk Register is considered by Audit Committee and Cabinet.

Background Papers

Risk Management Policy 2020-22 v1
Q2 Risk Cabinet Report, December 2020
Q1 Risk Report Audit Committee, November 2020
Strategic Recovery Aims

Dated: 18th January 2021

Appendix 1 - Quarter 2 Corporate Risk Heat Map

Probability					
5				R4, R5, R6	R1, R2
4			R12	R7, R8, R9, R10, R11	R3
3			R16	R13, R14	
2			R18, R19	R17	R15
1					
	1	2	3	4	5

Impact

Corporate Risk Heat Map Key (Quarter 1 2020/21)	
R1 – Covid-19 Outbreak	**R11** – Brexit – Trade Agreement
R2 – Stability of Social Services Providers	**R12** – Pressure on Housing Service
R3 – Highways Network	**R13** – Educational Out of County Placements
R4 – Pressure on Adult & Community Services	**R14** – Demand for ALN and SEN support
R5 – Ash Die Back Disease	**R15** – City Centre Security and Safety
R6 – Pressure on the delivery of Children Services	**R16** – Climate Change
R7 – Balancing the Council's Medium Term Budget	**R17** – Newport Council's Property Estate
R8 – Schools Finance / Cost Pressures	**R18** –In year financial management
R9 – Cyber Security	**R19** - Safeguarding
R10 – Pressure on Homelessness Service	

<u>**Risk Score Profile between Quarter 3 2019/20 and Quarter 2 2020/21**</u>

** Information on Cabinet portfolios added to the report to improve alignment with portfolios.*

Risk Reference	Risk	Lead Cabinet Member(s) *	Risk Score Quarter 3 2019/20	Risk Score Quarter 4 2019/20	Risk Score Quarter 1 2020/21	(Current) Risk Score Quarter 2 2020/21	Target Risk Score
R1	**COVID-19 Pandemic Outbreak**	Leader of the Council /Cabinet	-	20	25	25	6
R2	**Stability of Social Services Providers**	Cabinet Member for Social Services	20	25	25	25	6
R3	**Highways Network**	Deputy Leader and Cabinet Member for City Services and Member Development	20	20	20	20	9
R4	**Pressure on Adult & Community Services**	Cabinet Member for Social Services	16	16	20	20	10
R5	**Ash Die Back Disease**	Deputy Leader & Cabinet Member for City Services & Member Development	-	-	20	20	6
R6	**Pressure on the delivery of Children Services**	Cabinet Member for Social Services	16	16	20	20	6
R7	**Balancing the Council's Medium Term budget**	Leader of the Council / Cabinet	20	15	16	16	10
R8	**Schools Finance / Cost Pressures**	Leader of the Council /Cabinet Member for Education and Skills	20	16	16	16	6
R9	**Cyber Security**	Cabinet Member for Community & Resources	12	12	16	16	10
R10	**Pressure on Homelessness Service**	Leader of the Council	12	12	16	16	6
R11	**Brexit – Trade Agreement**	Leader of the Council / Cabinet	12	12	12	16	10
R12	**Pressure on Housing Service**	Leader of the Council	12	12	16	12	5
R13	**Educational Out of County Placements**	Cabinet Member for Education and Skills	16	16	16	12	5

Risk Reference	Risk	Lead Cabinet Member(s) *	Risk Score Quarter 3 2019/20	Risk Score Quarter 4 2019/20	Risk Score Quarter 1 2020/21	(Current) Risk Score Quarter 2 2020/21	Target Risk Score
R14	**Demand for ALN and SEN support**	Cabinet Member for Education and Skills	20	16	16	12	6
R15	**City Centre Security and Safety**	Deputy Leader and Cabinet Member for City Services and Member Development	15	15	10	10	8
R16	**Climate Change**	Cabinet Member for Sustainable Development	12	12	9	9	10
R17	**Newport Council's Property Estate**	Cabinet Member for Assets	12	12	8	8	9
R18	**In year financial management**	Leader of the Council / Cabinet	12	3	9	6	6
R19	**Safeguarding**	Cabinet Member for Social Services	6	6	6	6	4

Glossary

This document provides an explanation of terminology used in this report and supporting documents.

Risk Appetite – the amount of risk that Newport City Council is willing to seek or accept in the pursuit of the Council's long term objectives.

Inherent Risk Score – The level of risk in the absence of any existing controls and management action taken to alter the risk's impact or probability of occurring.

Residual Risk Score – The level of risk where risk responses i.e. existing controls or risk mitigation actions have been taken to manage the risk's impact and probability.

Target Risk Score – The level of risk (risk score) that Newport City Council is willing to accept / tolerate in managing the risk. This is set in line with the Council's overall risk appetite.

Risk Mitigation Action – Actions identified by the Risk Owner to respond to the risk and reduce the impact and probability of the risk of occurring.

Risk Mitigation Action (Red Progress Score) – Significant issue(s) have been identified with the action which could impact on the ability of the action meeting its completion date. Immediate action / response is required resolve its status.

Risk Mitigation Action (Amber Progress Score) – issue(s) have been identified that could have a negative impact on the action achieving its completion date. Appropriate line manager(s) should be informed and where necessary action taken.

Risk Mitigation Action (Green Progress Score) – The action is on course for delivering to the agreed completion date and within the agreed tolerances.

How the Council Assesses Risk

An assessment of the likelihood and impact of risk is important to measure, compare and monitor risks to ensure efficient use of resources and effective decision making. This assessment is carried out using the risk matrix as described below.

Risk Assessment Matrix

A Corporate Risk Register will contain the high level risks for the whole authority. In order to differentiate between these high level risks a 5x5 risk assessment matrix will be applied. The matrix is shown below and further detail is included in appendix 3.
Risks are scored using the scoring system for probability and impact and assigned a rating based on the tolerances set out in the matrix below

Impact Matrix

Score	Description	Impact Measures						
		Strategic / Policy	Operational / Business Continuity	Financial	Governance / Legal / Regulatory	Health & Safety	Reputational	Project Delivery / Savings / Benefits
5	**Severe**	Failure of a key strategic objective	Serious organisational / service failure that has direct impact on stakeholders including vulnerable groups. Service disruption over 5+ days.	**Corporate / Project** Unplanned and/or additional expenditure disturbance. Capital > £1M Revenue >£1M	Legislative / Regulatory breach resulting in multiple litigation / legal action taken on the Council (linked to Financial / Reputational Impacts).	Multiple major irreversible injuries or deaths of staff, students or members of public. (Linked to Financial / Reputational Impacts)	Severe and persistent National media coverage. Adverse central government response, involving (threat of) removal of delegated powers. Officer(s) and / or Members forced to Resign.	Project status is over 12 months from anticipated implementation date. Project(s) do not deliver the major benefits / savings identified in business case. This is linked to Financial / Strategic / Reputational Impacts
4	**Major**	Severe constraint on achievement of a key strategic objective	Loss of an important service(s) for a short period that could impact on stakeholders. Service disruption between 3-5 days.	**Corporate / Project** Unplanned and/or additional expenditure disturbance. Capital > £0.5M - £1.0M Revenue >£0.5M-£1M	Serious legislative breach resulting in intervention, sanctions and legal action. (Linked to Financial / Reputational Impacts)	Major irreversible injury or death of staff, student or member of public. (Linked to Financial / Reputational Impacts)	Adverse publicity in professional / municipal press, affecting perception / standing in professional /local government community Adverse local and social media publicity of a significant and persistent nature.	Project status is 6 to 12 months over from anticipated implementation date. Project(s) do not deliver major benefits / savings identified in business case. This is linked to Financial / Strategic / Reputational Impacts
3	**Moderate**	Noticeable constraint on achievement of a key	Loss and/or intermittent disruption	**Corporate / Project**	Significant legislative breach resulting in investigation.	Major reversible injury to staff, student or member of	Adverse local publicity /	Project status is 1 to 6 months over from

Score	Description	Impact Measures						
		Strategic / Policy	**Operational / Business Continuity**	**Financial**	**Governance / Legal / Regulatory**	**Health & Safety**	**Reputational**	**Project Delivery / Savings / Benefits**
		strategic objective / Service Plan objective.	of a service between 2-3 days.	Unplanned and/or additional expenditure disturbance. Capital = £0.25M - £0.5M Revenue = £0.25M to £0.5M Revenue = £0.25M to £0.5M	(Linked to Financial / Reputational Impacts)	public. Not life threatening. (Linked to Financial / Reputational Impacts)	local public opinion including social media. Statutory prosecution of a non-serious nature.	anticipated implementation date. There is significant reduction on delivery of benefits / savings identified in business case. This is linked to Financial / Strategic / Reputational impacts.
2	**Low**	Constraint on achievement of Service Plan objective that does not impact on Corporate Strategy	Brief disruption of service that has a minor impact on the delivery of a service. Service disruption 1 day.	**<u>Corporate / Project</u>** Unplanned and/or additional expenditure disturbance. Capital = £0.1M - £0.25M Revenue = £0.1M – £0.25M	Moderate impact leading to warning and recommendations.	Some minor reversible injuries. (Linked to Financial / Reputational Impacts)	Contained within Directorate Complaint from individual / small group, of arguable merit	Project status is 1 to 4 weeks over from anticipated implementation date. There is minor reduction on delivery of benefits / savings identified in business case. This is linked to Financial / Strategic / Reputational impacts.
1	**Very Low**	Constraint on achievement of Service / Team Plan objective	Minor disruption of a non-critical service.	**<u>Corporate / Project</u>** Unplanned and/or additional expenditure disturbance. Capital < £100k	No reprimand, sanction or legal action.	Some superficial injuries. (Linked to Financial /	Isolated complaint(s) that are managed through the corporate complaints process and service area.	Project status is 1 week over from anticipated implementation date. There is insignificant / no impact on delivery of

Score	Description	Impact Measures						
		Strategic / Policy	Operational / Business Continuity	Financial	Governance / Legal / Regulatory	Health & Safety	Reputational	Project Delivery / Savings / Benefits
				Revenue <£100k		Reputational Impacts)		benefits / savings identified in business case. This is linked to Financial / Strategic / Reputational impacts.

Probability

Score	Probability	Criteria
5	**Very likely** 75% +	**Systematic Risks –** Local evidence indicating **very high** probability of occurrence if no action / controls are in place. Risk is highly likely to occur daily, weekly, monthly, quarterly. **Emerging Risks** – National and Global evidence indicating **very high** probability of occurrence on local communities if no action / controls are taken. Risks are highly likely to occur within the next 5 years.
4	**Likely** **51-75%**	**Systematic Risks –** Local evidence indicating **high** probability occur in most circumstances with near misses regularly encountered e.g. once or twice a year. **Emerging Risks** – National and Global evidence indicating **high** probability of occurrence on local communities if no action / controls are taken. Risks are likely to occur within the next 5-10 years.
3	**Possible** **26-50%**	**Systematic Risks –** Local evidence indicating **distinct** possibility with circumstances regularly encountered and near misses experienced every 1-3 years. **Emerging Risks** – National and Global evidence indicating **distinct** probability of occurrence on local communities if no action / controls are taken. Risks are likely to occur within the next 10-15 years.
2	**Unlikely** **6-25%**	**Systematic Risks –** Local evidence indicating **low** to infrequent near misses experienced every 3 + years. **Emerging Risks** – National evidence indicating **low** probability of occurrence on local communities if no action / controls are taken. Risks are likely to occur within the next 16-25 years.
1	**Very Unlikely**	**Systematic Risks –** Local evidence indicating risk has rarely / never happened or in exceptional circumstances. **Emerging Risks** – National evidence indicating very low probability of occurrence on local communities if no action / controls are taken. Risks are likely to occur within the next 16-25 years.

Systematic Risks – Risks that are known or are becoming part of social, cultural, economic and environmental systems that govern our lives.

Emerging Risks – Risks that are further away, less defined and early stage of being known about.

This page is intentionally left blank

NEWPORT
CITY COUNCIL
CYNGOR DINAS
CASNEWYDD

Corporate Risk Register

2020/21 Quarter 2 Update

Ash Die Back Disease

Short Description	Ash Die back disease will affect tree population in Newport. The disease has already been identified in Newport and could kill the majority of Ash trees in the authority. The impact of no action will be significant numbers of tree failures that could see an increase in the number of people harmed by trees and property claims.
Risk Owner	Joanne Gossage
Overseeing Officer	Head of Streetscene and City Services
Lead Cabinet Member(s)	Deputy Leader & Cabinet Member for City Services & Member Development
Linked Theme	Theme : Thriving City
Linked Corporate Objective	▪ WBO 2. Economic Growth & Regeneration ▪ WBO 4. Cohesive & Sustainable Communities

20

Ash Die Back Disease

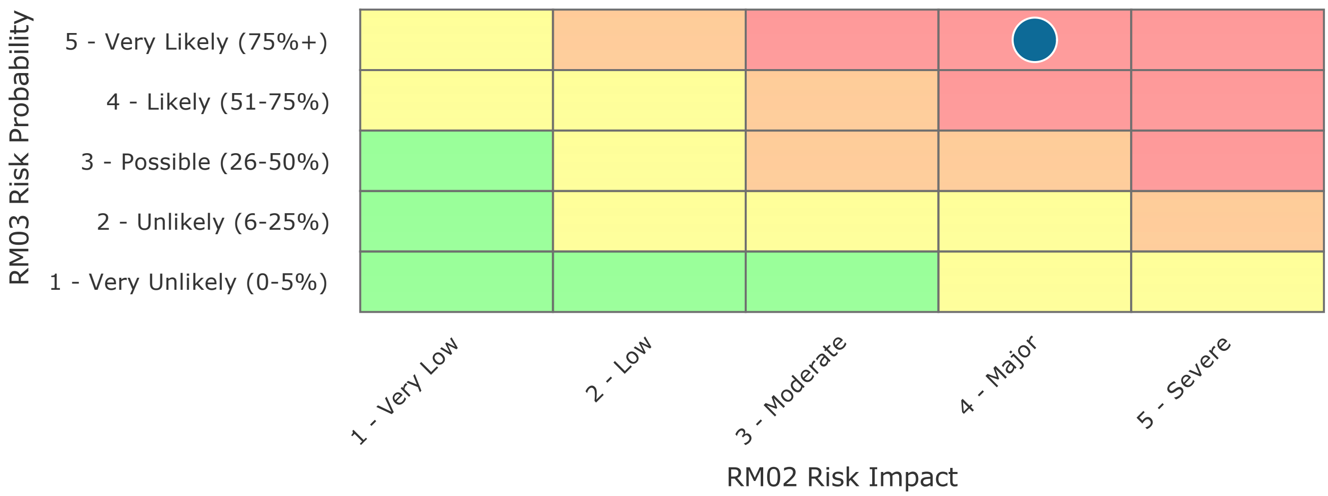
30 SEP 20

20

Inherent Risk Score

6

Target Risk Score



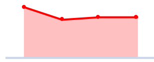
Direction of Risk		
	DoR	Comment
Ash Die Back Disease	➡	No change to risk score for quarter 2.

Action Name	Action Description	% Complete	Sep 2020
Improve Green & Open Spaces for Amenity & Leisure	Improvement to community green and open spaces for amenity and leisure.	51%	★
Increase & Improve Newport's Urban Tree Coverage	Increase and improve Newport's urban tree coverage.	25%	★
Undertake works removing Ash trees owned by NCC	To undertake works removing Ash trees that are owned by NCC.	17%	★

Balancing the Council's Medium Term Budget

Short Description	To meet the Council's requirement of reducing the gap between Council spend and Budget allocation over the next 3-5 years
Risk Owner	Owen James
Overseeing Officer	▪ Chief Executive ▪ Head of Finance
Lead Cabinet Member(s)	Leader of the Council & Cabinet Member for Economic Growth & Investment
Linked Theme	▪ Theme : Aspirational People ▪ Theme : Modernised Council ▪ Theme : Thriving City ▪ Theme: Resilient Communuities (Community) ▪ Theme: Resilient Communuities (Social Care)
Linked Corporate Objective	▪ WBO 1. Skills, Education & Employment ▪ WBO 2. Economic Growth & Regeneration ▪ WBO 3. Healthy, Independent & Resilient ▪ WBO 4. Cohesive & Sustainable Communities

16



Balancing the Council's Medium Term Budget

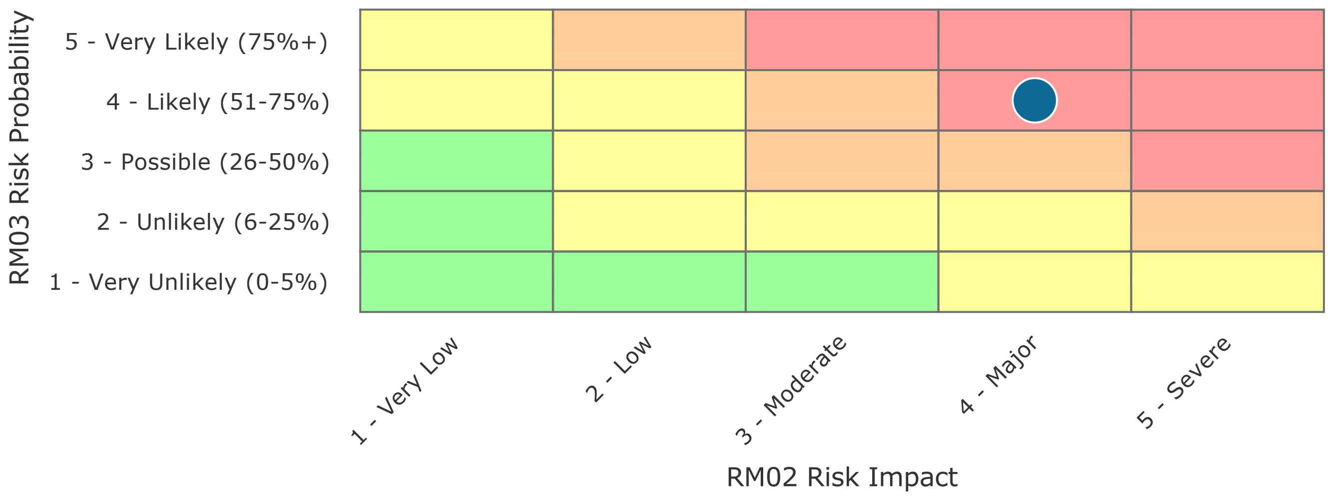
30 SEP 20

16

Inherent Risk Score

10

Target Risk Score



Direction of Risk		
	DoR	Comment
Balancing the Council's Medium Term Budget	➡	No change to the direction of risk. There is still a budget gap that needs to be dealt with. There are ongoing actions being taken to identify savings to reduce the gap and will be taken forward with Cabinet in the coming months. There is an issue of planning within a void due to lack of clarification on the level of funding that will be provided by Welsh Government until late December.

Action Name	Action Description	% Complete	Sep 2020
Agree the Service Areas finance Response & Recovery to Covid-19 Impact	Meet with Heads of Service to agree the impact on the individual service areas on the impact of their response and recovery of the Covid-19 impact, alongside the "business as usual" forecasts to be including within monitoring.	100%	★
Balancing the 2021-22 budget gap	The Council are required to set a balanced budget in each year. Currently there is a budget gap for 2021-22 that needs to be balanced.	25%	▲
SLT and CMT to identify savings to reduce the budget gap over the medium term	Senior Leadership Team and Corporate Management Team to identify savings to reduce the budget gap circa £30million over the medium term.	20%	▲

Brexit

Short Description	The UK Government (UKG) and EU have now entered into the transition phase to negotiate a trade agreement by 31st December 2020. Should the UKG fail to secure a deal, the UK will fall back onto World Trade Organisation (WTO) arrangements which could impact on the cost and supply of goods / services and could impact on the economy and business arrangements. Also concerns around EU citizens living in the UK.
Risk Owner	Rhys Cornwall
Overseeing Officer	Chief Executive
Lead Cabinet Member(s)	Leader of the Council & Cabinet Member for Economic Growth & Investment
Linked Theme	
Linked Corporate Objective	▪ SRA 2. Supporting the Environment & the Economy ▪ WBO 1. Skills, Education & Employment ▪ WBO 2. Economic Growth & Regeneration ▪ WBO 3. Healthy, Independent & Resilient ▪ WBO 4. Cohesive & Sustainable Communities

16

Brexit

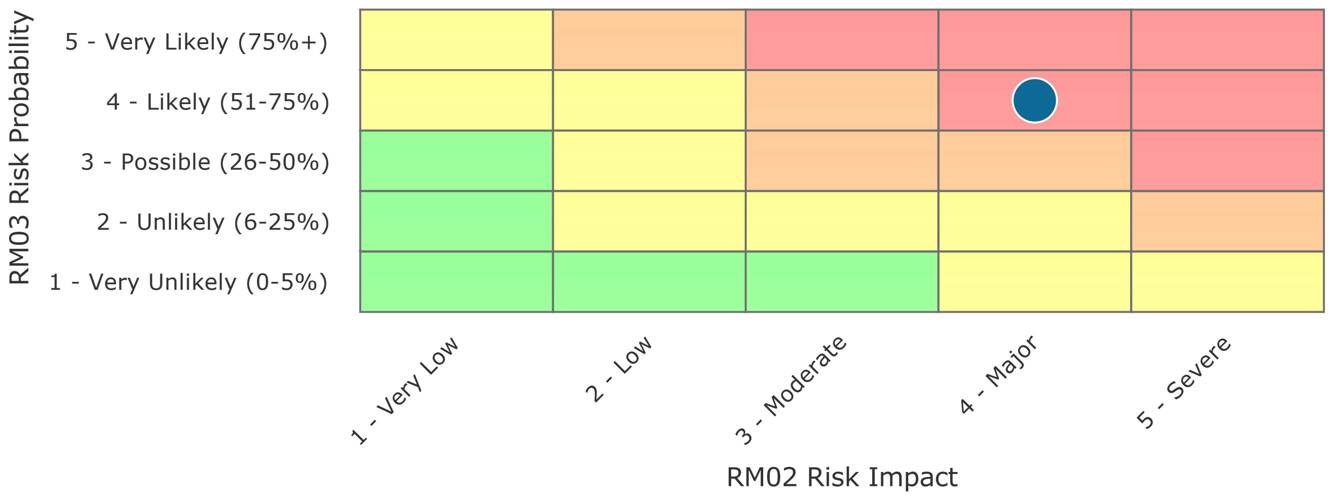
30 SEP 20

16

Inherent Risk Score

10

Target Risk Score



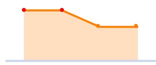
Direction of Risk		
	DoR	Comment
Brexit		Risk score has increased to 16 in quarter 2 as the rhetoric from UK Government and EU is that there are gaps in the trade negotiations and there is an increased probability of the UK leaving without a deal in place. Further examination of this risk will need to be undertaken pending the outcomes of the final negotiations. For the Council, it is increasingly difficult to effectively prepare until the final outcomes are known and the Council's Brexit Task and Finish group is monitoring this process closely with monthly reports to the Council's Cabinet.

Action Name	Action Description	% Complete	Sep 2020
Civil Contingencies - Arrangements to escalate and report on Brexit	Civil Contingencies - To provide regular updates to the Council and Brexit Task & Finish Group on Regional and National wide Brexit preparations. Regular updates from the Gwent Local Resilience Forum which includes local authorities, Police, Fire, Health as well as Welsh Government, Welsh Local Government Association (WLGA) and other strategic group updates will be included as part of this process.	80%	
Contribute towards Welsh Government;s Nation of Sanctuary Plan.	To develop an Integration Strategy for Newport, focusing on our approach to asylum seekers, refugees and migrants and contributing to Welsh Government's Nation of Sanctuary Plan.	50%	
Ensure Resources are Utlised for Increase in Import & Export Regulatory Duties Due to Brexit	Ensure that available resources are utilised to prepare the Service for increased export and import regulatory duties as a result of Brexit.	50%	
Finance - Forecasting and monitoring of finance impact on service areas 2020/21.	To monitor the Council's finances (revenue and capital) in relation to any impacts on service areas from the Brexit Trade arrangements in 2020/21.	10%	
Finance - Monitoring of impact on Finance and Supplies & Services	Finance - The Council will closely monitor its financial position as part of its annual budget setting process and Medium Term Financial Planning. For Council activities and services which are European Union (EU) funded there is ongoing discussions with the Welsh Government to put in arrangements after 2021. The Council will be liaising with its strategic partners (Newport Norse / Shared Resource Service (SRS) / Newport Live) to assess the impact on its supplies and services. Also across the Council, service areas are being asked to identify their high risk / key contracts and to obtain the necessary assurances of any Brexit impact which could affect the availability and cost of supplies or services. "	100%	
Support the Council's Brexit Task and Finish Group	Support the Council's Brexit Task and Finish Group in making preparations for post European Union arrangements for the Council and Newport.	50%	

City Centre Security & Safety

Short Description	Significant incidents of deliberate acts that pose hazards to people in surrounding areas; structural damage; business continuity; damage/disruption to infrastructure and utilities; and reputational and economic impact.
Risk Owner	Rhys Cornwall
Overseeing Officer	Strategic Director - Place
Lead Cabinet Member(s)	Deputy Leader & Cabinet Member for City Services & Member Development
Linked Theme	Theme : Thriving City
Linked Corporate Objective	▪ WBO 2. Economic Growth & Regeneration ▪ SRA 2. Supporting the Environment & the Economy

10



City Centre Security & Safety

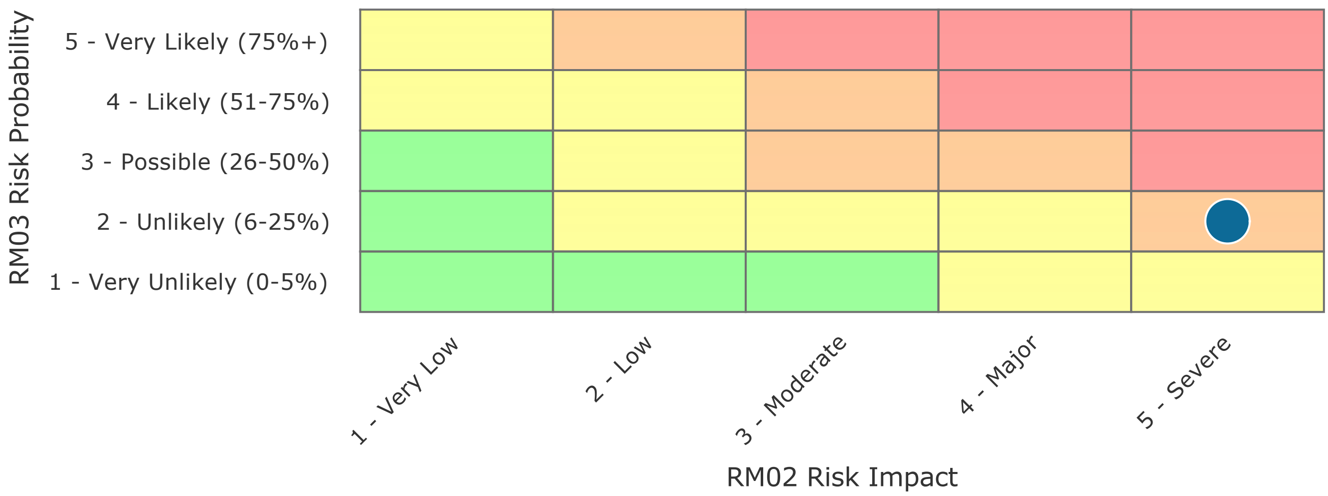
30 SEP 20

20

Inherent Risk Score

8

Target Risk Score



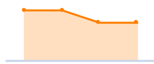
Direction of Risk		
	DoR	Comment
City Centre Security & Safety	➡	Has been put forward as a 'shovel ready' scheme to Welsh Government. Risk currently mitigated due to Covid 19 - road closures in place, plus lower footfall.

Action Name	Action Description	% Complete	Sep 2020
City Centre Training to Businesses	Training for those businesses operating within the city centre that may be affected by significant incidents – Gwent Police will lead on the training with the use of NCC channels to promote and raise initial awareness of the scheme.	20%	●
Co-ordinated evac arrangements	Co-ordinated evacuation arrangements for the city centre – NCC will be working with all partner organisations such as the emergency services and private business within the city centre to construct a co-ordinated evacuation system.	0%	▲
Identify Funding Source for Hostile Vehicle Mitigation	Identify funding source to deliver the required Hostile Vehicle Mitigation.	0%	▲
Recommence Vehicle Mitigation Project	Recommence project following temporary cessation due to funding uncertainties and COVID 19 impact.	0%	
Secure Vehicle / Pedestrian Separation	Secure vehicle access and pedestrian separation. – City Services are currently working on a plan to identify what mitigation measures can be put in place around the city centre to protect densely populated areas.	22%	●

Climate Change

Short Description	Scientific evidence indicates that the global climate is warming and is changing the environment that we live in Wales and in Newport. The cause of this change is through emissions produced by industry, vehicles, households and businesses. Newport has 11 Air Quality Management Areas which monitor air quality and since they were in place we have been in breach.
Risk Owner	Ben Hanks
Overseeing Officer	Chief Executive
Lead Cabinet Member(s)	Cabinet Member for Sustainable Development
Linked Theme	▪ Theme : Modernised Council ▪ Theme: Resilient Communuities (Community) ▪ Theme : Thriving City
Linked Corporate Objective	▪ WBO 2. Economic Growth & Regeneration ▪ WBO 3. Healthy, Independent & Resilient

9



Climate Change

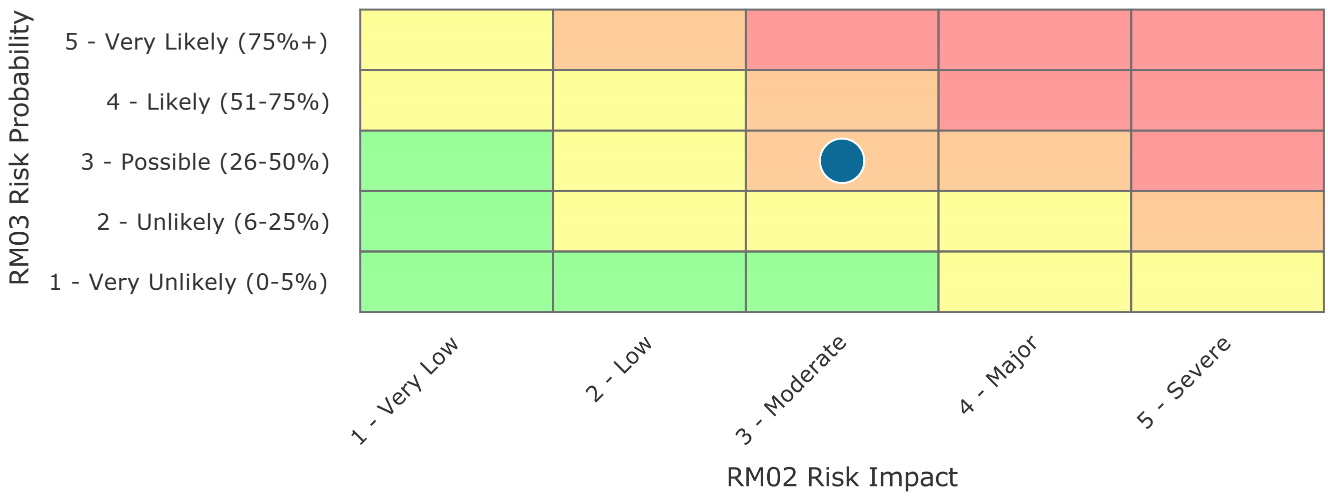
30 SEP 20

16

Inherent Risk Score

10

Target Risk Score



Direction of Risk

	DoR	Comment
Climate Change	➡	No change to the risk score in quarter 2.

Action Name	Action Description	% Complete	Sep 2020
Begin to use zero emission vehicles and active travel to deliver services	Begin to use zero emission vehicles and active travel to deliver services	15%	●
Collaborate with Partners to Develop Carbon Reduction Opportunities	Collaborate with external partners to develop internal and external carbon reduction opportunities	10%	★
Develop & Promote the Installation of Community Energy	Continue to develop and promote the installation of community energy in the city	90%	★
Develop a Climate Strategy	Develop a Climate Strategy for Newport City Council.	10%	★
Develop a Long Term Fleet Strategy	Development of a long term Fleet Strategy that will support the Council's Carbon Management Plan to be net carbon neutral.	50%	★
Develop Localised Air Quality Management Plans	Local Air Quality Management - develop localised plans under the Council's Sustainable Travel Strategy to meet statutory requirements for Action Plans. Actions to be generated by the Sustainable Travel Group.	0%	●
Improve the Energy Efficiency of the Estate	Develop a programme to improve the energy efficiency of the estate.	50%	★
Investigate Opportunities to Improve Domestic Energy Efficiency and Relieve Fuel Poverty	Investigate opportunities to improve domestic energy efficiency and relieve fuel poverty in Newport.	15%	●
Review Carbon Management Plan	Undertake the first Carbon Management Plan review.	50%	★
Review Public Transport Access for Proposed Housing Developments	Review proposed housing developments for access to public transport.	100%	✔
Undertake & Deliver Active Travel Projects	Undertake and deliver Active Travel projects across Newport agreed as part of the local transport fund allocation.	61%	★
Undertake actions to discharge duties under Active Travel Act	Undertake actions to discharge duties placed on local authorities under the Active Travel Act including publishing and promoting the integrated network map.	61%	★

Covid 19 Pandemic Outbreak

Short Description	The Corona Virus (COVID 19) pandemic has put at risk the operational ability of the Council to deliver its services, support vulnerable people across Newport and the economic impact to the local and wider economy. Potential mitigations carried out in line with the Chief Medical Officer's advice and Welsh/UK Government guidance.
Risk Owner	Rhys Cornwall
Overseeing Officer	Chief Executive
Lead Cabinet Member(s)	Leader of the Council & Cabinet Member for Economic Growth & Investment
Linked Theme	
Linked Corporate Objective	▪ WBO 1. Skills, Education & Employment ▪ WBO 2. Economic Growth & Regeneration ▪ WBO 3. Healthy, Independent & Resilient ▪ WBO 4. Cohesive & Sustainable Communities ▪ SRA 1. Supporting Education and Employment ▪ SRA 2. Supporting the Environment & the Economy ▪ SRA 3. Supporting Health & Well-being of Citizens ▪ SRA 4. Supporting Citizens post Covid-19

25

Covid 19 Pandemic Outbreak

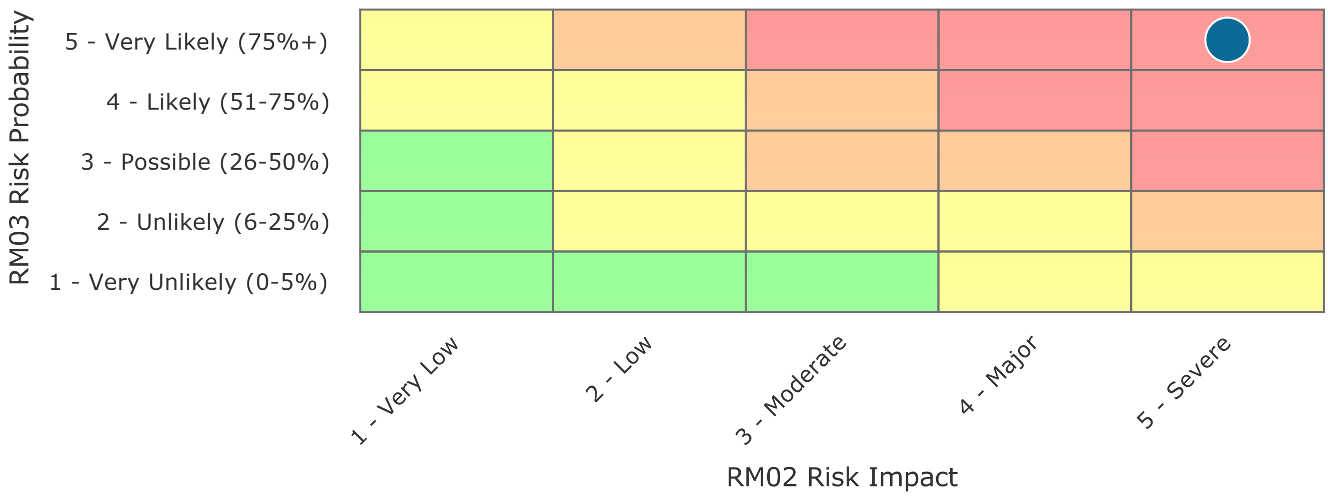
30 SEP 20

25

Inherent Risk Score

6

Target Risk Score



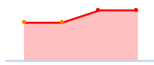
Direction of Risk		
	DoR	Comment
Covid 19 Pandemic Outbreak	➡	No change to the risk score for quarter 2.

Action Name	Action Description	% Complete	Sep 2020
Covid 19 Business Continuity Arrangements (Platinum and Gold)	Implementation and maintaining Business continuity (Platinum / Gold) arrangements for the Council.	100%	
Develop a Community Impact Assessment	Develop a community impact assessment to understand the impact that Covid 19 pandemic and resultant lockdown has had on Newport's Communities	90%	
Health & Safety Arrangements for front line staff	Health & Safety / protection activities are increased to prevent the spread of the virus across Council assets and buildings, staff and citizens.	80%	
Implementation of Covid 19 Human Resources procedures	Implementation of Human Resource procedures to support staff, agency / contractors and volunteers.	80%	

Cyber Security

Short Description	Management and security of the Council's ICT systems to protect personal and sensitive data from theft and loss whilst also maintaining business continuity and integrity of our systems.
Risk Owner	Rhys Cornwall
Overseeing Officer	Chief Executive
Lead Cabinet Member(s)	Cabinet Member for Community and Resources
Linked Theme	Theme : Modernised Council
Linked Corporate Objective	

16



Cyber Security

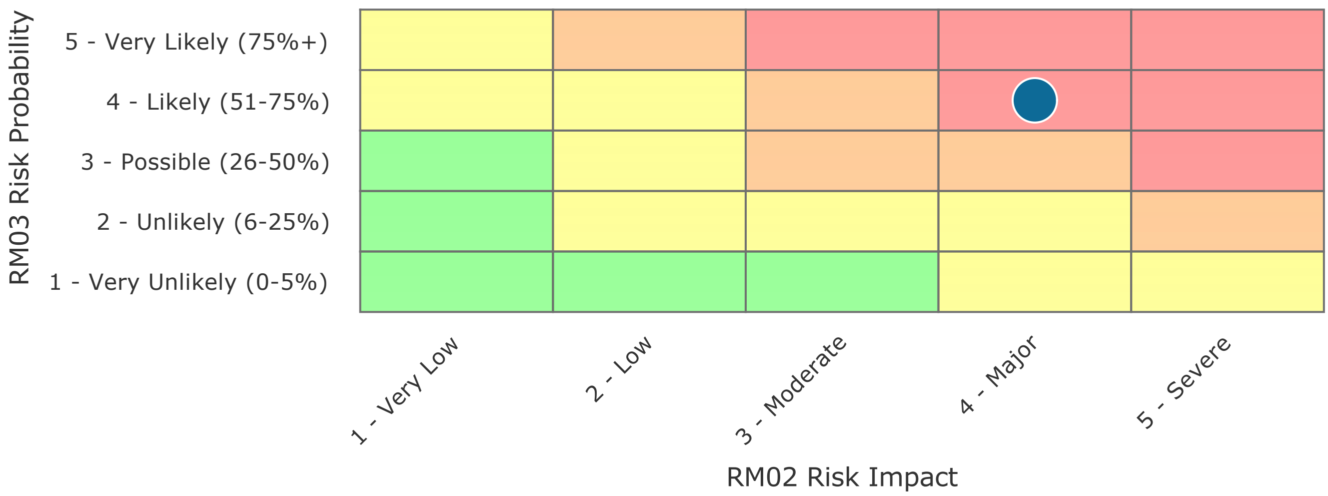
30 SEP 20

20

Inherent Risk Score

10

Target Risk Score



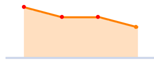
Direction of Risk		
	DoR	Comment
Cyber Security	➡	No change to risk score for quarter 2.

Action Name	Action Description	% Complete	Sep 2020
Cyber Security awareness and communications	Deliver regular cyber security updates and communications to staff through the staff Intranet and fortnightly / monthly newsletters.	50%	★
Implementation of a Policy Management System	To explore and purchase a Policy Management System that will ensure staff across the business undertake necessary training before being able to access IT systems.	30%	★
Implementation of Ransomware software	To explore and purchase Ransomware software to mitigate against potential ransomware attacks by preventing mass encryption of IT systems.	75%	★
SRS / NCC Business Continuity & Disaster Recovery	Disaster Recovery and business continuity processes between the Council and SRS will be reviewed and updated. These processes will be subject to regular testing with findings and recommendations fed back to the Council's Information Governance Group to ensure the necessary action(s) are completed.	30%	●

Demand for ALN and SEN support

Short Description	Funding to cover Additional Learning Needs (ALN) and Special Education Needs (SEN) provision across the city is insufficient and does not meet the demand of increasing need.
Risk Owner	Katy Rees
Overseeing Officer	Chief Education Officer
Lead Cabinet Member(s)	Cabinet Member for Education and Skills
Linked Theme	Theme : Aspirational People
Linked Corporate Objective	▪ WBO 1. Skills, Education & Employment ▪ WBO 3. Healthy, Independent & Resilient ▪ SRA 1. Supporting Education and Employment

12



Demand for ALN and SEN support

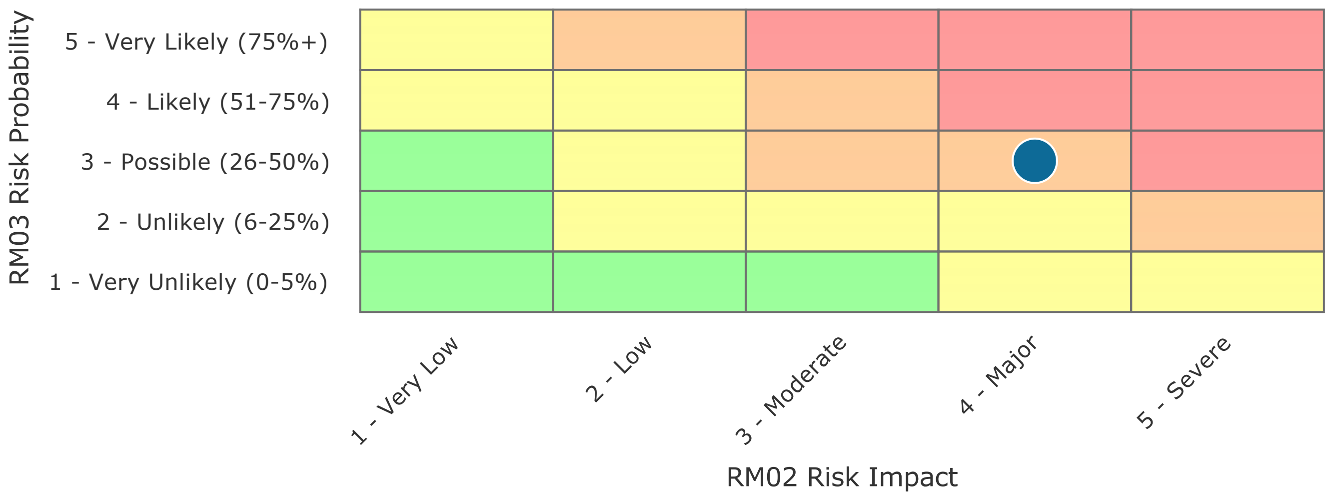
30 SEP 20

20

Inherent Risk Score

6

Target Risk Score



Direction of Risk

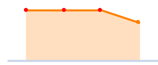
	DoR	Comment
Demand for ALN and SEN support		The SEN Department received a considerable increase in Formal Assessment requests during the lockdown period and at the end of the summer term. A number of these referrals have resulted in requests for Learning Resource Base provision and/or additional school based support. This increases the demand for ALN/SEN support and provision.

Action Name	Action Description	% Complete	Sep 2020
Create a sustainable model of delivery for children with ALN provided with timely intervention	In liaison with finance, partners and schools create a sustainable model of delivery to ensure children with ALN are provided with timely intervention within a prescribed budget without year on year fluctuation.	0%	
Develop and implement a joint ALN and Admissions process	To develop and implement a joint ALN and Admissions process regarding allocation of school placements based on parental preference to safeguard and minimise appeals processes.	55%	
Estyn Rec 5 - Ensure Appropriate Welsh Medium Provision is in Place for ALN Pupils	(Estyn Rec 5) Ensure that Welsh Medium (WM) provision is established to support pupils with Additional Learning Needs	70%	
Implementation of the Additional Learning Needs (ALN) and Educational Tribunal Act 2018.	To further the implementation of the Additional Learning Needs (ALN) and Educational Tribunal Act 2018.	50%	
Review availability of provision for all pupils with Additional Learning Needs.	Review with relevant regional partners what provision is available and required to ensure all pupils with ALN have the opportunities to return to study up to age 25.	0%	
Review the staffing resources to implement the demands of ALN & Educational Tribunal Act.	To review the staffing resources needed to implement the demands of the Additional Learning Needs (ALN) and Educational Tribunal Act 2018.	20%	
Work with partners to embed Learn Well Plan	(Estyn Rec 2) Work with partners to embed the priorities of the Learn Well Plan which focuses on improving the attainment of vulnerable groups.	25%	

Educational Out of County Placements

Short Description	Limited access to Newport City Council (NCC)provision for pupils who require complex and specialist placements which results on a reliance on Out of County (OOC) placements both day and residential.
Risk Owner	Katy Rees
Overseeing Officer	Chief Education Officer
Lead Cabinet Member(s)	Cabinet Member for Education and Skills
Linked Theme	Theme : Aspirational People
Linked Corporate Objective	▪ WBO 1. Skills, Education & Employment ▪ SRA 1. Supporting Education and Employment

12



Educational Out of County Placements

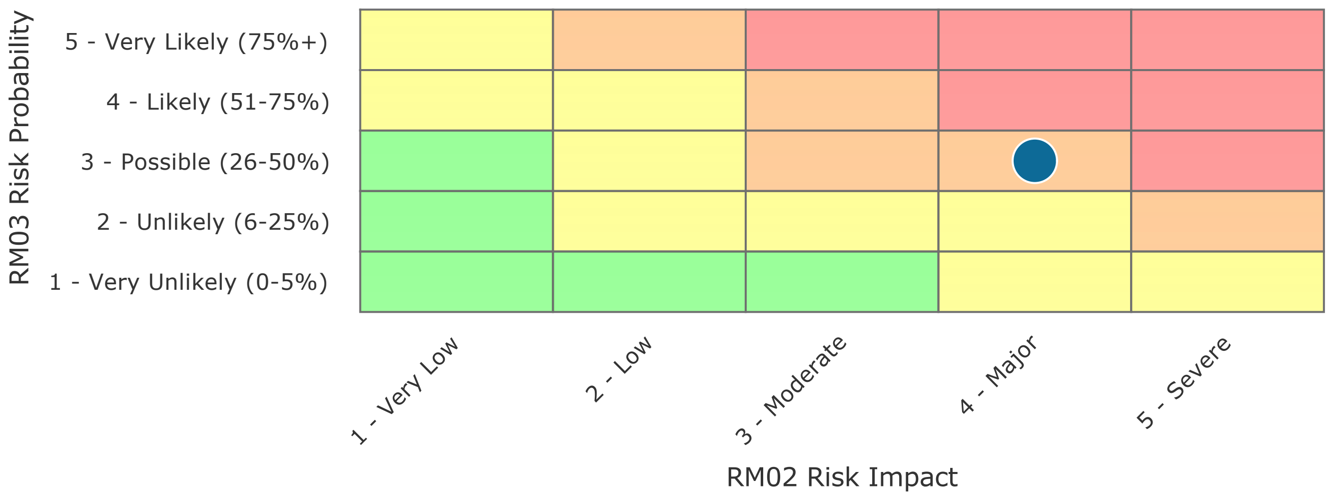
30 SEP 20

20

Inherent Risk Score

5

Target Risk Score



Direction of Risk		
	DoR	Comment
Educational Out of County Placements		Due to the increase of demand for additional specialist placements the LA has developed a 10 place specialist ASD Learning Resource Base in a mainstream primary school and is piloting an ASD Outreach service from Ysgol Bryn Derw. There has also been a need to commission additional placements with Newport Live and Catch 22 to reduce the need for out of county placements.

Action Name	Action Description	% Complete	Sep 2020
Create a sustainable model of delivery for children with ALN provided with timely intervention	In liaison with finance, partners and schools create a sustainable model of delivery to ensure children with ALN are provided with timely intervention within a prescribed budget without year on year fluctuation.	0%	
Redevelop and extend provision within the city to accommodate a greater range of needs	To continue to redevelop and extend provision within the city to accommodate a greater range of needs, ensuring that pupils are placed where their learning is best supported which will reduce the need for Out of County placements.	40%	★

Highways Networks

Short Description	Failure to recognise current levels of under investment in the whole life of the city's highway network assets in the medium to long term will continue to compound existing maintenance backlog figures.
Risk Owner	Paul Jones
Overseeing Officer	Chief Executive
Lead Cabinet Member(s)	Deputy Leader & Cabinet Member for City Services & Member Development
Linked Theme	Theme : Thriving City
Linked Corporate Objective	▪ WBO 2. Economic Growth & Regeneration ▪ WBO 3. Healthy, Independent & Resilient ▪ SRA 2. Supporting the Environment & the Economy ▪ SRA 3. Supporting Health & Well-being of Citizens

20

Highways Networks

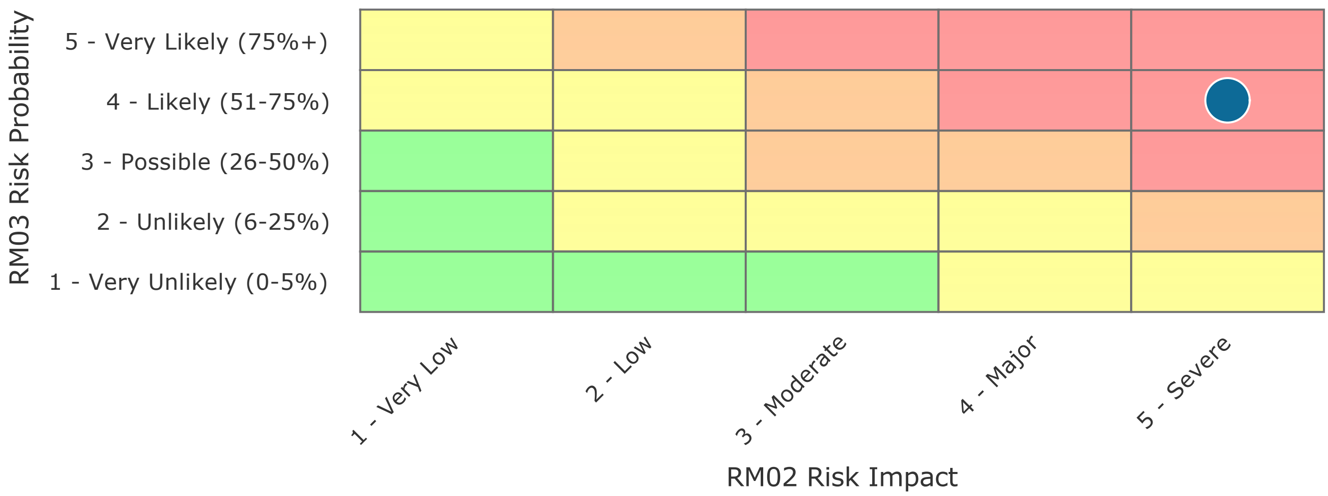
30 SEP 20

20

Inherent Risk Score

9

Target Risk Score



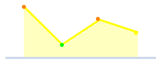
Direction of Risk		
	DoR	Comment
Highways Networks	➡	No change to risk score for quarter 2.

Action Name	Action Description	% Complete	Sep 2020
Active lobbying to WG, WLGA, and CSS(W) to recognise funding gap to address backlog	We have identified that there is a maintenance backlog of approximately £90m for Newport. But the level of funding to maintain these assets is not sufficient to meet this. The under investment is not unique to Newport and other authorities in Wales are facing the same issues. Therefore, we (alongside other local authorities) are lobbying the Welsh Government, Welsh Local Government Association and County Surveyors Society Wales CSS(W) to increase and/or make more capital funding available to decrease this gap. This action will be ongoing and will not result in direct action completion.	59%	
Develop and implement the Council's Highways Asset Management Strategy / Plan	The Council is developing the Highways Asset Management Strategy and Highways Asset Management Plan. This plan will be implemented in 2019/20 and will enable the Council to actively manage its highways infrastructure. Implementation of the plan will enable the Council to undertake: risk based assessment and management of its infrastructure; calculating future funding requirements to maintain agreed levels of service; risk based evidence to identify and deliver improvements to assets identified below required standards.	100%	✔

In Year Financial Management

Short Description	This relates to the in year management of budgets and risk profiling of service areas / activities that are forecasting end of year overspends.
Risk Owner	Owen James
Overseeing Officer	▪ Chief Executive ▪ Head of Finance
Lead Cabinet Member(s)	Leader of the Council & Cabinet Member for Economic Growth & Investment
Linked Theme	
Linked Corporate Objective	▪ WBO 1. Skills, Education & Employment ▪ WBO 2. Economic Growth & Regeneration ▪ WBO 3. Healthy, Independent & Resilient ▪ WBO 4. Cohesive & Sustainable Communities

6



In Year Financial Management

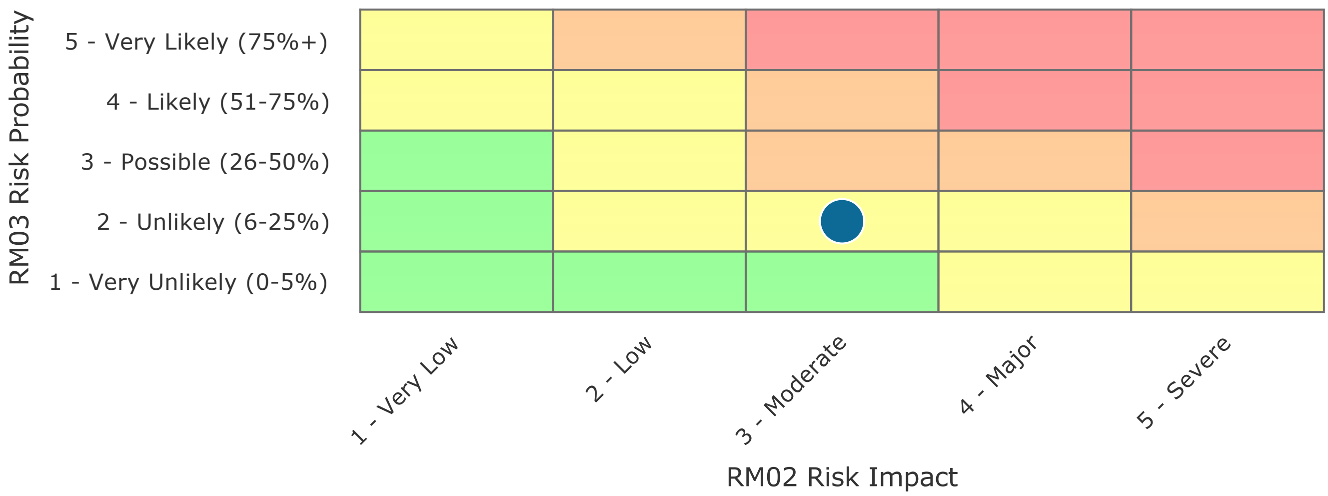
30 SEP 20

20

Inherent Risk Score

6

Target Risk Score



Direction of Risk

	DoR	Comment
In Year Financial Management		The latest monitoring report taken to Cabinet showed a small in-year underspend. While this would not be a significant issue for the Council to deal with due to reserves it has set aside. There is still a risk that the position could worsen over the rest of the period depending on the impact of a second wave of the pandemic and the actions that are required to be put in place. To date this has been funded by Welsh Government, but there could be a finite amount of money on which to call upon which may ultimately impact on the Council's budget.

Action Name	Action Description	% Complete	Sep 2020
Agree the Service Areas finance Response & Recovery to Covid-19 Impact	Meet with Heads of Service to agree the impact on the individual service areas on the impact of their response and recovery of the Covid-19 impact, alongside the “business as usual” forecasts to be including within monitoring.	100%	
All service areas to maintain robust financial management	All service areas to maintain robust financial management and understand the risks associated delivery of savings and achievability of the savings.	100%	
Cabinet Member and Senior Officers to manage / mitigate any projects not achieving savings	There are currently £1.2m of undelivered savings for the 2020/21 and prior financial years. These are largely delayed due to covid-19 pandemic, however until they are delivered they will have an impact on the financial outturn and if ongoing a concern for the future years. Therefore focus needs to remain on delivering the savings.	84%	
Cabinet Member and Senior Officers to reduce overspending in Social Care	There continue to be overspends reported in Social Care in 2020/21, Cabinet Members and Senior Officers to address these.	50%	
Carry Out Capital Budget Workshop with Senior Officers	Carry out a capital workshop with Senior Officers to re-profile capital budgets in light of previous year’s slippage, and understand the demands on the capital programme and the long-term impact of these on the Capital Programme.	0%	

Newport Council's Property Estate

Short Description	NCC has a significant property estate covering over 170 buildings (circa) such as the Civic Centre, Telford Depot, schools etc. The Council has to ensure the estate is maintained to required standards to enable access, safety, security and in the long term sustainable for staff and residents to use.
Risk Owner	Ben Hanks
Overseeing Officer	▪ Chief Executive ▪ Head of People & Business Change ▪ Head of Regeneration, Investment and Housing
Lead Cabinet Member(s)	Cabinet Member for Assets
Linked Theme	Theme : Modernised Council
Linked Corporate Objective	▪ SRA 2. Supporting the Environment & the Economy ▪ SRA 3. Supporting Health & Well-being of Citizens ▪ WBO 2. Economic Growth & Regeneration ▪ WBO 3. Healthy, Independent & Resilient

8

Newport Council's Property Estate

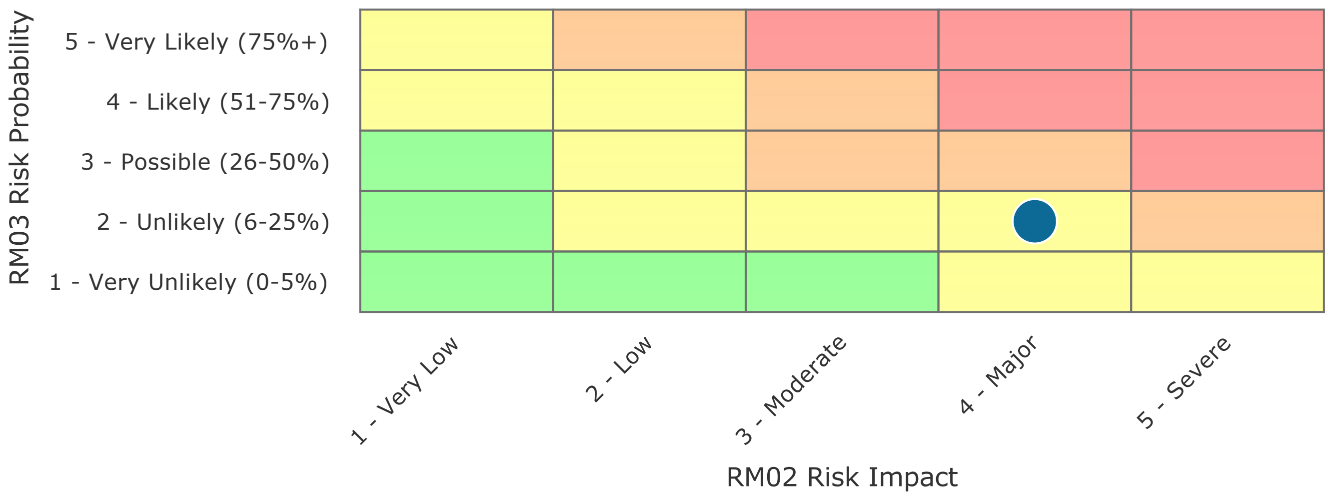
30 SEP 20

16

Inherent Risk Score

9

Target Risk Score



Direction of Risk

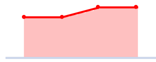
	DoR	Comment
Newport Council's Property Estate	➡	No change to the risk score for the quarter 2 period.

Action Name	Action Description	% Complete	Sep 2020
Adhere to the Corporate Landlord Policy	Adherence to the Corporate Landlord Policy	50%	
Create and Develop the Civic Centre Operational Groups	Create and develop the Civic Centre Operational Groups	75%	
Delivery of the Annual Capital Maintenance Programme	The delivery of the Council's annual Capital maintenance programme to maintain and improve the Council's property estate.	75%	
Develop a balanced strategy for the future of the Civic Centre	In response to financial, environmental, legal sustainability and social pressures we need to develop a balanced strategy for the future preservation and transformation of the Civic Centre.	30%	
Develop The Civic Centre Maintenance Backlog Prioritisation Schedule	Develop and update a Civic Centre maintenance backlog prioritisation schedule.	50%	
Ensure NCC Property & Asssets Support the Corporate Plan	Ensure that the property and assets held by NCC sustain and support the corporate plan	50%	
Ensure there are Accountable & Responsible Premise Managers in all NCC premises	Accountable and responsible Premise Managers in all NCC premises	50%	

Pressure on Adult & Community Services

Short Description	There is increased pressure on Adult Services to deliver services to adults with complex and long lasting needs. With an increase in demand / volume of referrals and care packages the Council has seen an increase in costs whilst in the context of tightening budgets. There are also additional statutory requirements to safeguard adults in our care and prevent risk of harm, injury or a loss of life.
Risk Owner	Jenny Jenkins
Overseeing Officer	Head of Adult and Community Services
Lead Cabinet Member(s)	Cabinet Member for Social Services
Linked Theme	Theme: Resilient Communuities (Social Care)
Linked Corporate Objective	▪ WBO 3. Healthy, Independent & Resilient ▪ SRA 3. Supporting Health & Well-being of Citizens

20



Pressure on Adult & Community Services

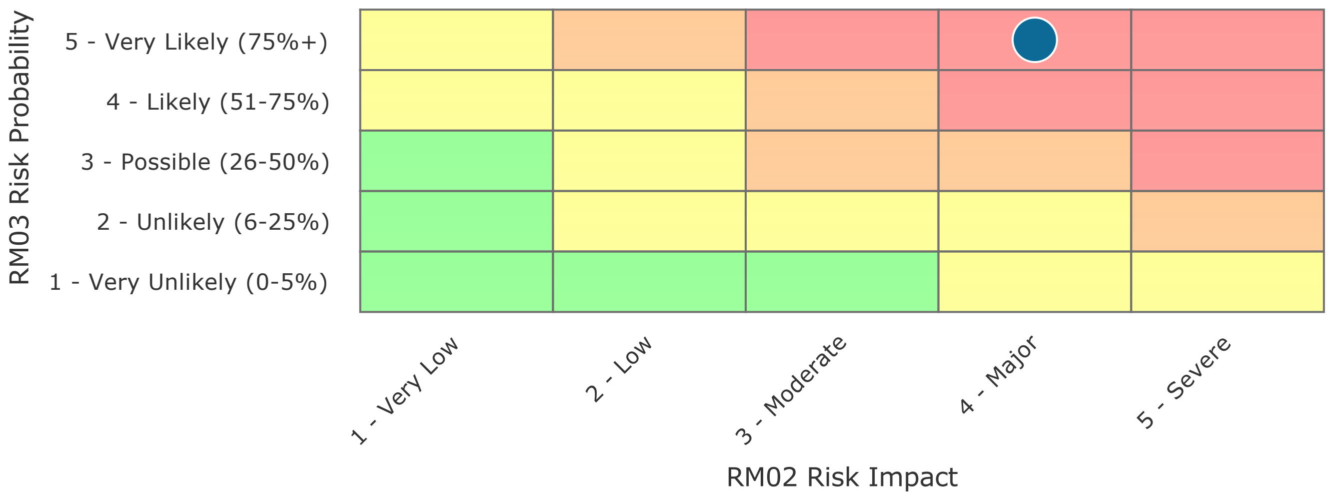
30 SEP 20

20

Inherent Risk Score

10

Target Risk Score



Direction of Risk

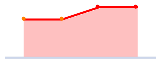
	DoR	Comment
Pressure on Adult & Community Services	➡	No change to this risk score for the end of quarter 2.

Action Name	Action Description	% Complete	Sep 2020
Continue to Develop First Contact as a Multi-Agency & Disciplinary Team	To continue to develop First Contact as a multi-agency, multi-disciplinary team effectively managing demand. This includes the integration of the Frailty service into the First Contact Team.	80%	★
Further implementation of the revised Telecare Service	Implementation of the revised Telecare Service - To further develop the availability of assistive technology as a means of preventing or supporting a care and support plan.	70%	★
Improve Support Available for Young People with Learning Disabilities	To improve the support available for young people with learning disabilities to transition from Children Services into Adults Services. ·	60%	★
Integrate Regional Home First Initiative into Hospital Pathway	To develop and effectively integrate the Regional Home First initiative into the hospital pathway and to further align patient flow processes within hospital discharge.	50%	★
Provide Integrated Health & Social Support to Newport Citizens	To provide integrated health and social care support to Newport citizens.	25%	★

Pressure on Homelessness Service

Short Description	Further pressures and increased presentations on homelessness service
Risk Owner	Ben Hanks
Overseeing Officer	▪ Chief Executive ▪ Head of Regeneration, Investment and Housing
Lead Cabinet Member(s)	Leader of the Council & Cabinet Member for Economic Growth & Investment
Linked Theme	Theme: Resilient Communuities (Community)
Linked Corporate Objective	WBO 4. Cohesive & Sustainable Communities

16



Pressure on Homelessness Service

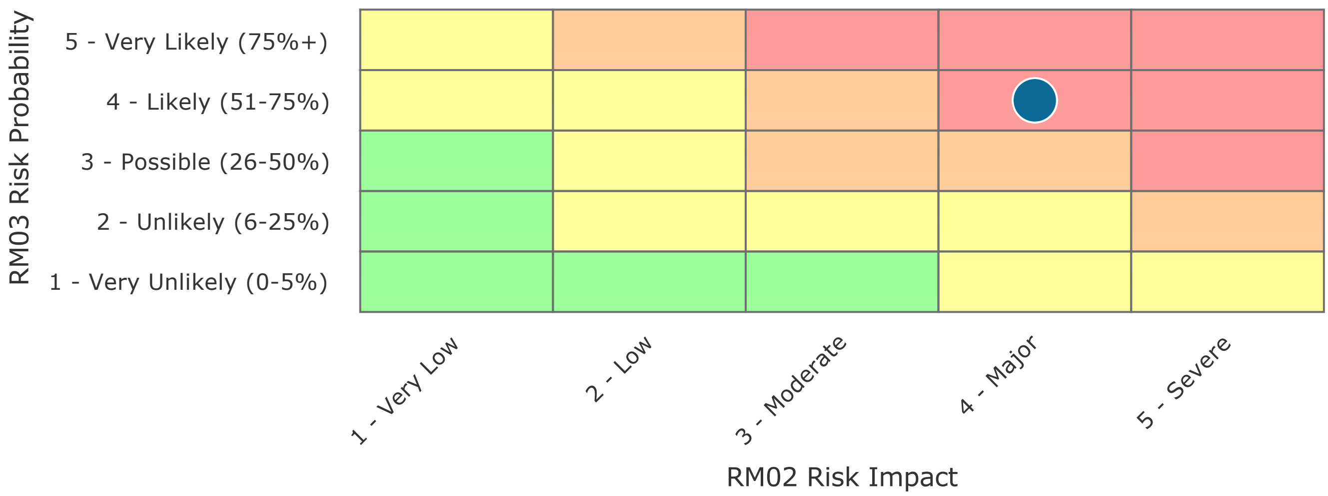
30 SEP 20

20

Inherent Risk Score

6

Target Risk Score



Direction of Risk

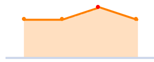
	DoR	Comment
Pressure on Homelessness Service	➡	The risk score for the pressure on homelessness service remains the same for quarter 2.

Action Name	Action Description	% Complete	Sep 2020
Deliver the 3-year Planned Development Programme with RSL's - 2020-21	Deliver the 3-year Planned Development Programme with RSL's	75%	★
Develop Strategy Framework for Private Sector Housing	Develop a strategy framework for private sector housing, bringing together the Adaptations Policy, Private Sector Leasing scheme, Housing Loans Policy	30%	★
Produce a Housing Prospectus for Newport	Produce a housing prospectus for Newport in line with Welsh Government guidance.	0%	●

Pressure on Housing Services

Short Description	Increased pressure on Housing services to provide residents with safe, affordable housing options.
Risk Owner	Ben Hanks
Overseeing Officer	▪ Chief Executive ▪ Head of Regeneration, Investment and Housing
Lead Cabinet Member(s)	Leader of the Council & Cabinet Member for Economic Growth & Investment
Linked Theme	Theme: Resilient Communuities (Community)
Linked Corporate Objective	▪ WBO 3. Healthy, Independent & Resilient ▪ WBO 4. Cohesive & Sustainable Communities

12



Pressure on Housing Services

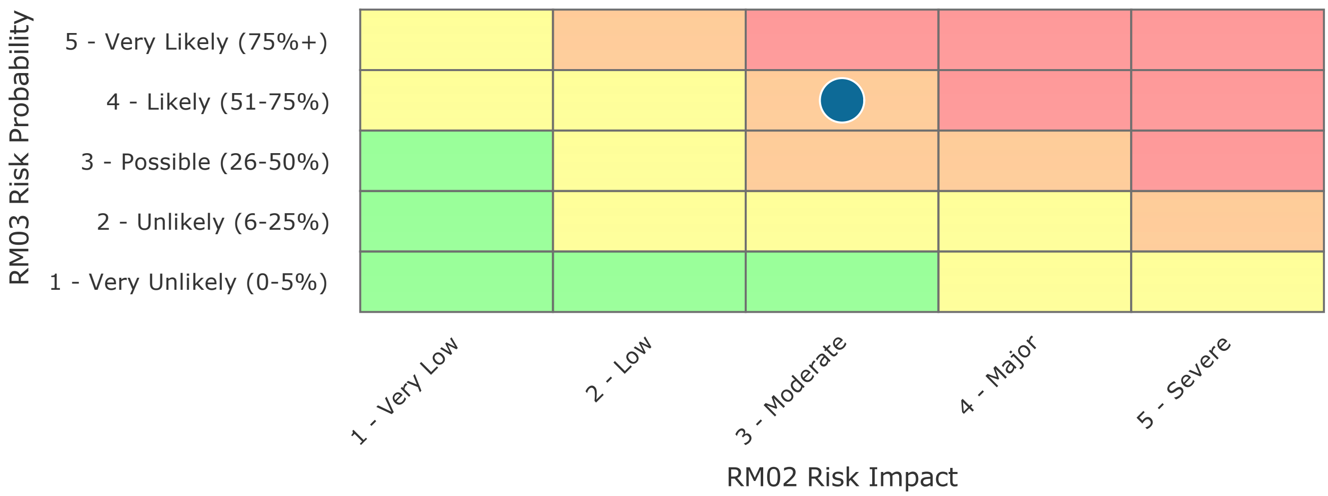
30 SEP 20

20

Inherent Risk Score

5

Target Risk Score



Direction of Risk

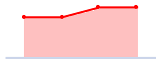
	DoR	Comment
Pressure on Housing Services		Since Quarter 1 this risk has reduced from a 16 to 12. This reflects that while pressures remain with the demand for housing and homelessness, additional support has been received through the Welsh Government funding and continuous strengthening of our partnership working with Registered Social Landlords, Council teams and third sector to provide accommodation and support to the most vulnerable.

Action Name	Action Description	% Complete	Sep 2020
Deliver 3 year Planned Development Programme with RSLs	Deliver the 3 year Planned Development Programme with RSLs.	100%	
Deliver the 3-year Planned Development Programme with RSL's - 2020-21	Deliver the 3-year Planned Development Programme with RSL's	75%	
Develop Strategy Framework for Private Sector Housing	Develop a strategy framework for private sector housing, bringing together the Adaptations Policy, Private Sector Leasing scheme, Housing Loans Policy	30%	
Development of specialist housing for residents with learning disabilities	Further development of programme for specialist housing schemes for residents with a learning disability.	100%	
Further Development of Strategic Housing Forum	Further development of the Strategic Housing Forum	50%	
Manage common housing register and Newport Housing Options Service	Manage and maintain the Common Housing Register and Newport Housing Options service	50%	
Maximise new housing units from empty properties	Maximise the number of new housing units created from empty properties	100%	
Produce a Housing Prospectus for Newport	Produce a housing prospectus for Newport in line with Welsh Government guidance.	0%	
Produce Updated Gypsy Traveller Accommodation Assessment	Produce an updated Gypsy Traveller Accommodation Assessment.	0%	
Research Private Rented Sector Accommodation in Newport	Carry out research into the extent and nature of private rented sector accommodation in Newport.	33%	

Pressure on the Delivery of Children Services

Short Description	Increased pressure on Children Services to manage increase in volume of referrals / cases of children with complex needs. This is in the context of budgets not being able to meet increase in costs to provide the necessary care and front-line staff being able to manage high volume and complex caseloads.
Risk Owner	Sally Jenkins
Overseeing Officer	Chief Executive
Lead Cabinet Member(s)	Cabinet Member for Social Services
Linked Theme	▪ Theme : Aspirational People ▪ Theme: Resilient Communuities (Social Care)
Linked Corporate Objective	▪ WBO 3. Healthy, Independent & Resilient ▪ SRA 3. Supporting Health & Well-being of Citizens

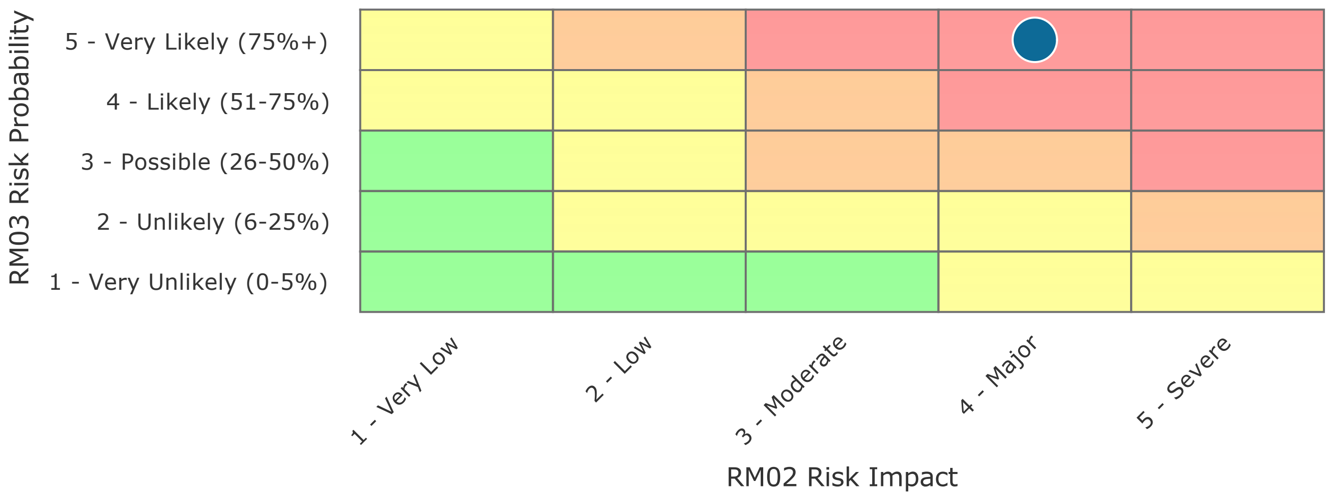
20



Pressure on the Delivery of Children Services

30 SEP 20

20	6
Inherent Risk Score	Target Risk Score



Direction of Risk

	DoR	Comment
Pressure on the Delivery of Children Services	➡	No change to the risk score in quarter 2.

Action Name	Action Description	% Complete	Sep 2020
Complete & Implement Welsh Government Recommendations for LAC Reduction	Completion and implementation of Welsh Government action plan to work towards reducing the numbers of looked after children	50%	★
Continue Development of Residential Provision	Continue with the development of the residential provision (including Windmill Farm) across Newport in order to increase the number of children who can be cared for safely in Newport	46%	★
Continue the Work Started with GDAS to Base Multi-agency Staff in Front line Teams	Continue the Work Started with GDAS to Base Multi-agency Staff in Front line Teams	40%	●
Continuing to Increase Housing Options for Care Leavers	Increased housing options for care leavers. Currently Newport has a limited range of choices for housing for care leavers especially with a range of suitable support. This action will seek to address this gap. Work has already commenced and will continue.	30%	★
Develop a Rapid Response Provision at the Front Door of Children's Services	Develop a rapid response provision at the front door of Children's Services utilising the skill set in existing provision.	25%	●
Increase Number of Foster Carers Recruited to NCC Through Increased Marketing	To increase the number of foster carers recruited to NCC through increased marketing and scoping raising fostering fees and implementing council tax exemptions.	40%	★
Review our Existing Arrangements for Family Time to Improve the Offer for Children & Families	In light of the learning during lockdown we will review our existing arrangements for family time to improve the offer for children and families: i) To develop a comprehensive framework of all aspects of family time; ii) Continue to deliver family time virtually as a positive for families.	75%	★

Safeguarding Risk

Short Description	To ensure the Council safeguards adults, children and carers as part of its statutory duty.
Risk Owner	Mary Ryan
Overseeing Officer	▪ Chief Education Officer ▪ Chief Executive ▪ Head of Adult and Community Services ▪ Head of Children and Family Services ▪ Head of Regeneration, Investment and Housing
Lead Cabinet Member(s)	Cabinet Member for Social Services
Linked Theme	Theme: Resilient Communuities (Social Care)
Linked Corporate Objective	▪ WBO 3. Healthy, Independent & Resilient ▪ SRA 3. Supporting Health & Well-being of Citizens

6

Safeguarding Risk

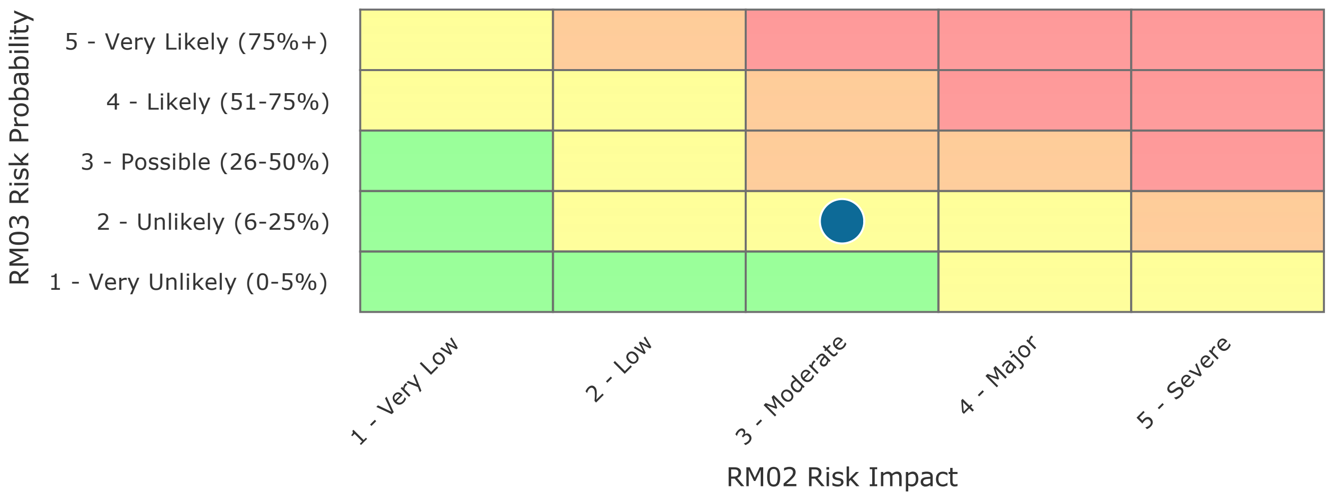
30 SEP 20

20

Inherent Risk Score

4

Target Risk Score



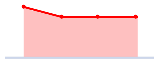
Direction of Risk		
	DoR	Comment
Safeguarding Risk	➡	There is no change to the quarter 2 risk score for safeguarding.

Action Name	Action Description	% Complete	Sep 2020
All education Services staff to have completed relevant safeguarding training	All education Services staff to have completed relevant safeguarding training	88%	★
Build on Contextual Safeguarding Research	Build on work on Contextual harm and exploitation, safeguarding research, and embed new approaches to understanding, and responding to young people's experiences of significance.	75%	●
Complete & Deliver Actions Agreed in Post Safeguarding Joint Inspection Action Plan	Complete and deliver actions agreed in the post safeguarding joint inspection action plan	50%	★
Contribute towards the All Wales Adult Safeguarding Guidance	Contribute towards the All Wales Adult Safeguarding Guidance	100%	★
Delivery of Safeguarding Programmes 2020-21	Deliver safeguarding programmes and measures that protect citizens from victimisation and to measure the impact of regulatory interventions.	25%	●
Embed the implementation of the new national 'safeguarding toolkit' for schools.	Embed the implementation of the new national 'safeguarding toolkit' for schools.	30%	★
Empower Citizens Through the Adult Safeguarding Process	To continue to support and empower citizens through the adult safeguarding process.	90%	●
Implement the Exploitation Strategy within Newport Children's Services	Exploitation will be considered under one overarching banner whether it is criminal or sexual and the response will be based on the needs and desired outcomes for the young person rather than the risks. A multi agency approach is in place and there is progress being made to evaluation this work through the contextual safeguarding and CASCADE schools.	40%	●
Incorporate a Robust Preventative & Early Intervention Agenda in a Contextual Safeguarding Framework	Develop the breadth of support available from the service, incorporating a robust preventative and early intervention agenda within a contextual safeguarding framework.	80%	★
Provide Training & Practitioner Access to Welsh Government Safeguarding App	To provide training and Practitioner access to Welsh Government Safeguarding App through council mobile phones and computers.	100%	★
To implement new processes for Liberty Protection Safeguards.	Mental capacity Act requires the authority to implement the deprivation and liberty safeguards for citizens of Newport. We have an established regional and local process to delivery on DoLS. However, the legislation changes in October 2020 requiring the Council to have processes in place for the new LPS Liberty Protection Safeguards. This action is to implement the new process for the Council.	50%	●
Website Development	Website Development	99%	★

Schools Finance / Cost Pressures

Short Description	In year cost pressures of schools are not met resulting in increased deficit budgets
Risk Owner	Sarah Morgan
Overseeing Officer	▪ Chief Education Officer ▪ Chief Executive
Lead Cabinet Member(s)	▪ Cabinet Member for Education and Skills ▪ Leader of the Council & Cabinet Member for Economic Growth & Investment
Linked Theme	Theme : Aspirational People
Linked Corporate Objective	WBO 1. Skills, Education & Employment

16



Schools Finance / Cost Pressures

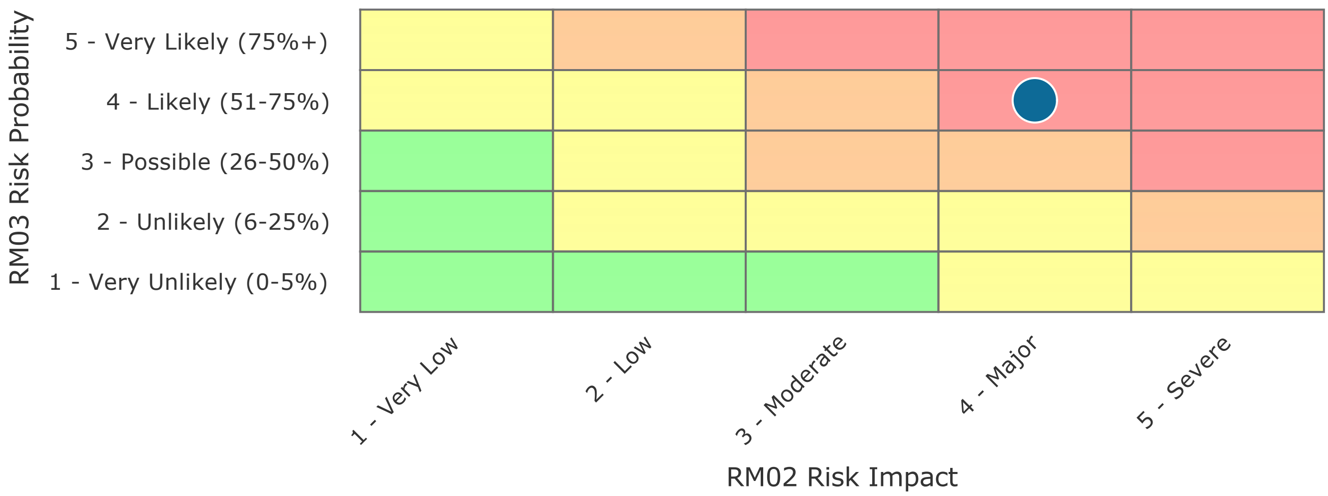
30 SEP 20

20

Inherent Risk Score

6

Target Risk Score



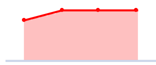
Direction of Risk		
	DoR	Comment
Schools Finance / Cost Pressures	➡	There remains significant pressure on the school's finances for this financial year and the risk score remains at the same for quarter 2.

Action Name	Action Description	% Complete	Sep 2020
Annual school funding formula review 20/21.	Review School Funding Formula.	25%	
Managing School Budget	The local authority will monitor school budgets to ensure that Headteachers and Governing Bodies are: a) Maintaining a balanced budget; b) Addressing in year overspends to reduce the risk of moving in to deficit positions; c) Where deficit budgets occur, deficits are licensed with full recovery plans. d) Where in year deficits are still arising following substantial review, further mitigation may be through the medium term financial plan.	40%	
Monitor In-Year School Budgets to Ensure Budgets are Managed Effectively	Monitor In-year School budgets to ensure budgets are: • Managed effectively and taking necessary actions to prevent overspending. Effectively taking necessary actions to prevent overspending. Schools that have deficit budget recovery plans are implementing the necessary actions to reduce their overall budget deficits.	25%	
Monitoring of Primary, Secondary & Special Schools In-Year Budgets	Monitoring of primary, secondary and special schools in-year budgets: • To prevent overspending and take necessary mitigating action(s). Schools with deficit budget recovery plans are implementing the necessary actions to reduce their budget deficits	40%	

Stability of Social Services Providers

Short Description	The Council requires support from external providers to deliver care packages for children and adults (residential / Non Residential). The current marketplace for external providers is volatile due to the increasing costs to provide care, maintain homes, staffing meeting legislative and regulatory requirements.
Risk Owner	Jenny Jenkins
Overseeing Officer	Head of Adult and Community Services
Lead Cabinet Member(s)	Cabinet Member for Social Services
Linked Theme	Theme: Resilient Communuities (Social Care)
Linked Corporate Objective	▪ WBO 3. Healthy, Independent & Resilient ▪ SRA 3. Supporting Health & Well-being of Citizens

25



Stability of Social Services Providers

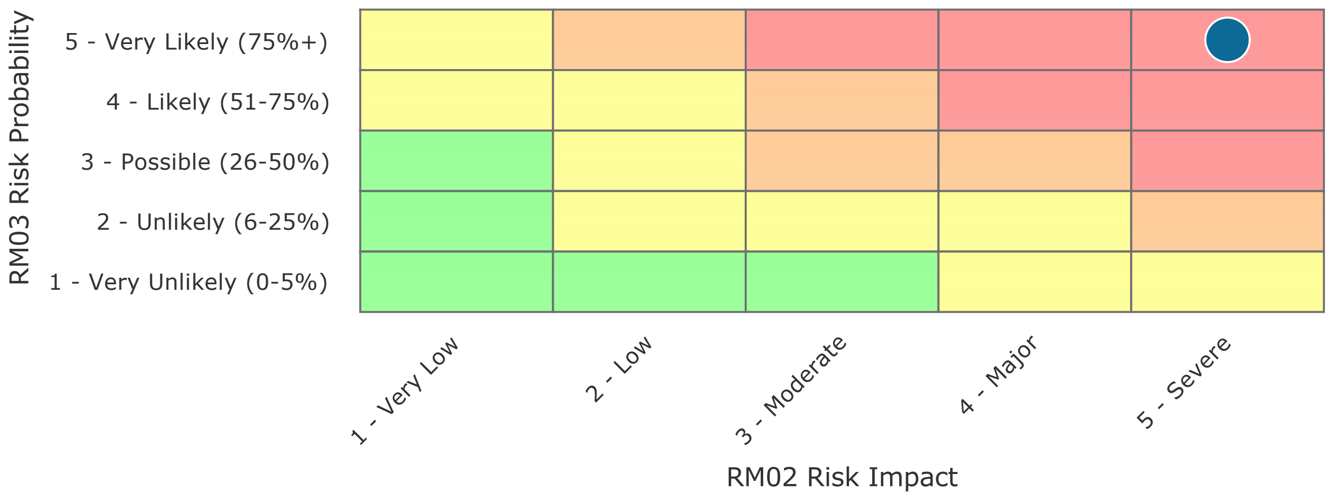
30 SEP 20

20

Inherent Risk Score

6

Target Risk Score



Direction of Risk

	DoR	Comment
Stability of Social Services Providers	➡	This risk remains at 25 for the end of the quarter 2 period due to the ongoing Covid-19 pandemic and continuing pressure on providers.

Action Name	Action Description	% Complete	Sep 2020
ABUHB & Local Authority Partners to Develop Common Contracts & Monitoring Protocols	Work with Aneurin Bevan University Health Board and Local Authority partners to develop common contracts and monitoring protocols.	80%	★
Assess Impact of Covid 19 on Long Term Sustainability of Service Providers	Assess the impact of Covid 19 on the long term future sustainability of service providers ensuring that the market is able to offer sufficient market capacity and diversity.	20%	●
Continue to Provide & Develop in House Provision	Continue to provide and develop in house provision	100%	★
Develop the People Commissioning Function to Oversee Commissioning & Contractual Activity	To further develop the People Commissioning function to oversee all commissioning and contractual activity within the Directorate. To monitor the People Commissioning Function to maximise opportunities to add value across the whole service area.	75%	★
Monitor the Quality of Services Against Agreed Outcomes & Offer Value for Money	To monitor the quality of services to ensure they deliver against agreed outcomes and offer value for money.	70%	★

This page is intentionally left blank

Agenda Item 5

Report

Audit Committee

Part 1

Date: 28 January 2021

Item No: 5

Subject **Internal Audit – Progress against audit plan 2020/21 Quarter 3**

Purpose To inform Members of the Council's Audit Committee of the Internal Audit Section's progress against the 2020/21 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 progress against the 2020/21 audit plan and internal performance indicators although the agreed revised plan only took effect from October 2020 due to the impact of the Covid-19 pandemic.

Covid-19 has significantly impacted on Internal Audit and its ability to deliver the original full year plan. Corporately the focus was on delivering essential front line services to deal with the pandemic. The Internal Audit team supported the business grants process and undertook extensive counter fraud work whilst the majority of the regularity audits were put on hold for an interim period.

The original audit plan was based on 1208 audit days; the revised audit plan was based on 626 audit days.

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 along with the performance of the team for that period.

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 7 audit staff in the team.

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.

Public Sector Internal Audit Standards (PSIAS)

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.

Audit Plan & The Impact of Covid-19

8. The revised 2020/21 Audit Plan was agreed by the Audit Committee on the 28th September 2020. This was originally based on 1208 audit days with 65 opinion related jobs; the revised plan is based on 626 audit days with 50 opinion related audit jobs.

9. The pandemic struck Wales mid February, early March 2020. The majority of Council staff were advised to work from home from the 18th March 2020, where they could. This meant the Internal Audit Team had to change the way it operated for the year end and for the start of the new financial year.

10. We were unable to complete all work as planned as service areas re-prioritised their staff and workloads, staff became unavailable, meetings and site visits were cancelled and requests came in to postpone ongoing audit work. Currently we are experiencing some delays in obtaining information from service areas as not all relevant records are stored digitally.

11. Generally in Q1 of our audit plan the team are finalising reports in draft at year end, completing audit jobs which were ongoing at year end but draft reports had not been issued, picking up carried forward jobs from the previous year and starting new year audit jobs. In order to undertake audit work effectively and efficiently we need the co-operation of service managers and the staff in their service areas to accommodate site visits, meetings and provide relevant documentation; as a result of "Lockdown" services were re-prioritised and some staff deployed to support front line service provision. Key staff were therefore not available for audit work to be completed which meant the Internal Audit service was effectively put on hold.

12. Internal Audit staff are working from home. This move happened at pace in March 2020. Although we did manage to move some reports forward we could not undertake our audit work in line with the original audit plan. In early April, Internal Audit staff also got redeployed to support the payment of business rates grants; extensive counter fraud work was undertaken in relation to these grants. Other counter fraud work was also undertaken along with completion of special investigation work.

13. In 2019/20 external resources were brought in to undertake audit jobs which could not be completed in house due to a vacancy or long term illness. This support has continued into 2020/21 to ensure appropriate audit coverage in the year.

Performance

14. 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 some 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.

15. 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.

16. The performance for Quarter 3 2020/21 is summarised below with the detail shown at **Appendix A**:

    a. 42% of the original audit plan has been achieved so far

    b. The promptness of issuing draft reports (comparing timescale between finalising all fieldwork and issuing the draft report to management) averages at 6 days, well within the target time of 10 days;

    c. The promptness of report finalisation (comparing timescale from meeting with client to discuss issues raised in the draft report to issue of finalised report to management) averages 2 days which is well within the target time of 5 days.

17. Coverage of the plan at this stage of the year is lower than expectations due to the impact of Covid-19. This year will depend on sufficient audit resources being available to complete the audit plan.

18. 2019/20 audit reviews have been finalised where possible, 10 out of 11.

19. A vacancy / secondment provision was taken into account in the planning stage which related to the Chief Internal Auditor's work with Monmouthshire. The team took on additional external professional support to enable it to achieve the 2019/20 audit plan and carried this through to 2020/21.

20. 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. Some planned work may be deferred by service managers to either later in the year or the following financial year.

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

Quality Control

22. 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 2020/21.

Financial Training

23. 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 will be 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 previously attended courses has been positive. 2 training sessions have been held so far this year, via MS Teams, with others planned.

Audit Opinions 2020/21

24. Audit opinions issued so far in 2020/21 are shown at **Appendix B.** Definition of audit opinions currently given is shown at **Appendix D**.

25. 12 jobs completed to at least draft report stage by 31 December 2020 warranted an audit opinion:

- 3 *x Good,*
- *8 x Reasonable,*
- *1 x Unsatisfactory.*

In addition, 5 grant claim audits have been undertaken during the year:

- 3 were *Unqualified*
- *2* were *Qualified.*

Other work completed related to the Annual Governance Statement, National Fraud Initiative (NFI), Covid-19 Business Grants, iTrent System Developments, School Deficit budget Project and provision of financial advice (**Appendix C**). Of the 11 audits in draft at the year end (31/3/20) 10 have also been finalised.

26. 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

27. 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.

28. 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

29. 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

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

Risks

31. 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 interim external support to cover long term vacancy	Chief Internal Auditor

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

32. 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.

Options Available

33. 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.

34. 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

35. N/A

Comments of Chief Financial Officer

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

Comments of Monitoring Officer

37. 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.

Comments of Head of People and Business Change

38. As part of the Well-being of Future Generations Act (2015) and its corporate governance arrangement it is necessary to ensure that the Council's functions are operating effectively and efficiently to manage its governance, internal control and risk management arrangements in the delivery of the Corporate Plan and its statutory duties. This report presents a review of the Internal Audit activity during the period concerned and the outcomes of completed audit reviews. There are no direct human resources impact from this report.

Comments of Cabinet Member

39. N/A

Local issues

40. N/A

Scrutiny Committees

41. N/A

Equalities Impact Assessment and the Equalities Act 2010

42. 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.

43. 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

44. N/A

Wellbeing of Future Generations (Wales) Act 2015

45. The role of Internal Audit supports the Council in complying with the principles of the Wellbeing Act and providing assurance on the activities undertaken across the Council. 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 that is aligned to the Council's Corporate 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 Council's corporate governance, internal control and risk management environment in operation and support sound stewardship of public money.
    Collaboration - Internal Audit work with delivered in collaboration 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. The involvement of the Audit Committee provides assurance and oversight of an effective internal audit provision to carry out its duties.

Crime and Disorder Act 1998

46. 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

47. N/A

Background Papers

48. N/A

Dated:

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

2019/20	2019/20 Target	1st Qtr 19/20	2nd Qtr 19/20	3rd Qtr 19/20	4th Qtr 19/20	Comments
Proportion of planned audits complete	82%	18%	33%	51%	76%	[Profiled Target Qtr 2: 30%]
Directly chargeable time against total time available	50%	58%	54%	54%	58%	Quarterly performance
Directly chargeable time against planned	100%	86%	80%	72%	88%	Quarterly performance
Proportion of Special Reviews responded to within 5 working days	100%	100%	100%	100%	100%	Cumulative figures
Number of sessions provided to train staff in all Service Areas on best financial practice	8	0	3	4	7	Cumulative figures
Staff turnover rate (number of staff)	0	0	0	0	0	Quarterly performance
Promptness of draft report issue (end of fieldwork to draft report issue date)	10 days	1 day	6 days	5 days	5 days	Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	1 day	1 day	2 day	2 day	Cumulative figures

2020/21	2020/21 Target	1st Qtr 20/21	2nd Qtr 20/21	3rd Qtr 20/21	4th Qtr 20/21	Comments
Proportion of planned audits complete	82%	N/A	24%	42%		[Profiled Target N/A]
Directly chargeable time against total time available	50%	N/A	N/A	N/A		Quarterly performance
Directly chargeable time against planned	100%	N/A	N/A	N/A		Quarterly performance
Proportion of Special Reviews responded to within 5 working days	100%	N/A	N/A	N/A		Cumulative figures
Number of sessions provided to train staff in all Service Areas on best financial practice	8	N/A	1	2		Cumulative figures
Staff turnover rate (number of staff)	0	N/A	0	0		Quarterly performance
Promptness of draft report issue (end of fieldwork to draft report issue date)	10 days	N/A	3 days	6 days		Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	N/A	2 days	2 days		Cumulative figures

Appendix B
Opinions as at 31 December 2020, Qtr 3

Good	3
Reasonable	8
Unsatisfactory	1
Unsound	0
Total	12

Internal Audit Services - Management Information for 2020/21 Q3

Job number	Group	Service Area	Section or Team	Job Title	Risk Rating / Priority	Draft / Final	Opinion given
P2021-P3	CE	Finance	Income Collection	Council Tax	High	Finalised	Good
P2021-RP1	CE	Finance	Accountancy	Main Accounting System	Medium	Finalised	Good
P2021-RP5	Place	City Services	Environment & Leisure	Parks & Outdoor Recreation	Medium	Finalised	Good
P2021-P2	CE	Finance	Accountancy	Schools Finance	High		Reasonable
P2021-P14	CE	People & Bus Change	Human Resources	Recruitment & Selection	High	Finalised	Reasonable
P2021-P49	Place	RI&H	Development Services	Planning Applications	Medium		Reasonable
P2021-P59	Place	City Services	Environment & Leisure	Grounds Maintenance (Follow-Up)	High		Reasonable
P2021-RP2	CE	Law & Regulation	Legal	Corporate Admin Team	Medium	Finalised	Reasonable
P2021-RP4	Place	RI&H	Culture, Libraries & Community Learning	Museum & Art Gallery	Medium	Finalised	Reasonable
P2021-RP7	People	Education Serv	Inclusion	Additional Learning Needs	High		Reasonable
P2021-RP8	People	Education Serv	Inclusion	Bridge Achievement Centre (Follow-Up)	Medium	Finalised	Reasonable
P2021-RP3	CE	Law & Regulation	Public Protection	Newport City Dogs Home	Medium	Finalised	Unsatisfactory

Job number	Group	Service Area	Section or Team	Job Title	Risk Rating / Priority	Draft / Final	Opinion given
P2021-P33	People	Adult & Comm Serv	Service Development & Commissioning	Supporting People Programme Grant (Finances)	Medium	Finalised	Unqualified
P2021-P34	People	Adult & Comm Serv	Service Development & Commissioning	Homelessness Prevention Grant (Rough Sleeping)	Medium	Finalised	Unqualified
P2021-P45	CE	Law & Regulation	Public Protection	Scambusters Grant Claim (2019/20)	Medium	Finalised	Unqualified
P2021-P72	People	Education Serv	Education Grants	Education Improvement Grant (SIG) 2019/20	Medium	Finalised	Qualified
P2021-P73	People	Education Serv	Education Grants	Pupil Deprivation Grant 2019/20	Medium	Finalised	Qualified

Appendix C

Non Opinion work 2020/21 Q3

Job number	Group	Service Area	Section or Team	Job Title
P2021-P7	CE	Finance	General	Annual Governance Statement
P2021-P9	CE	Finance	General	Financial Advice
P2021-P20	CE	People & Bus Change	General	Financial Advice
P2021-P21	CE	People & Bus Change	General	Financial Regulations Training
P2021-P29	People	Children & Young People Serv	General	Financial Advice
P2021-P37	People	Adult & Comm Serv	General	Financial Advice
P2021-P46	CE	Law & Regulation	General	Financial Advice
P2021-P54	Place	RI&H	General	Financial Advice
P2021-P65	Place	City Services	General	Financial Advice
P2021-P86	People	Education Serv	General - Schools	Deficit Budget Project
P2021-P88	People	Education Serv	General	Financial Advice
P2021-RP9	CE	Finance	Income Collection	Covid-19 Business Rate Grants & Fraud Prevention
P2021-RP11	CE	People & Bus Change	Human Resources	iTrent System Development

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.

This page is intentionally left blank

Agenda Item 6

Report

Audit Committee

Part 1

Date: 28 January 2021

Item No: 6

Subject **Code of Corporate Governance – update (2020)**

Purpose To receive, consider comment on and endorse the revised Code of Corporate Governance before presenting to Cabinet for formal approval.

Author Chief Internal Auditor

Ward General

Summary It is important for the Council to have an up to date and relevant Code of Corporate Governance. The Council's Annual Governance Statement is based on the Code of Corporate Governance. The Code was last revised in 2014 and approved by Cabinet. Newport City Council's Code of Corporate Governance has been updated and revised to comply with the Chartered Institute of Public Finance & Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE)'s published good practice "Delivering Good Governance in Local Government Framework 2016" and "Delivering Good Governance in Local Government Guidance Notes for Welsh Authorities 2016", which embraces the elements of internal financial control required by the "Code of Practice on Local Authority Accounting in the United Kingdom".

Proposal 1) The report be endorsed by the Council's Audit Committee before being approved by Cabinet.

Action by 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. In order to meet the requirements of the Accounts and Audit (Wales) Regulations 2014, Newport City Council needs to present an Annual Governance Statement (AGS) with its Annual Statement of Accounts. The AGS is based on the Code of Corporate Governance.

2. This Code sets out Newport City Council's approach to achieving and maintaining good corporate governance. It follows best practice produced by CIPFA / SOLACE; "Delivering Good Governance in Local Government Framework 2016" and "Delivering Good Governance in Local Government Guidance Notes for Welsh Authorities 2016", which embraces the elements of internal financial control required by the "Code of Practice on Local Authority Accounting in the United Kingdom".

3. The Council sees Corporate Governance as aiming to do the right things in the right way for the right people, in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, cultures and values by which the Council is directed and controlled whilst demonstrating its accountability and engagement with its citizens.

4. Strong, transparent and responsive governance enables the Council to put citizens first by pursuing its aims and priorities effectively, and by underpinning them with appropriate mechanisms for managing performance and risk. In order to maintain citizens' confidence these mechanisms must be sound and be seen to be sound.

5. The system of internal control is a significant part of this framework and is designed to manage risk to a reasonable level. It provides reasonable but not absolute assurance of effectiveness. Internal control is based on an ongoing process designed to identify and prioritise any risks to the achievement of the Council's policies, aims and objectives, ensuring the Council's resources are used in an effective, efficient and economic way.

The Governance Framework

6. The Council's Code of Corporate Governance has been revised in line with the following principles:

   Overarching requirements for acting in the public interest:

   A Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law

   B Ensuring openness and comprehensive stakeholder engagement

   In addition, achieving good governance in the Council requires effective arrangements for:

   C Defining outcomes in terms of sustainable, economic, social, environmental and cultural benefits

   D Determining the interventions necessary to optimise the achievement of the intended outcomes

   E Developing the entity's capacity, including the capability of its leadership and the individuals within it

   F Managing risks and performance through robust internal control and strong public financial management

G Implementing good practices in transparency, reporting and audit to deliver effective accountability.

Financial Summary

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

Risks

8.

<table>
<tr><th>Risk</th><th>Impact of Risk if it occurs* (H/M/L)</th><th>Probability of risk occurring (H/M/L)</th><th>What is the Council doing or what has it done to avoid the risk or reduce its effect</th><th>Who is responsible for dealing with the risk?</th></tr>
<tr><td>Poor Governance; Reputational damage</td><td>M</td><td>L</td><td>Prepare and publish the AGS in line with the updated Code of Corporate Governance

Demonstrating sound governance practice</td><td>Head of Finance

Chief Internal Auditor

Members

Employees</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
</table>

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

9. Giving management assurance on systems in operation gives them confidence that there is sound governance arrangements in place, that more effective services can be provided and the risk of poor governance is minimised. Looking after the public pound and delivering improved service provision 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

10. This is a review and update of a policy statement report therefore there are no specific alternative options; Audit Committee is requested to endorse this revised Code of Corporate Governance. The Internal Audit team aims to provide assurance around the adequacy of the Council's internal control environment, governance arrangements and risk management processes to ensure the public pound is spent wisely and appropriately.

Preferred Option and Why

11. N/A

Comments of Chief Financial Officer

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

Comments of Monitoring Officer

13. There are no legal implications.

Comments of Head of People and Business Change

14. There are no specific HR issues arising as a result of the report. Clearly the work of the audit team is critical in giving assurance that the work of the Council is being undertaken within the set policies and procedures.

Comments of Cabinet Member

15. N/A

Local issues

16. N/A

Scrutiny Committees

17. Not appropriate.

Equalities Impact Assessment

18. Not required.

19. 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.

20. As this is an update to a policy statement there is no need for an Equalities Impact Assessment. All audit work undertaken in line with this policy statement is undertaken in a non-discriminatory manner.

Children and Families (Wales) Measure

21. Not appropriate.

Wellbeing of Future Generations (Wales) Act 2015

22. In compiling this report the principles of this Act have been considered as Internal Audit report n the governance arrangements in place:

- Long term: The Internal Audit workload is based on an annual operational plan supported by a 5 year strategic plan and aims to minimise fraud, bribery and corruption.
- 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. This could be extended to risk assess key areas of potential fraud.

Crime and Disorder Act 1998

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. Good governance should minimise the opportunity for criminal activity within the Council.

Consultation

23. N/A

Background Papers

24. - Accounts and Audit (Wales) Regulations 2014
    - CIPFA / SOLACE; “Delivering Good Governance in Local Government Framework 2016” and “Delivering Good Governance in Local Government Guidance Notes for Welsh Authorities 2016”
    - Code of Corporate Governance (2020/21) (Appendix A)

Appendix A

The Code of Corporate Governance

Newport City Council

2020/21

INTRODUCTION

The purpose of this Code is to state the importance to the Council of good corporate governance and to set out the Council's commitment to the principles involved.

The Code is based on guidance to all UK local authorities.

The Code is included in the Council's constitution and therefore applies to all members and employees of the Council and also to any individuals or bodies authorised to act on its behalf.

How the effectiveness of the Code is reviewed is set out in Section 4.

The previous Code of Corporate Governance was approved by Cabinet and Council in 2013.

Delivering Good Governance in Local Government Framework **published by CIPFA and SOLACE in 2007 set the standard for local authority governance in the UK. CIPFA and SOLACE reviewed the Framework in 2015 to ensure it remained fit for purpose and published a revised Framework in spring 2016.**

The new ***Delivering Good Governance in Local Government Framework*** **2016 edition applies to annual governance statements prepared for the financial year 2016/17 onwards. Newport's Code of Corporate Governance has been reviewed and updated in accordance with this latest edition.**

The Code will be reviewed in its entirety by no later than 31 March 2023, but minor reviews and updates will be made annually as required.

CONTENTS

1. The Purpose of the Governance Framework

1.1. This Code sets out Newport City Council's approach to achieving and maintaining good corporate governance and demonstrates how it meets the Wellbeing of Future Generations (Wales) Act 2015.

1.2. Newport City Council (the Council) is by nature, a complex organisation which affects the lives of all citizens in the area: As well as providing a diverse range of services, it also works with partner organisations which provide other public services. The Council's aims and priorities reflect these responsibilities.

1.3. The Council sees Corporate Governance as doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, and also the culture and values, by which the Council is directed and controlled and how it accounts to and engages with its citizens.

1.4. Strong, transparent and responsive governance enables the Council to put citizens first by pursuing its aims and priorities effectively, and by underpinning them with appropriate mechanisms for managing performance and risk. In order to maintain citizens' confidence, these mechanisms must be sound and be seen to be sound.

1.5. It is essential that there is confidence in our corporate governance and the Council must therefore ensure that:

- as a democratic body, we engage with and account to our citizens and stakeholders effectively;
- we conduct our business in accordance with the law and to proper standards;
- public money is properly accounted for and is used economically, efficiently and effectively;
- controls are proportionate to risk so as not to impede performance;
- we continuously improve the way in which we function, in terms of effectiveness, quality, service availability, fairness, sustainability and innovation; and
- we fulfil our purpose and meet our priorities as set out in the Council Plan 2017-22.

1.6. The governance framework comprises the systems and processes, culture and values, by which the Authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

1.7. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised and to manage them efficiently, effectively and economically.

2. The Governance Framework

2.1. The Delivering Good Governance in Local Government Framework 2016 Edition produced by CIPFA and SOLACE (the Framework) defines governance as:

'Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.'

The Framework also states that

'To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times,

Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and other stakeholders.

2.2. In local government, the governing body is the full council.

3. Background

3.1. The *Delivering Good Governance in Local Government Framework* published by CIPFA and SOLACE in 2007 set the standard for local authority governance in the UK. CIPFA and SOLACE reviewed the Framework in 2015 to ensure it remained fit for purpose and published a revised Framework in spring 2016.

3.2. The new *Delivering Good Governance in Local Government Framework* 2016 edition applies to annual governance statements prepared for the financial year 2016/17 onwards.

3.3. The new Framework introduced 7 new principles as follows:

Overarching requirements for acting in the public interest:

A) Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
B) Ensuring openness and comprehensive stakeholder engagement.

In addition, achieving good governance in the Council requires effective arrangements for:

C) Defining outcomes in terms of sustainable economic, social and environmental benefits.
D) Determining the interventions necessary to optimise the achievement of the intended outcomes.
E) Developing the entity's capacity, including the capability of its leadership and the individuals within it.
F) Managing risks and performance through robust internal control and stringent public financial management.
G) Implementing good practices in transparency, reporting and audit to deliver effective accountability.

COMMITMENTS TO GOVERNANCE PRINCIPLES

Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

The Council is accountable not only for how much it spends, but also for how we use the resources under our stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes we have achieved. In addition, we have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, we can demonstrate the appropriateness of all our actions and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.

Sub-Principles	The Council is committed to:	What is in place to support this?
Behaving with integrity	A1 Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the Council A2 Ensuring members take the lead in establishing specific standard operating principles or values for the Council and its staff and that they are communicated and understood. These should build on the Seven Principles of Public Life (the Nolan Principles) A3 Leading by example and using these standard operating principles or values as a framework for decision making and other actions A4 Demonstrating, communicating and embedding the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively	▪ Members Code of Conduct in Constitution which reflects Local Authorities (Model Code of Conduct)(Wales) Order 2016 ▪ Officers Code of Conduct in Constitution ▪ Registers of interests / hospitality ▪ Induction training ▪ Member/Officer Protocol in Constitution ▪ Member led authority principles/document ▪ Council Values — Courageous, Positive, Responsible ▪ Whistleblowing Policy ▪ Anti-Fraud, Bribery and Corruption Policy ▪ Standards Committee ▪ Standards Committee Annual Report presented to Council ▪ Member Dispute Resolution ▪ Complaints procedure

Demonstrating strong commitment to ethical values	A5 Seeking to establish, monitor and maintain the Council's ethical standards and performance A6 Underpinning personal behaviour with ethical values and ensuring they permeate all aspects of the Council's culture and operation A7 Developing and maintaining robust policies and procedures which place emphasis on agreed ethical values A8 Ensuring that external providers of services on behalf of the Council are required to act with integrity and in compliance with high ethical standards expected by the Council.	▪ Council Values — Courageous, Positive, Responsible ▪ Contract Standing Orders ▪ Codes of conduct for members and employees ▪ Financial Regulations ▪ Standards Committee
Respecting the rule of law	A9 Ensuring members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations A10 Creating the conditions to ensure that the statutory officers, other key post holders and members are able to fulfil their responsibilities in accordance with legislative and regulatory requirements A11 Striving to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders A12 Dealing with breaches of legal and regulatory provisions effectively A13 Ensuring corruption and misuse of power are dealt with effectively	▪ Member and Officer Code of Conduct in Constitution ▪ Role of Head of Paid Service, Section 151 Officer and Monitoring Officer established in Constitution ▪ CIPFA statement on the Role of the Chief Financial Officer ▪ Anti-Fraud, Bribery and Corruption Policy ▪ Audit Committee ▪ Internal Audit Section ▪ Internal Audit Annual Report presented to Audit Committee ▪ External Auditors Annual Audit Letter ▪ Standards Committee ▪ Whistleblowing Policy ▪ Complaints procedure ▪ Disciplinary Policy

Principle B: Ensuring openness and comprehensive stakeholder engagement

Local government is run for the public good; organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.

Sub-Principles	The Council is committed to:	What is in place to support this?
Openness	B1 Ensuring an open culture through demonstrating, documenting and communicating our commitment to openness B2 Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential should be provided B3 Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear B4 Using formal and informal consultation and engagement to determine the most appropriate and effective interventions/ courses of action	▪ Agendas published in advance of meetings ▪ Minutes published following meetings ▪ Decision making process described in Constitution ▪ Forward Plan published on Internet showing key decisions to be made by Council and Cabinet ▪ Consultation and Engagement Strategy & Consultation ▪ Annual budget consultation Publication Scheme ▪ Freedom of Information Scheme ▪ Public questions at Council and Cabinet Engagement with hard to reach groups such as BME, Disability and LGBT communities. As well as engagement with children and young people to meet the requirement of the UNCRC
Engaging comprehensively with institutional stakeholders	B5 Effectively engaging with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably	▪ Public Service Board and One Newport Plan/Well- Being Plan ▪ Community Safety Partnership ▪ Partnership agreements

	B6 Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively B7 Ensuring that partnerships are based on trust, a shared commitment to change and a culture that promotes and accepts challenge among partners and that the added value of partnership working is explicit	
Engaging stakeholders effectively, including individual citizens and service users	B8 A clear policy on the type of issues that the Council will meaningfully consult with or involve individual citizens, service users and other stakeholders to ensure that service provision is contributing towards the achievement of intended outcomes B9 Ensuring that communication methods are effective and that members and officers are clear about their roles with regard to community engagement B10 Encouraging, collecting and evaluating the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs B11 Implementing effective feedback mechanisms in order to demonstrate how their views have been taken into account B12 Balancing feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity B13 Taking account of the interests of future generations of tax payers and service users	▪ Ward role of Councillors / ward meetings ▪ Review of Public Engagement in Newport City Council ▪ Have Your Say consultations on Internet ▪ Residents telephone surveys ▪ Consultation principles and toolkit available on Intranet ▪ Annual Staff Survey ▪ Complaints Policy and Annual Report ▪ MTFP ▪ Complaints procedure ▪ Employee survey ▪ Public wi-fi on Newport Transport buses

Principle C: Defining outcomes in terms of sustainable economic, social and environmental benefits

The long-term nature and impact of many of local government's responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the authority's purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available

Sub-Principles	The Council is committed to:	What is in place to support this?
Defining Outcomes	C1 Having a clear vision which is an agreed formal statement of the Council's purpose and intended outcomes containing appropriate performance indicators, which provides the basis for the Council's overall strategy, planning and other decisions C2 Specifying the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer C3 Delivering defined outcomes on a sustainable basis within the resources that will be available C4 Identifying and managing risks to the achievement of outcomes C5 Managing service users' expectations effectively with regard to determining priorities and making the best use of the resources available	▪ Corporate Plan produced and reviewed annually in accordance with Local Government (Wales) Measure 2009 and 'Wellbeing Objectives' in Wellbeing of Future Generations (Wales) Act 2015 ▪ Quarterly & annual Performance Monitoring Reports ▪ Annual Performance Review ▪ Single Integrated Plan produced by Public Service Board ▪ Service Plan produced annually by each Head of Service ▪ Monthly Performance and Financial Monitoring meetings held for each service area ▪ Corporate Risk Policy and Framework ▪ Capital Review Programme
Sustainable economic, social and environmental benefits	C6 Considering and balancing the combined economic, social and environmental impact of policies, plans and decisions when taking decisions about service provision C7 Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the Council's intended outcomes and short-term factors such as the political cycle or financial constraints	▪ Medium Term Financial Plan covering 3 financial years approved annually by Council ▪ Corporate Plan ▪ Risk management strategy ▪ One Newport (PSB)

	C8 Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs C9 Ensuring fair access to services	

Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes

Local government achieves its intended outcomes by providing a mixture of legal, regulatory and practical interventions. Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved. They need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource input while still enabling effective and efficient operations. Decisions made need to be reviewed continually to ensure that achievement of outcomes is optimised

Sub-Principles	The Council is committed to:	What is in place to support this?
Determining interventions	D1 Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and including the risks associated with those options. Therefore ensuring best value is achieved however services are provided D2 Considering feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts	▪ Corporate Plan ▪ Policy development by Policy Development and Delivery Committees ▪ Scrutiny function ▪ Risk management strategy ▪ Finance and Legal implications in all Council, Cabinet and Committee ▪ reports ▪ Results of consultation exercises ▪ FEIA process
Planning Interventions	D3 Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets D4 Engaging with internal and external stakeholders in determining how services and other courses of action should be planned and delivered D5 Considering and monitoring risks facing each partner when working collaboratively including shared risks	▪ Timetable exists for producing or reviewing plans, priorities etc. on an annual basis ▪ Review of Public Engagement in Newport City Council ▪ Monthly Performance and Financial Monitoring meetings for each Directorate reviews progress and authorises corrective action where necessary ▪ Quarterly and Annual Performance Monitoring reports to Scrutiny & Cabinet including achievement of

	D6 Ensuring arrangements are flexible and agile so that the mechanisms for delivering outputs can be adapted to changing circumstances D7 Establishing appropriate local performance indicators (as well as relevant statutory or other national performance indicators) as part of the planning process in order to identify how the performance of services and projects is to be measured D8 Ensuring capacity exists to generate the information required to review service quality regularly D9 Preparing budgets in accordance with organisational objectives, strategies and the medium-term financial plan D10 Informing medium and long-term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy	national and local performance indicators Medium Term Financial Plan ▪ Annual budget setting process in place including consultation exercise ▪ Financial Regulations ▪ Senior Management Structure
Optimising achievement of intended outcomes	D11 Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints D12 Ensuring the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term D13 Ensuring the medium-term financial strategy sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage	▪ Quarterly Financial Monitoring reports to Cabinet ▪ Mid-Year Budget Statement to Cabinet ▪ Medium Term Financial Plan ▪ Budget consultation

Principle E — Developing the entity's capacity, including the capability of its leadership and the individuals within it.

Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mindset, to operate efficiently and effectively and achieve their intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an authority operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of the leadership of individual staff members. Leadership in local government entities is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities

Sub-Principles	The Council is committed to:	What is in place to support this?
Developing the entity's capacity	E1 Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources. E2 Reviewing operations, performance and use of assets on a regular basis to ensure their continuing effectiveness E3 Improving resource use through appropriate application of techniques such as benchmarking and other options in order to determine how the Council's resources are allocated so that outcomes are achieved effectively and efficiently E4 Recognising the benefits of partnerships and collaborative working where added value can be achieved	▪ Regular performance review for all staff under Clear Review ▪ Service planning process includes workforce planning ▪ 6 monthly financial and performance reports to Cabinet ▪ Partnership & collaborative working arrangements
Developing the capability of the entity's leadership and other individuals	E5 Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained E6 Publishing a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of	▪ Member/Officer Protocol in Constitution ▪ Scheme of Delegation published in Constitution ▪ Monthly One to One meetings are held involving the Leader. Cabinet Members, Chief Executive, Strategic Directors, Heads of Service and 3rd

	the governing body E7 Ensuring the leader and the chief executive have clearly defined and distinctive leadership roles within a structure, whereby the chief executive leads the authority in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for each other's authority E8 Developing the capabilities of members and senior management to achieve effective shared leadership and to enable the Council to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by: • ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged, • ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis, • ensuring personal, organisation and system-wide development through shared learning, including • lessons learnt from both internal and external governance weaknesses E9 Ensuring that there are structures in place to encourage public participation E10 Taking steps to consider the leadership's own effectiveness and ensuring leaders are open to constructive feedback from peer review and inspections E11 Holding staff to account through regular performance reviews which take account of training or development needs	tier staff ▪ Councillor Training Programme developed based on a Training Needs Assessment ▪ Continual performance review for all staff under check-ins (i-Trent) ▪ Management in action courses ▪ Occupational Health and Wellbeing Policy exists with aim of promoting the health and wellbeing of all employees to enable them to achieve their full potential at work ▪ Action plans within Internal Audit reports ▪ External Audit reports ▪ Lessons Learnt – Accountancy / External Audit

	E12 Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental well being	

Principle F — Managing risks and performance through robust internal control and string public financial management

Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities. A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will ensure financial discipline, strategic allocation of resources, efficient service delivery and accountability. It is also essential that a culture and structure for scrutiny is in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.

Sub-Principles	The Council is committed to:	What is in place to support this?
Managing Risk	F1 Recognising that risk management is an integral part of all activities and must be considered in all aspects of decision making F2 Implementing robust and integrated risk management arrangements and ensuring they are working effectively F3 Ensuring that responsibilities for managing individual risks are clearly allocated	▪ Risk Management Strategy and Framework Corporate, Directorate and Service risk registers ▪ Quarterly review of Corporate Risks by Corporate Management Team and SLT ▪ Audit Committee & Cabinet 6 monthly
Managing performance	F4 Monitoring service delivery effectively including planning specification, execution and independent post-implementation review F5 Making decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the Council's financial, social and environmental position and outlook	▪ Corporate Plan reviewed annually ▪ Annual Performance Report produced ▪ Quarterly performance monitoring report to Cabinet ▪ Annual Service Plan produced by each Head of Service ▪ Scrutiny function ▪ Quarterly Directorate Performance and

	F6 Ensuring an effective scrutiny or oversight function is in place which encourages constructive challenge and debate on policies and objectives before, during and after decisions are made, thereby enhancing the Council's performance and that of any organisation for which it is responsible F7 Providing members and senior management with regular reports on progress towards outcome achievement F8 Ensuring there is consistency between specification stages (such as budgets) and post-implementation reporting (eg financial statements)	monthly Financial Monitoring meetings ▪ Annual Report from Director of Social Services
Robust internal control	F9 Aligning the risk management strategy and policies on internal control with achieving objectives F10 Evaluating and monitoring risk management and internal control on a regular basis F11 Ensuring effective counter fraud and anti-corruption arrangements are in place F12 Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor F13 Ensuring an audit committee or equivalent group or function which is independent of the executive and accountable to the governing body: • provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment • that its recommendations are listened to and acted upon	▪ Audit Committee provides assurance on effectiveness on internal control, risk management and governance ▪ Audit Committee Annual Performance Review ▪ Audit Committee Annual Report to Council ▪ Anti-Fraud, Bribery and Corruption Policy ▪ Role of Internal Audit Section ▪ Annual Plans approved by Audit Committee ▪ Annual Reports to Audit Committee ▪ Annual Governance Statement
Managing data	F14 Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data	▪ Data Protection Policy ▪ Information management governance ▪ arrangements

	F15 Ensuring effective arrangements are in place and operating effectively when sharing data with other bodies F16 Reviewing and auditing regularly the quality and accuracy of data used in decision making and performance monitoring	▪ Senior Information Risk Officer (SIRO) in place ▪ Information Asset Register ▪ Information sharing guidance published ▪ Information Risk Policy ▪ Annual Information Governance report to Audit Committee and Cabinet
Strong public financial management	F17 Ensuring financial management supports both long-term achievement of outcomes and short-term financial and operational performance F18 Ensuring well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls	▪ Financial Regulations in Constitution ▪ Contract Standing Orders in Constitution ▪ Accounting Instructions on Intranet ▪ Spending Restrictions document on Intranet

Principle G: Implementing good practices in transparency, reporting and audit to deliver effective accountability

Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out it's activities in a transparent manner. Both external and internal audit contribute to effective accountability.

Sub-Principles	The Council is committed to:	What is in place to support this?
Implementing good practice in transparency	G1 Writing and communicating reports for the public and other stakeholders in an understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate G2 Striking a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand	▪ Reports Authors Protocol exists to ensure consistency in reports
Implementing good practices in reporting	G3 Reporting at least annually on performance, value for money and the stewardship of resources G4 Ensuring owners and senior management own the result G5 Ensuring robust arrangements for assessing the extent to which the principles contained in the Framework have been applied and publishing the results on this assessment including an action plan for improvement and evidence to demonstrate good governance (annual governance statement) G6 Ensuring that the Framework is applied to jointly managed or shared service organisations as appropriate G7 Ensuring the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the	▪ Annual Statement of Accounts audited by external auditor and approved by Council ▪ Code of Corporate Governance based on CIPFA/SOLACE Framework 2016 ▪ Annual Governance Statement ▪ Annual Review of Performance ▪ Annual Performance report ▪ 6 monthly service plan reviews and reports to Scrutiny

	statements allow for comparison with other similar organisations	
Assurance and effective accountability	G8 Ensuring that recommendations for corrective action made by external audit are acted upon G9 Ensuring an effective internal audit service with direct access to members is in place which provides assurance with regard to governance arrangements and recommendations are acted upon G10 Welcoming peer challenge, reviews and inspections from regulatory bodies and implementing recommendations G11 Gaining assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement G12 Ensuring that when working in partnership, arrangements for accountability are clear and that the need for wider public accountability has been recognised and met	▪ External Audit provided by Wales Audit Office ▪ Performance of Internal Audit Section monitored by Audit Committee ▪ Annual Internal Audit report to Audit Committee ▪ Peer Review, Corporate Assessment and Corporate Governance Review action plan monitored by Corporate ▪ Corporate Management Team ▪ SLT ▪ Annual Governance Statement

This page is intentionally left blank

Audit of Accounts Memorandum – Newport City Council & Newport City Council Group

Audit year: 2019-20

Date issued: January 2021

Document reference: 2245A2021-22

Contents

Audit of Accounts Memorandum

Introduction

1 This report is an addendum to our Audit of Accounts Report that we presented to you on 28 September 2020. The report sets out the recommendations arising from our audit of the 2019-20 accounts for Newport City Council and Newport City Council Group.

2 We should like to take this opportunity to once again thank all your staff who helped us throughout the audit.

Recommendations from this year's audit

3 We summarise in **Exhibits 1 to 3** our recommendations arising from this year's audit.

Exhibit 1: matter arising 1

Matter arising 1 – accruals for goods not received	
Findings	As reported in our Audit of Accounts Report (paragraph 18), our audit testing of creditors identified three out of 19 sampled transactions where goods or services were incorrectly accrued for in the 2019-20 accounts, despite not being delivered to the Council until 2020-21. In response to this issue, additional detailed audit procedures were required at short notice to provide assurance that this issue would not likely lead to a material misstatement. We are satisfied that was the case for 2019-20.
Priority	High
Recommendation	The Council should ensure that year-end accruals are only raised for goods or services that have been received by the Council before financial year-end.
Benefits of implementing the recommendation	This will reduce the risk of potential material errors arising within creditors in future financial years. Furthermore, this will improve the accuracy of the Creditors' note within the financial statements and reduce the need for additional unplanned audit procedures.

Matter arising 1 – accruals for goods not received	
Accepted in full by management	Yes
Management response	The period for closedown of the financial year coincided with the first lockdown due to the pandemic. Therefore, it is recognised that there were different priorities and new ways of working that would mean processing of accruals was more susceptible to error. However, we will stress the importance of processing of accruals correctly within the closedown memo.
Implementation date	Immediate

Exhibit 2: matter arising 2

Matter arising 2 –quality of working papers	
Findings	The Council provided electronic working papers to support our audit of the financial statements. On review, we identified that some of these working papers were not the final version, or more than one version was provided. There were also examples of working papers containing 'hard-coded' figures, which meant that we could not immediately identify how the figures in the draft accounts were derived. Consequently, for these areas we required further review and discussion with Council staff to understand the evidence provided.
Priority	Medium
Recommendation	The Council should ensure that only the final version of working papers that support the financial statements are provided for audit. Furthermore, working papers should avoid the use of 'hard-coded' figures to demonstrate how figures have been derived within the working paper.

Matter arising 2 –quality of working papers	
Benefits of implementing the recommendation	This should reduce audit queries and avoid time being spent reviewing the incorrect version of working papers.
Accepted in full by management	Yes
Management response	This finding will be shared with officers responsible for providing working papers. We have also been in discussion with Audit Wales about providing working papers through file-sharing websites, in order to have one version that is used by officers and Audit Wales.
Implementation date	April 2021

Exhibit 3: matter arising 3

Matter arising 3 – incorrect classification of Cash and Cash Equivalents	
Findings	Our audit testing of Cash and Cash Equivalents identified several items incorrectly classified as such, including: • £15.0 million of borrowings; • £3.7 million of repayable loans issued to developers; and • £2.5 million of investments. These classification errors took additional time to resolve during our audit, given their complexity and impacts on other disclosure notes within the accounts.
Priority	Medium
Recommendation	The Council should ensure only those items meeting the definition of cash and cash equivalent are defined as such within the financial statements.

Matter arising 3 – incorrect classification of Cash and Cash Equivalents	
Benefits of implementing the recommendation	This will improve the accuracy of the Cash and Cash Equivalents note and reduce amendments to the financial statements arising from our audit work.
Accepted in full by management	Yes
Management response	Finance colleagues will review the issues that arose during 2019/20 and correct for 2020/21. A peer review will also be undertaken on this in detail to ensure it meets the accounting practice.
Implementation date	April 2021

Archwilio Cymru
Audit Wales

Audit Wales

24 Cathedral Road

Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: info@audit.wales

Website: www.audit.wales

We welcome correspondence and telephone calls in Welsh and English.
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.

Report

Audit Committee

Part 1

Date: 28 January 2021

Item No: 8

Subject 2021/22 Capital Strategy and Treasury Management Strategy

Purpose The purpose of this report is to gather the Committees views and responses to the Councils draft Capital and Treasury Management Strategies which can then be reported to both Cabinet and Council before their own review and approval of these documents. Both strategies are appended to this report. The report summarises and highlights the key areas relating to the strategies, alongside those areas of key implications/risks coming out of them, which are bought to the Committees attention for their review and comments.

Author Head of Finance

Ward General

Summary The Council has ambitious plans for the city as set out in its Corporate Plan and the promises set out within it. A key enabler to deliver on this ambition is the capital programme. This report includes both the Capital and Treasury Management Strategies which, at their core (i) confirm the capital programme, as part of the Capital Strategy and (ii) the various borrowing limits and other indicators which govern the management of the Councils borrowing & investing activities, as part of the Treasury Management Strategy.

The ‘Capital Strategy’ also sets out the long-term context (10 years) in which capital decisions are made and demonstrates how/that the Local Authority takes capital / investments decisions in line with service objectives, gives consideration to both risk/reward and impact; as well as properly taking account of stewardship, value for money, prudence, sustainability and affordability.

The capital plans of the Authority are inherently linked with the treasury management activities it undertakes, and therefore the ‘Treasury Management Strategy’ is included alongside the ‘Capital Strategy’.

The main recommendations arising from the two strategies are summarised in this report below and are also appended.

Proposal Committee is asked:

- To provide comment on the Capital Strategy (Appendix 2), including the current capital programme within it (shown separately in Appendix 1) and the borrowing requirements/limits needed to deliver the current capital programme.

- To provide comment on the Treasury Management Strategy and Treasury Management Indicators, the Investment Strategy and the Minimum Revenue Provision (MRP) for 2021/22. (Appendix 3)

- As part of the above:

  - To note and comment, as needed, on the increased debt and corresponding revenue cost of this in delivering the current capital programme, and the implications of this over both the short and medium-long term in terms of affordability, prudence and sustainability.

  - To note and comment on the Head of Finance recommendation to Cabinet and Council, that borrowing needs to be limited to that included in the current capital programme and

  - Beyond that future debt funded expenditure should be limited and managed within the agreed limits to ensure external borrowing remains within a sustainable level over the long term.

Action by Head of Finance

Timetable Immediate

This report was prepared after consultation with:

- Leader of Council Cabinet Member for Economic Growth and Investment
- Chief Executive
- Strategic Directors
- All Heads of Service
- Newport Norse
- The Council's Treasury Advisors
- Accountancy Staff

Signed

Background

CONTEXT

Governance and requirement of Councils

1. The Council Corporate Plan sets out how the Council will take forward its mission of 'Improving People's Lives' and includes a set of key promises. Delivery of these will, in some instances, involve capital funded projects.

2. Whilst Cabinet make decisions relating to what capital projects and spend to make, it is the full Council that approves the 'borrowing limits' that these are kept within. Many projects are funded from capital grants, capital receipts and specific reserves which do not impact on borrowing levels, but where borrowing is required, the programme is required to be set within those limits.

   This is an important area of overall financial management governance in that borrowing levels, once taken up, lock in the Council to a long term lability for revenue costs in relation to the provision of the repayment of those loans (MRP costs) and external loan interest costs – together known as 'capital financing costs',

3. The key governance documents that explain and control this area are

   <u>Capital Strategy</u>

   This, at its core:

   i) Sets out the long term context (10 years) in which capital decisions are made and includes the medium term capital programme;

   ii) Demonstrates that the Local Authority takes capital / investments decisions in line with service objectives, giving consideration to both risk/reward and impact;

   iii) Shows how the Council takes account of stewardship, value for money and affordability, sustainability and prudence in its decisions and plans

   <u>Treasury Management Strategy</u>

   This, at its core:

   (i) Sets out the Councils longer term borrowing requirement and plans, which is driven mainly by the capital programme requirements and in Newport specifically, its reducing 'internal borrowing' capacity

   (ii) Includes how it will manage and invest its surplus cash which also have various targets/limits as part of the suite of 'prudential indicators'

   (iii) Includes additional guidance of Welsh Government Investment Guidance and the Minimum Revenue Provision Policy.

   Both these strategies are a requirement of CIPFA's Prudential Code which sets out the requirement for them and ensure, within the frameworks which these document set, that capital expenditure plans are:

- **Affordable -** capital spend and programmes are within sustainable limits. Councils are required to take into account current and forecast funding available to them and the totality of their capital plans and their costs in assessing affordability.

- **Prudent –** Councils need to set borrowing limits (called 'operational' and 'authorised limits' – part of the suite of prudential indicators) which reflect the Councils plan for affordable capital plans and their financing costs. On investing activities, Councils need to consider the balance between security, liquidity and yield which reflects their own risk appetite but which prioritises security and liquidity over yield.

- **Sustainable –** Council's capital plans and the revenue cost of financing the current and future forecast borrowing/debt taken out for that needs to be sustainable in terms of the Councils overall finances and its impact on that**.**

4. The Capital Strategy and Treasury Management Strategy are inherently linked and the main recommendations and observations coming from these are summarised in the following sections. The Committee is asked to review these, and in light of the context above and requirement on the Council, provide comments, as needed, to Cabinet and to Council, including the limits and prudential indicators within the strategies.

Capital Strategy 2020/21 to 2029/30

Capital Programme to 2024/25

5. The Council's capital programme goes to 2024/25 (this is the original capital 5 year programme to 2022/23 which has been extended by 2 years for projects whose completion spans beyond the 5 years). It is a significant capital programme and Cabinet's intention to bring forward a new leisure scheme in the city centre plus fund its share of the accelerated investments being made by the Cardiff City Region requires this to increase further and also therefore, the borrowing limits to facilitate these. A further £4.5m of further 'capacity' for borrowing to facilitate further schemes funded from borrowing between now and 2022/23 is also required for flexibility.

6. The capital programme includes £210.7m of already approved projects and alongside the investments above; the borrowing for cost of carry for Cardiff City Capital Region spend at £17.3m and £24.2m for the proposed leisure scheme/further uncommitted borrowing for future projects – brings a total investment of £251.9m for the programme ending 2024/25. The table below shows the prudential indicator for estimates on expenditure and financing, from which the borrowing limits will be set (Table 2).

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

	2018/19 Actual £m	**2019/20 Actual** £m	**2020/21 Forecast** £m	**2021/22 Budget** £m	**2022/23 Budget** £m	**2023/24 Budget** £m	**2024/25 Budget** £m	**Total 7-year programme £m**
TOTAL EXPENDITURE	29.5	31.4	33.1	62.3	71.6	18.4	5.6	**251.9**
Financed by:								
TOTAL COMMITTED (Appendix 1)	**29.5**	**31.4**	**31.6**	**60.3**	**50.9**	**18.4**	**5.6**	**227.7**
TOTAL UNCOMMITTED*			**1.5**	**2.0**	**20.7**			**24.2**
TOTAL FINANCING	**29.5**	**31.4**	**33.1**	**62.3**	**71.6**	**18.4**	**5.6**	**251.9**

7. The capital programme is financed through a variety of different funding streams; external grants, use of reserves and borrowing.

8. Capital Expenditure funded by debt increases the need to undertake external borrowing. A further driver for the need to undertake external borrowing is the capacity to be 'internally borrowed' reducing as earmarked reserves are utilised, which in turn needs to be replaced with external borrowing. This is the case particularly for this Council which has a high level of 'internal borrowing'; which is now reducing over the medium-long term. The Council is committed and has a requirement to be a net borrower for the long term. To ensure this borrowing is affordable and sustainable, Council is required to set an affordable borrowing limit.

9. **Affordable borrowing limit:** The Council is legally obliged to approve an affordable borrowing limit (also termed the 'authorised limit' for external debt) each year.

   The 'Operational borrowing limits' over the medium term, have been set in line with the expected borrowing required to finance the current capital programme to 2024/25. If any increase to the operational boundary is required, including to borrow for investment/income generation schemes or regeneration investment (loans) this will need to be brought to Council for approval. The 'Authorised borrowing limits', provide a buffer for the ability to manage day to day cash requirements (ii) undertake a level of borrowing early where appropriate / affordable.

Table 2: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2021/22 limit	**2022/23 limit**	**2023/24 limit**	**2024/25 limit**
Authorised limit – borrowing	254	281	283	284
Authorised limit – PFI and leases	42	41	39	36
Authorised limit – total external debt	**296**	**322**	**322**	**320**
Operational boundary – borrowing	187	226	231	234
Operational boundary – PFI and leases	42	41	39	36
Operational boundary – total external debt	**229**	**267**	**270**	**270**

10. For the remaining three years of the current capital programme until 2024/25, the level of borrowing to facilitate the current capital programme is substantial with external borrowing increasing from an estimated £164m at the end of this financial year to £234m in 2024/25, an increase of over £70m. To summarise the position at the end of the current capital programme:

    - actual external borrowing is forecast to be c£234 (Operational boundary)
    - the total committed requirement for external borrowing is forecast to be c£284m (Authorised limit)

    The difference between both is the Council's 'internal borrowing' because of its cash backed reserves, which has been used in lieu of external borrowing. As reserves are spent over the medium term, in particular the PFI reserves, our reducing capacity for internal borrowing will need to be replaced with 'real', external borrowing. The Council will therefore, over the medium-long term, see this difference reduce. This will have a revenue impact due to increasing interest costs of the ‘real’, external borrowing (2%-2.5%) compared to internal borrowing (‘nil’ cost).

11. The commitment to increase external borrowing leads to increasing capital financing costs as shown in table 3 below, and show a significant increase in capital financing costs from 2020/21. These costs are included in the Council’s MTFP, which, in the current funding climate/uncertainty and continued increase on service demands, is challenging. Costs will continue to increase into the medium to long term. Compared to comparative authorities, the percentage of the capital financing costs as a proportion to the Councils total net revenue is high, particularly when compared to other Councils of similar demographics, showing the need to maintain a sustainable level of spending on capital expenditure funded by debt to manage these costs.

Table 3: Capital Financing Costs

	2020/21 budget	**2021/22 budget**	**2022/23 budget**	**2023/24 budget**
Provision for repayment of debt (MRP)*	8.5	9.4	9.4	9.6
Net interest cost	7.0	7.8	7.8	8.0
Total capital financing (exc PFI)	**15.5**	**17.2**	**17.2**	**17.6**
PFI	5.5	5.6	5.6	5.7
Total Financing costs* (£m)	**21.0**	**22.8**	**22.8**	**23.3**
Proportion of net revenue stream	7.0%	7.2%	7.1%	7.1%

*includes charges direct to service areas

12. The Council has received a positive draft settlement from Welsh Government, and therefore to ensure it is funded at the point of approval and to support the Medium Term Financial Plan reducing the overall budget gap, Cabinet has, in its draft budget, ring-fenced the budget required to fund the full capital programme until 2024/25 in Appendix 1 in 2021/22.

13. At the end of the current capital programme the revenue budget required to finance the level of borrowing is forecast to be £23.3m, representing about 7.1% of the Council’s predicted net budget at that point. The percentage of the capital financing budget/costs as a proportion to the Councils total net revenue is high when compared with other comparable Welsh Councils. The revenue cost of servicing the Council’s external debts is a long-term cost and is increasing, at a time of uncertainty regarding future funding, though as a percentage of the net budget, is staying reasonably static given the increase in the Council’s net budget, especially in 2021/22. There is currently no medium term UK budget and there is uncertainty of how funding might be affected by any plans to deal with the UK debt.

Beyond the current capital programme (2023/24 onwards)

14. Beyond the current programme, the context for that is its starting point, which are:

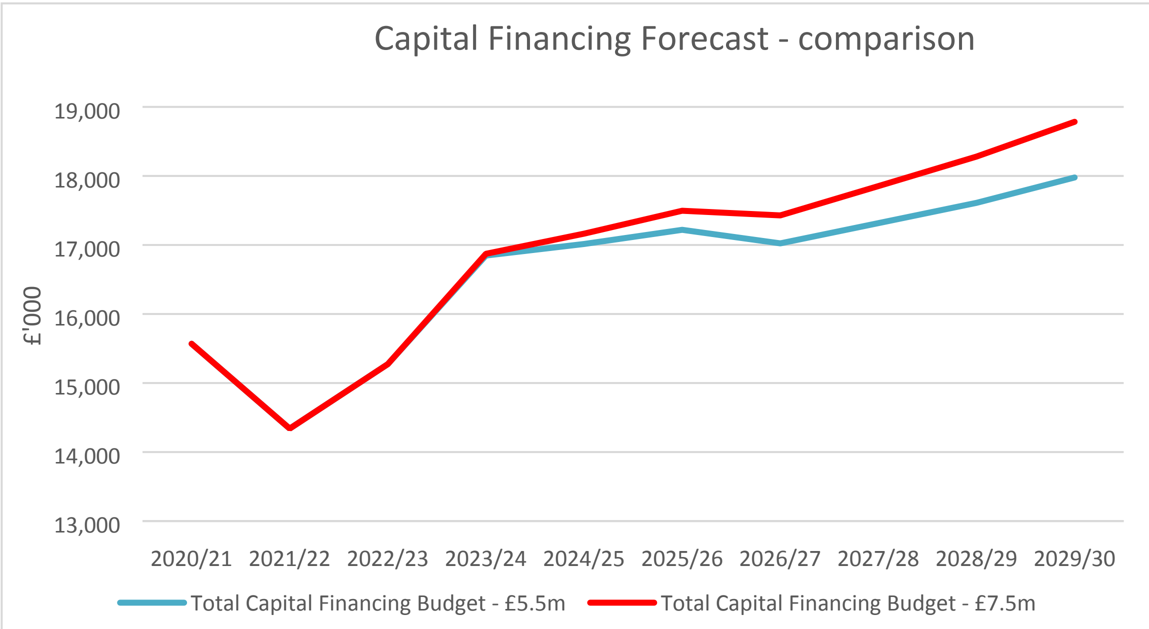
- a high level of forecast borrowing at the end of the current capital programme
- a comparative high level of capital financing cost
- continuation of the reduction in reserves and therefore capacity to be internally borrowed, requiring a continuing increase in external borrowing to replace it

Demand is likely to continue to exceed capital resources available and the Council has a framework which maximises available capital spend whilst keeping the cost of funding it within affordable limits.

In saying that, it is not sustainable to continue at the level of capital expenditure funded by borrowing seen in the current programme – the increase in borrowing and the capital financing costs to fund that is increasing very fast, as the forecast steep increase in Chart 1 below for the current period to 2024/25 shows. Any debt funded capital expenditure means that the Council is locked into the commitment to borrow for the long-term. The Council must approve a capital strategy which ensures that the capital expenditure plans of the authority are affordable, prudent and sustainable. To help achieve this, the Council are recommended to set a sustainable limit for debt funded capital expenditure over the long-term.

15. Chart 1 below shows two modelled scenarios from 2023/24, (i) £5.5m debt funded expenditure per annum and (ii) £7.5m debt funded expenditure per annum.

Chart 1: Capital Financing Budget 2020/21 to 2029/30



16. The above shows the increasing capital financing costs over the next 10 years with a limit of both £5.5m and £7.5m of debt funded capital expenditure after the current programme. As is evident, based on the current programme the revenue cost of implementing a large capital programme is increasing year on year from 2021/22. Alongside a revenue budget Medium Term Financial Projection showing a funding gap this provides a significant challenge within current context of funding constraints on Local Government. This is due to increasing external borrowing from the current capital programme to 2024/25 and resulting interest costs as internal borrowing capacity reduces, plus an increasing MRP.

17. Beyond the current programme it is unsustainable to continue with the current increases in the levels of debt funded capital due to the pressure it places on the revenue budget. The Council's reduction in its capacity to be internally borrowed will increase the revenue costs and any increase will directly impact front line services in the medium to long term. Whilst these risks are not yet known, they will have to be considered when assessing the remainder of the current programme and future capital programmes. The budget within the MTFP provides funding for the short to medium term assuming that the level of funding does not reduce. However, this borrowing will need to be funded in the long-term. Therefore it is important the Council takes note of the Head of Finance recommendation to limit debt funded capital expenditure over the long-term.

18. The Capital Strategy includes a number of other areas to be considered by Council which are included in full in Appendix 2. One area that requires particular attention is the commercial activities section which has changed since last year.

19. Due to the economic impact of Covid-19 and the recent changes to the criteria in accessing the Public Works Loan Board for commercial investments, the Councils future commercial activities and in particular the £50m investment fund that was agreed as part of the capital strategy during 2019/20 has been paused. Council will be updated following a review on the future of these activities. The figures above in relation to capital expenditure and associated borrowing already incurred and included within the programme to 2024/25 do not include any borrowing forecast for the previously announced investment fund.

Treasury Management Strategy

20. Our detailed Treasury strategies for 2021/22 are included at Appendix 3. In addition, planned strategies to 2022/23 are also included, in line with the Council's remaining Medium Term Projections. Key points of interest are summarised below.

Borrowing Strategy

21. The capacity to be internally borrowed will reduce over the medium to long term. In 2021/22 the Council is expected to undertake external borrowing both for the refinancing of maturing loans and to fund increasing capital spend in the existing capital programme; it will remain as much 'internally borrowed' as is possible and increase actual external borrowing only when needed to manage its cash requirements. However, the Council may, where it feels necessary to mitigate the risk of interest rate rises, undertake borrowing early to secure interest rates within agreed revenue budgets. This will be done in line with advice from our Treasury Advisors.

22. The Council is committed and has a requirement to be a 'net borrower' over a long-term as shown in paragraph 9-10. The Councils medium term financial projections (MTFP) include the revenue costs required to finance the borrowing limits in relation to finance the capital programme as mentioned above. Where this borrowing is undertaken for the investment/income generation schemes or investment purposes the revenue costs would be offset by the income received from the investment.

23. It is recommended given the long-term need to remain a 'net borrower', that future external borrowing will be taken over long time period taking into account the maturity profile of existing debts, in conjunction with advice from the Council's treasury advisers.

Investment Strategy

24. 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.

25. Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority aims to diversify into higher yielding asset classes during 2021/22, this has been delayed from 2020/21 due to the current economic climate as a result of the pandemic. 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.

26. The approved counterparty list and limits are shown table 4 of Appendix 3.

27. Treasury indicators and limits are outlined in the strategy, these set out the investment limits across various bodies/organisations, the maturity structure of borrowing and the amount invested over one

year (long-term). The limit placed on investments over one year is £10m, in line with the approved counterparty limits.

28. 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.

Head of Finance Summary

29. The Councils capital strategy and in particular the capital programme itself are, from a financial perspective, decisions with long term implications and where decisions today 'lock-in' the impact on budgets once projects have progressed and borrowing taken out. Decisions taken today are also being made in a period of significant uncertainty on future funding, within a challenging time for public finances. As explained in the context section above, the core requirements for Councils are to makes decisions here taking into account:

   (i) affordability – what are the increasing costs of debt that may be required, can it be funded/afforded in the overall revenue budget taking account of other spending pressures and forecast future income, including the impact of this spend vs spend in other areas
   (ii) sustainability – the impact of the debt and financing costs on the Councils budget long term and sustaining the impact of that
   (iii) prudence – appropriate limits and targets are set to manage and monitor affordable and sustainable borrowing and investments are made with a view to balance security, liquidity and yield

In terms of the Councils current capital programme to 2024/25 and increases to it

Affordability

- There is a significant increase in the Council's level of external borrowing and its associated capital financing costs over the next three years. Due to the better settlement the Council was awarded for 2021/22, Cabinet were able to set the revenue budget required in order to fund the current capital programme to its conclusion in their draft budget. The current capital programme is now affordable, in totality, as a result of this.

This is an important position to be in for the following reasons, taken together:

- The Council has an unbalanced MTFP over the next three years.
- The revenue capital financing cost increase is very significant over a short period of time
- Funding availability is uncertain, with a low funding base and uncertainty surrounding future funding from WG given the lack of a UK Comprehensive Spending Review and the increasing cost pressures on the budget from education/schools and social care

Sustainability

- The increased level of external borrowing and associated capital financing costs over the current capital programme period will produce some challenges and increased risks potentially in terms of sustainability and in agreeing to the borrowing limits, the Council needs to be aware of this. This is because of the increased budget requirement to fund the increasing debt, the relatively high amount of the Council's revenue budget allocated to this already and over the medium-long term, costs will continue to increase as internal borrowing capacity reduces.

In saying this, it is forecasted that the proportion of the overall net budget that is spent on this cost will increase only very marginally by 2024/25 compared to now and is therefore no more potentially challenging than the current position. This is also based on currently prudent MTFP assumptions on WG funding, certainly based on funding increases over the last few years.

Therefore the risk here is the potential prospect of reduced public sector funding or funding not keeping up with budget demands and the 'locked-in' capital financing costs which are high and rising and therefore the risk to other service budgets. Council needs to be aware of this position but again, is not new or different to the current position or level.

Prudence

- Prudent operational limits on the level of capital expenditure funded by borrowing have been recommended which matches the current programme requirement carefully, including allowances for new schemes and regeneration schemes such as the new leisure centre but no more and therefore the Council's priorities, and in turn the capital programme need to be managed within those limits set. This ensures the programme and external borrowing are closely aligned and Council has oversight and limits the current significant increase. This is in line with the requirements of the CIPFA Prudential Code.

30. The starting point for the next capital programme beyond the current one with current forecast indebtedness and associated capital financing costs increasing is challenging and introduces some potential risks. The current acceleration of borrowing and resultant increase in capital financing from now to the end of the current programme would not be sustainable or prudent to continue, based on the current uncertainty on funding though, as always, we will need to review the position on-going.

Given the fact that the Council's capacity for internal borrowing is now reducing, increasing our level of external borrowing required over the medium-long term, and therefore increasing our revenue costs further, we have modelled two scenarios, limiting capital spending funded from borrowing beyond the current programme to £5.5m and £7.5m per annum.

- Scenario 1 shows the impact of limiting borrowing to £5.5m per annum, our indebtedness reduces slightly but revenue costs still increase over the long term due to internal borrowing capacity reducing

- Scenario 2 shows the impact of limiting borrowing to £7.5m per annum. The Council's level of outstanding debt stays broadly level, but the revenue costs increases faster, again due to internal borrowing capacity reducing and this scenario not 'dampening' its impact as much as the lower spend of £5.5m above.

It should also be remembered that most of the Council's funding for its capital spend comes from capital grants (c.60-65% on the current programme) and this is very likely to continue, especially in relation to key WG policy areas such as school buildings, for example.

31. The Committee is asked to note the above confirmations and key messages as they review the Capital and Treasury Strategies and providing comments to Council, including the prudential indicators and limits within these strategies.

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?
Capital Expenditure increases	H	M	Regular monitoring and reporting of available headroom should identify any issues at an early stage and	Members, Head of Finance

need to borrow			keep Cabinet / Council updated	
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 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

Links to Council Policies and Priorities

The Capital strategy sets out the Capital Programme over a long term context and demonstrates that the Capital Programme supports a number of the Council's aims and objectives.

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

To endorse both the Capital Strategy and the Treasury Management Strategy and the recommendations within, and approve the capital programme.

Preferred Option and Why

To approve the updated 2018/19-2024/25 capital programme. The Prudential Code 2017 places a requirement on Local Authorities to determine a long term Capital Strategy. The Prudential Code and statute also requires that, before the end of the financial year, reports on Treasury Management matters are presented to Cabinet/Council for approval. Therefore, Cabinet are required to endorse both the Capital Strategy and the Treasury Management Strategy to Council and approve the capital programme.

Comments of Chief Financial Officer

Both the Treasury Management and Capital Strategy highlight the revenue implications from capital expenditure, and for the need for the capital plans of the authority to be affordable, prudent and sustainable.

The Capital Strategy highlights the significant increase in borrowing and resultant revenue costs resulting from the current capital programme. Continuation of borrowing at this level into the next programme is unsustainable.

While the current capital programme is affordable and budgets have been identified in the 2021/22 budget for the delivery of the programme, it is important that expenditure is kept within the financing limits within the programme. If further borrowing is required this will need to be approved by Council.

Over the longer-term beyond the current capital programme, a slow-down of debt funded capital expenditure would be required, and even with the limited borrowing shown in the capital strategy the capital financing costs continue to increase, therefore showing the importance of agreeing a prudent limit for the future programme.

The treasury management strategy highlights that the borrowing strategy has changed on previous years due to the capacity for further internal borrowing being diminished. The Council now will need to undertake external borrowing, and will take a view on whether this can be done early to mitigate the risks of interest rate rises and remain within current set budgets.

Comments of Monitoring Officer

There are no specific legal issues arising from the report. Audit Committee are being asked to comment on the draft Capital Strategy and Treasury Management Strategy as part of its responsibility for reviewing and monitoring the effectiveness of the Council's system of internal controls and the proper administration of its financial affairs. The Capital Strategy will provide a framework for future capital and investment decisions, having regard to principles of affordability, prudence, sustainability and risk/reward. The Treasury Management Strategy sets out the financial management principles that will underpin the capital strategy. As such, both strategies will form part of the Council's overall budget framework and they will need to be formally approved and adopted by full Council. Audit Committee are only concerned with the effectiveness of the strategies in terms of how capital and investment decisions are made, rather than the detail as individual capital and investments decisions within the capital programme are matters for Cabinet.

Comments of Head of People and Business Change

There are no human resources implications arising from the report. An effective capital strategy will enable the Council to support long term planning in line with the sustainable development principle of the Act

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. An effective capital strategy will enable the Council to support long term planning in line with the sustainable development principle of the Act.

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 2020
Capital Monitoring and Additions Report

Dated:

Appendix 1 – Detailed Budget Breakdown of the current 7 year Programme

	Outturn 18/19	Outturn 19/20	Budget 20/21	Budget 21/22	Budget 22/23	Budget 23/24	Budget 24/25	Total
21st Century Schools - Band A	8,046	1,220	74	-	-	-	-	9,340
21st Century Schools - Band B	675	1,712	3,346	23,418	35,944	10,137	140	75,372
Jubilee Park - Fixtures, Furniture & Equipment	13	-	-	-	-	-	-	13
Gaer Annexe Education Use	-	416	79	-	-	-	-	495
Blaen-y-Pant Bungalow (Educational Use)	52	-	8	-	-	-	-	60
St Mary's Toilet Refurbishment.	-	42	-	-	-	-	-	42
Somerton Primary - ICT Equipment	11	-	-	-	-	-	-	11
Feminine hygiene hardware & toilet facilities.	34	-	-	-	-	-	-	34
Lliswerry High (S106 Funds)	110	80	-	-	-	-	-	190
Maesglas Reducing classroom size	-	64	200	257	-	-	-	521
Lliswerry IT Replacements	53	-	-	-	-	-	-	53
Welsh Medium Primary School	-	150	373	1,978	1,000	2,300	-	5,801
Reducing Classroom size bids	-	61	527	-	-	-	-	588
Bassaleg Demountable	-	116	90	-	-	-	-	206
ICT Equipment Lease (Clytha Primary)	-	20	-	-	-	-	-	20
ICT Equipment Lease (St Mary's)	-	11	-	-	-	-	-	11
St Patricks ICT	-	12	-	-	-	-	-	12
Bassaleg ICT	-	69	-	-	-	-	-	69
ICT Equip Lease Ysgol Gymraeg Ifor Hael	-	10	-	-	-	-	-	10
Ringland Perimeter Fence	-	-	85	-	-	-	-	85
Llanmartin Primary ICT	10	-	-	-	-	-	-	10
Malpas Park Primary	11	-	-	-	-	-	-	11
Education Maintenance Grant 2018/19	-	1,470	358	-	-	-	-	1,828
Education Maintenance Grant 2019/20	-	-	1,341	800	-	-	-	2,141
Education Asset Improvements - balance to be drawn down	1,055	200	27	-	-	-	-	1,282
Bassaleg Demountable - year 7	-	-	771	14	-	-	-	785
EdTech Grant	-	-	362	-	-	-	-	362
Education Accessibility Studies	-	-	268	-	-	-	-	268
Charles Williams Renovations	-	-	110	1,510	-	-	-	1,620
Lliswerry Safeguarding	-	-	57	-	-	-	-	57
Maindee Primary Toilets	-	-	172	-	-	-	-	172
Milton IT replacement	-	-	26	-	-	-	-	26

Prior Year Scheme - Various	(38)	(39)	-	-	-	-	-	(77)
Education	**10,032**	**5,614**	**8,274**	**27,977**	**36,944**	**12,437**	**140**	**101,418**
Gypsy/Traveller Site Development	2,993	78	10	55	-	-	-	3,136
Indoor Newport Market	-	-	1,000	3,000	-	(4,000)	-	-
HLF Market Arcade Townscape Heritage Scheme	39	266	1,556	980	-	-	-	2,841
Indoor Market Facilities Improvements	(2)	-	-	-	-	-	-	(2)
Civic Centre / Info Station Service Relocations	116	121	29	-	-	-	-	266
Info Station NSA enabling	536	-	-	-	-	-	-	536
123-129 Commercial Street (Pobl Regen)	623	623	-	-	-	-	-	1,246
Cardiff City Region Deal	1,208	-	412	2,594	5,188	-	-	9,402
Mill Street Development Loan	-	2,341	1,659	-	-	-	-	4,000
Neighbourhood Hubs	915	1,344	-	-	-	-	-	2,259
Arva Investment Loan	385	333	32	-	-	-	-	750
Disabled Facilities	898	1,092	1,100	1,000	1,000	-	-	5,090
Safety at Home	364	375	270	300	300	-	-	1,609
ENABLE Adaptations Grant	197	197	197	-	-	-	-	591
Homelessness Prevention Grant	98	-	-	-	-	-	-	98
Asset Management Programme	1,066	1,245	1,519	2,619	1,500	-	-	7,949
Flying Start Schemes	-	-	-	-	-	-	-	-
FS Maintenance 1819 / 1920	31	38	-	-	-	-	-	69
FS Shaftsbury Community Centre	183	-	-	-	-	-	-	183
Childcare - Flying Start	-	546	428	1,095	-	-	-	2,069
Central Library - Structural Works	72	17	200	374	-	-	-	663
Transporter Bridge	72	913	265	10,287	1,400	-	-	12,937
Chartist Tower	-	1,344	256	-	-	-	-	1,600
PAC System	-	57	-	-	-	-	-	57
Medieval Ship	-	-	-	12	-	-	-	12
Information Station	-	-	140	1,610	-	-	-	1,750
Renewable Energy Investment	-	2	5	1,722	-	-	-	1,729
FS City Wide Maintenance & Repair of Premises	-	-	43	90	-	-	-	133
Improvements to Flying Start Facilities	-	-	118	-	-	-	-	118
TRI Thematic Funding	-	-	1,078	-	-	-	-	1,078
Prior Year Scheme - Various	(7)	(18)	-	-	-	-	-	(25)

Regeneration, Investment and Housing	**9,787**	**10,914**	**10,317**	**25,738**	**9,388**	**(4,000)**	**-**	**62,144**
IT Replacement Schemes	94	9	-	665	150	-	-	918
Corporate EDMS Rollout	-	13	-	-	-	-	-	13
CRM	250	276	243	-	-	-	-	769
I Trent Development	-	91	144	-	-	-	-	235
Print 2010- Managed Printer Service	131	-	249	-	-	-	-	380
People and Business Change	**475**	**389**	**636**	**665**	**150**	**-**	**-**	**2,315**
Telecare Service Equipment	97	12	36	30	30	-	-	205
Equipment for Disabled Grant (GWICES)	165	165	165	165	165	-	-	825
Home Care System	32	-	-	-	-	-	-	32
Centrica Lodge	(6)	(3)	-	-	-	-	-	(9)
SMAPF	320	305	49	-	-	-	-	674
Adults and Community Services	**608**	**479**	**250**	**195**	**195**	**-**	**-**	**1,727**
Disbursed accommodation and Covid-19 equipment	-	-	337	-	-	-	-	337
3 New Homes	701	792	629	-	-	-	-	2,122
Oaklands Respite Home	505	102	-	-	-	-	-	607
Windmill Feasibility Study	41	110	90	1,300	-	-	-	1,541
Children's and Families Services	**1,247**	**1,004**	**1,056**	**1,300**	**-**	**-**	**-**	**4,607**
Fleet Replacement Programme	797	1,912	2,428	1,153	1,850	-	-	8,140
Bus station - Friars Walk Development	29	93	-	-	-	-	-	122
Flood Risk Regulation Grant	24	34	33	-	-	-	-	91
Cemetery Infrastructure Improvements	16	30	64	-	-	-	-	110
Peterstone Sewage Scheme	1	28	194	-	-	-	-	223
Road Safety Capital 2018/19	-	1,379	-	-	-	-	-	1,379
Composting	567	-	-	-	-	-	-	567
Docksway Cell 4 Development	1,555	1,046	-	-	-	-	-	2,601
CCTV	-	37	8	-	-	-	-	45
Smaller Bins - MTRP BC	70	1,177	-	-	-	-	-	1,247

Newport Station Footbridge - LTF	77	314	1,024	2,645	-	-	-	4,060
Decriminalised Parking	232	874	280	-	-	-	-	1,386
Update Facilities in Parks	18	47	-	-	-	-	-	65
Decommissioning of Cemetery Office & Toilets	11	-	-	-	-	-	-	11
Building Improvements to Lodges	14	94	-	-	-	-	-	108
Small Scale Works Grant	34	-	-	-	-	-	-	34
Road Refurbishment Grant Scheme	931	198	711	-	-	-	-	1,840
Street Lighting LEDs	564	2,202	132	-	-	-	-	2,898
Park Square Lights	-	-	65	-	-	-	-	65
Velodrome Lights	-	173	-	-	-	-	-	173
Local Transport Fund - Active Travel Northern 2018/19	290	196	114	-	-	-	-	600
Tredegar Park Car Park	-	-	12	-	-	-	-	12
Tredegar Park – Cycling Provision	-	3	152	35	35	-	-	225
Lliswerry Road (81)	-	9	2	-	-	-	-	11
28-30 Stow Hill (11/0269)	-	7	-	-	-	-	-	7
Forbisher Road (15/0720)	-	9	-	-	-	-	-	9
Festive lighting	-	109	-	-	-	-	-	109
Local Transport Fund - Active Travel Design 2018/19	240	-	-	-	-	-	-	240
Bus Stop Enhancements	-	24	376	-	-	-	-	400
Core AFT Allocation	-	340	-	-	-	-	-	340
Inner City Links	-	684	206	-	-	-	-	890
LTNF - ECO Stars	42	41	-	-	-	-	-	83
Safe Routes - St David’s RC Primary	84	145	60	-	-	-	-	289
Gwastad Mawr Flood Attenuation Improvement Works	2	-	53	-	-	-	-	55
18-19 Collection Collaborative Change Programme	1,175	-	-	-	-	-	-	1,175
LTF Monkey Island Bridge Lliswerry Pill	29	121	-	-	-	-	-	150
LTF Sustainable Transport	25	309	-	-	-	-	-	334
Riverside Park	20	-	-	-	-	-	-	20
Pye Corner Railway Station Development Works	21	-	-	-	-	-	-	21
Nappy Grant	-	202	-	-	-	-	-	202
Improving Flats Recycling Towards 70%	-	344	-	-	-	-	-	344
Increased Recycling at Docks Way	-	86	-	-	-	-	-	86
Plastic Waste Prevention Project	-	30	-	-	-	-	-	30
Green Infrastructure	-	-	234	-	-	-	-	234
Highways Annual Sums	455	322	501	500	500	-	-	2,278
Lliswerry Recreation Ground Changing Rooms	4	339	-	-	-	-	-	343
Safe Routes - St David’s RC Primary Year 2	-	-	278	-	-	-	-	278

Sustainable Transport Improvements Year 2	-	-	291	-	-	-	-	291
Upgrading and Replacement of Bus Stops	-	-	100	-	-	-	-	100
Road Safety Capital A48 Llandevaud	-	-	74	-	-	-	-	74
Resilient Roads	-	-	65	-	-	-	-	65
Western Corridor-Inner City Links	-	-	607	-	-	-	-	607
Monkey Island Bridge Year 2	-	-	990	-	-	-	-	990
Core Allocation Year 2	-	-	99	-	-	-	-	99
Flood and Coastal Erosion Risk Management	-	-	105	-	-	-	-	105
Carnegie Court Emergency River Works	-	-	1,100	-	-	-	-	1,100
Parry Drive Play Area Improvements	-	-	23	-	-	-	-	23
Brecon Road Play Area Improvements	-	-	3	-	-	-	-	3
Sorrell Drive Repairs and Glasllwch Kickwall Installation	-	-	26	-	-	-	-	26
Marshfield Community Centre	-	-	16	-	-	-	-	16
Improvements to Throwing Facilities at Newport Athletics Stadium	-	-	154	-	-	-	-	154
Local sustainable transport measures in response to Covid	-	-	600	-	-	-	-	600
Ultra Low Emission Grants	-	-	205	-	-	-	-	205
Flood recovery works - Tredegar Park	-	-	-	-	-	-	-	-
Kingsway car park operation	-	-	25	-	-	-	-	25
Increased Recycling	-	-	25	-	-	-	-	25
Prior Year Scheme - Various	(11)	-	-	-	-	-	-	(11)
City Services	**7,316**	**12,959**	**11,435**	**4,333**	**2,385**	**-**	**-**	**38,427**
Total	**29,466**	**31,359**	**31,966**	**60,205**	**49,064**	**8,437**	**140**	**210,638**
<u>Financed By:</u>								
General Capital Grant	4,754	3,858	4,107	4,000	4,000	1,701	49	22,469
Supported Borrowing	4,058	4,077	4,097	4,058	3,219	-	-	19,509
Unsupported Borrowing	2,126	5,790	5,123	15,651	13,797	(2,401)	-	40,086
Prudential Borrowing	84	123	-	-	-	-	-	207
External Grants	12,911	13,055	14,692	33,107	25,014	9,137	91	108,008
S106	868	523	509	2,170	2,446	-	-	6,516
Other Contributions	242	268	65	397	-	-	-	972

Capital Receipts	3,136	820	2,132	448	588	-	-	7,124
Revenue Contribution	75	68	79	374	-	-	-	596
Reserve	1,081	2,777	913	-	-	-	-	4,771
Finance Lease	131	-	249	-	-	-	-	380
Total	**29,466**	**31,359**	**31,966**	**60,205**	**49,064**	**8,437**	**140**	**210,638**

Appendix 2

NEWPORT CITY COUNCIL
CAPITAL STRATEGY
2020/21 TO 2030/31

NEWPORT CITY COUNCIL
CYNGOR DINAS CASNEWYDD

CONTENTS

EXECUTIVE SUMMARY

This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.

Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

It highlights that in the current climate of financial constraints and a Medium Term Financial Projection (MTFP) budget gap, that expenditure on capital needs to remain within affordable limits. Demand for capital resources remain high and therefore inevitably, prioritisation of projects, leveraging in other sources of funding and working with partners are required to meet this demand.

The strategy highlights the key risks and recommendations:

- Capital expenditure plans for the Council need to be affordable, prudent and sustainable.

- The Council's current capital programme has a substantial amount of borrowing to 2024/25, and while this is affordable due to the revenue pressures being forward funded in the 2021/22 budget, it would be unsustainable to continue borrowing thereafter, at the current level.

- The Council's Medium Term Financial Plan includes the revenue costs for the financing of the current capital programme to 2024/25, which includes a potential leisure scheme which have not yet been approved and a level of uncommitted borrowing headroom limited at £4.5m. This will exclude any borrowing for any schemes which are self-financing over the life of the project.

- If the level of capital expenditure funded by borrowing is required to be increased from that detailed in the current programme it would need to be approved by Full Council.

- As per the agreed framework (detailed in the report) the current programme needs to be maintained within the agreed limits, therefore not putting additional pressure on the capital financing budgets that have been funded in 2021/22 budget.

- Within the context of significant demands for capital resources and limited availability, there is the need to develop our use of the various strategic plans across the organisation which drive the need for capital and develop alternative strategies to meet demand so the Councils own capital programme is prioritised within an affordable framework. This will include clearer and corporate 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, the Council will need to make some difficult decisions going into the next programme to ensure the capital plans remain affordable and sustainable.

- The Head of Finance recommends Council agree a limit debt funded capital expenditure in the future programme. The impact of a limit of £5.5m and £7.5m per annum is included within this strategy.

- The prudential indicators, including borrowing limits, are in line with the MTFP approved by Cabinet.

The strategy will be reviewed and updated on an annual basis alongside the Treasury Management Strategy.

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 report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.

Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

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 approved capital programme to 2024/25 (4 years) and its financing, and the revenue implications arising from demands on capital expenditure (Paragraph 3)
- The long-term (10 year) projection for the capital financing costs of the Council and where future demands arise from the various strategic plans across the authority for further capital resources. (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 Leader of the Council cabinet member for Economic Growth and Investment. 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. This means that the borrowing limits will include and limited to the approved capital expenditure and the amount of uncommitted capital expenditure included within the current programme. The exception to this would be any schemes for which borrowing is required, but which finance themselves through the savings generated. These limits are a key performance indicator for treasury management. This ensures that capital expenditure is limited and borrowing remains within an affordable limit.
- This borrowing limit is based on what is included in the table 2 of the capital financing within this report. If the borrowing within the current capital programme requires to be increased this will need to be approved by Council.
- 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 5.1 and 5.3.
- 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 3.1 is used. There is a process map for the approval of capital expenditure which is used, this is shown in Appendix 2a.

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 capital programme was recently extended to 7 years to reflect projects whose completion spanned beyond the original 5 year programme, taking the total programme from 2018/19 to 2024/25, this was approved at Cabinet in January 2020. 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 limit is made up of identified uncommitted capital reserves and capital receipts, an estimated level of borrowing which is within the Minimum Revenue Provision (MRP) budget and a prudent estimate of future capital receipts

The latest capital programme is summarised in the table below. For 2021/22, the Cabinet have approved capital schemes of £60.3m, and the overall programme to 2024/25 included uncommitted borrowing is £251.9m (this includes £17.3m for the cost of carry of undertaking borrowing for Cardiff Capital Region ‘City Deal’ schemes prior to the funding from HM Treasury being received):

	7-YEAR CAPITAL PROGRAMME							
	2018/19 Actual £m	**2019/20 Actual £m**	**2020/21 Forecast £m**	**2021/22 Budget £m**	**2022/23 Budget £m**	**2023/24 Budget £m**	**2024/25 Budget £m**	**Total 7-year programme £m**
Approved Schemes (Appendix 1)	29.5	31.4	31.6	60.3	49.1	8.4	0.1	**210.4**
City Deal - cost of carry					1.8	10.0	5.5	**17.3**
Regeneration Schemes (not yet approved)					19.7			**19.7**
Uncommitted borrowing to invest in council assets / regeneration*			1.5	2.0	1.0			**4.5**
TOTAL EXPENDITURE	**29.5**	**31.4**	**33.1**	**62.3**	**71.6**	**18.4**	**5.6**	**251.9**

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

The current approved capital programme is substantial and leads to a considerable increase on the Capital Financing Requirement (CFR) over the medium term. Table 1 includes the current capital programme Cabinet approved in January for the November monitoring and additions report, any regeneration schemes not yet approved and a level of uncommitted borrowing for potential additional capital schemes. A limit of £4.5m has been placed on any additional borrowing to fund capital expenditure within the current programme after 2020/21 to 2022/23.

Over the current capital programme there is a significant increase in borrowing to fund the projects within. Capital financing costs are increasing substantially with a £2.6m investment in the capital financing budget in 2021/22. It is important to note that this budget will not be fully required in 2021/22 and is a forward commitment, therefore a large proportion will be available in 2021/22 to fund other priorities.

Paragraph 3.2 illustrates the revenue impact of the capital programme. The framework agrees that the over the term of the current **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 limit of uncommitted borrowing that is available allows for additional capital expenditure without increasing the pressures on revenue.

The general fund capital grant in 2021/22 remains the same as awarded in 2020/21 which has been reflected within the above headroom figures, the future years grant is unconfirmed therefore for prudence it is not assumed that there will be any increase in subsequent years.

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
- A number of HLF grant funded schemes including Transporter Bridge and Newport Market Arcade
- Cardiff Capital Region City Deal (CCRCD)
- Regeneration schemes which have not yet been formally approved.

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 2 is as follows:

Table 2: Capital financing in £ millions - Current 7-year programme

	7-YEAR CAPITAL PROGRAMME							
	2018/19 Actual £m	**2019/20 Actual £m**	**2020/21 Forecast £m**	**2021/22 Budget £m**	**2022/23 Budget £m**	**2023/24 Budget £m**	**2024/25 Budget £m**	**Total 7-year programme £m**
Financed by:								
Committed Grants and contributions	19.2	17.7	19.2	39.8	31.5	10.8	0.1	**138.3**
Committed Reserves, capital receipts, revenue	4.3	3.7	3.6	1.3	1.1	0.5		**14.5**
Committed new borrowing	6.0	10	8.8	19.2	16.5	-2.9		**57.6**
Committed new borrowing for City Deal Cost of Carry					1.8	10.0	5.5	**17.3**
TOTAL COMMITTED (Appendix 1)	**29.5**	**31.4**	**31.6**	**60.3**	**50.9**	**18.4**	**5.6**	**227.7**
Potential Borrowing required for Regeneration Schemes					15.2			**15.2**
Capital Reserves for Regeneration Schemes					4.5			**4.5**
Uncommitted borrowing			1.5	2.0	1.0			**4.5**
TOTAL UNCOMMITTED*			**1.5**	**2.0**	**20.7**			**24.2**
TOTAL FINANCING	**29.5**	**31.4**	**33.1**	**62.3**	**71.6**	**18.4**	**5.6**	**251.9**

Due to the better settlement the Council will receive in 2021/22, Cabinet have front loaded the required medium term budget into 2021/22. This means that the current capital programme, any regeneration schemes not yet approved and a level of uncommitted borrowing limited to £4.5m has been funded within the MTFP. Any underspends available within the short term will be able to be used for voluntary revenue payments (VRP) or moved to reserves.

The forecast borrowing for 2020/21 to 2024/25 is £78.6m, if this is to be increased it would need approval by Council.

There is a substantial increase in the Capital Financing Requirement (CFR) as a result of the current programme, which is not sustainable if the level of borrowing continues into the next programme. The level of capital expenditure funded by borrowing must slow down after the current programme, therefore, for the next capital programme, a borrowing limit for capital expenditure funded by borrowing will need to be agreed. This strategy has modelled two scenarios, which limits the level of borrowing to either £5.5m or £7.5m per annum and shows the impact of this additional borrowing on the CFR.

As there will be a requirement for borrowing at some capacity, limiting the level of borrowing for capital expenditure at either £5.5m or £7.5m means that our amount of debt will start to level out in the long term after the current programme, however, it will still present challenges for revenue budgets. We have an inherent need to borrow due to borrowing commitments from previous capital decisions made, so revenue costs will increase, even with no further additional borrowing. Therefore, future capital expenditure funded by borrowing needs to be limited at a level which is sustainable.

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 actual	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget
MRP budget	7.8	7.9	8.5	9.4	9.4	9.6	9.8

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 MTFP while there is still a funding gap, 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 within the Treasury Strategy which will be approved alongside this capital strategy

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

	2020/21 budget	2021/22 budget	2022/23 budget	2023/24 budget
Financing costs* (£m)	21.0	22.8	22.8	23.3
Proportion of net revenue stream	7.0%	7.2%	7.1%	7.1%

*includes capital financing costs of PFIs

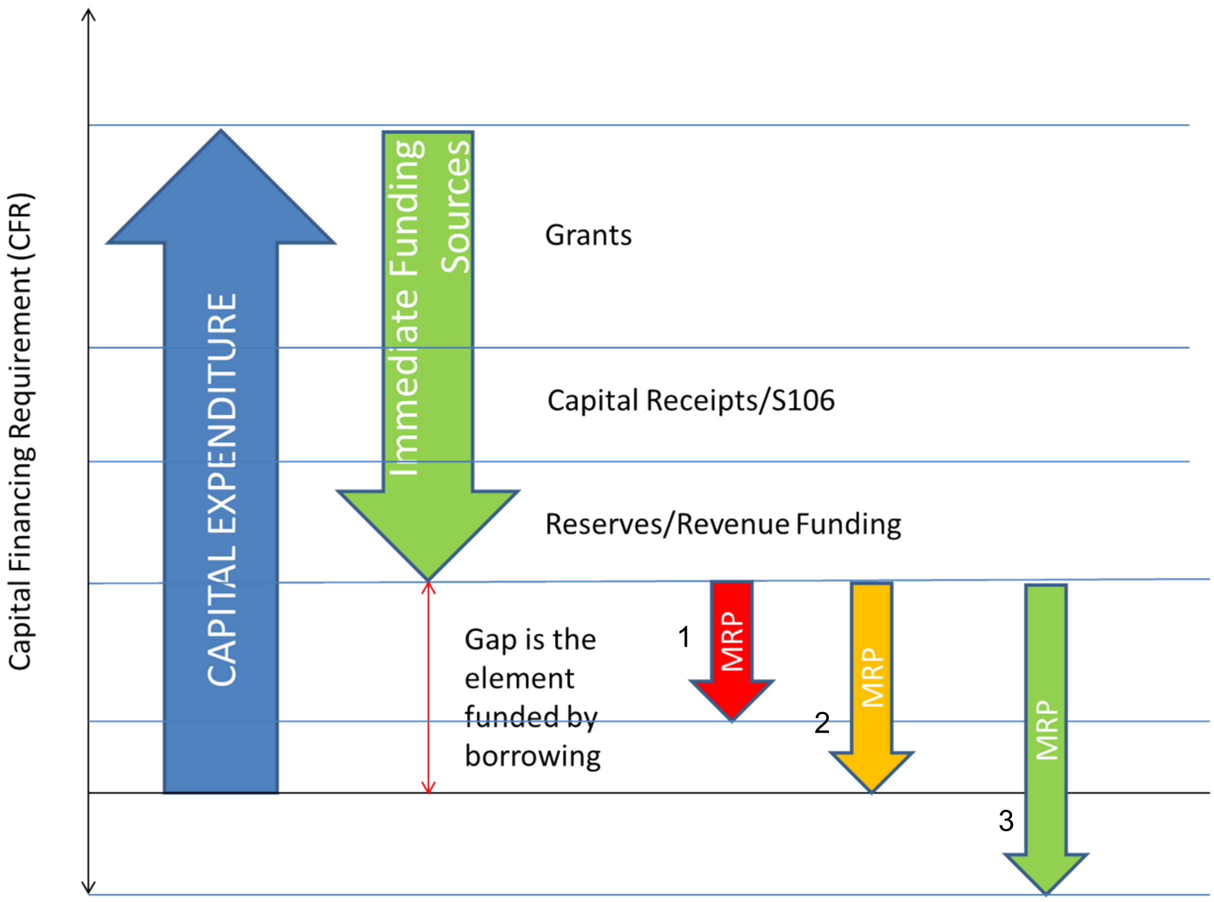
Capital costs continue to rise beyond the current programme even when limiting borrowing to £5.5m. This is because our ability to fund capital expenditure through internal borrowing is no longer applicable due to reserves being utilised, therefore this will need to be externally borrowed. External (or 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 included in the 2021/22 revenue budget report.

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 [1]) the net CFR increases

4. If the MRP charge is **equal to** the capital expenditure funded by borrowing (Amber [2]) then net CFR stays the same
5. If the MRP charge is **more than** the capital expenditure funded by borrowing (Green [3]) 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.

The CFR is expected to increase by £1.5m during 2021/22. 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

	31.3.2019 actual	31.3.2020 forecast	31.3.2021 budget	31.3.2022 budget	31.3.2023 budget
TOTAL CFR	**278.8**	**280.2**	**281.7**	**294.7**	**319.2**

With the pending introduction of IFRS 16 Leases, the CFR and debt identified as relating to leases is likely to increase, due to the change in the way that finance leases for lessees are treated. CIPFA LASAAC taken the decision to defer the implementation of IFRS 16 Leases until the 2022/23 in response to pressures on council finance teams as a result of the COVID-19 pandemic.

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 are included in the Capital Additions and Monitoring Report to Cabinet February 2021.

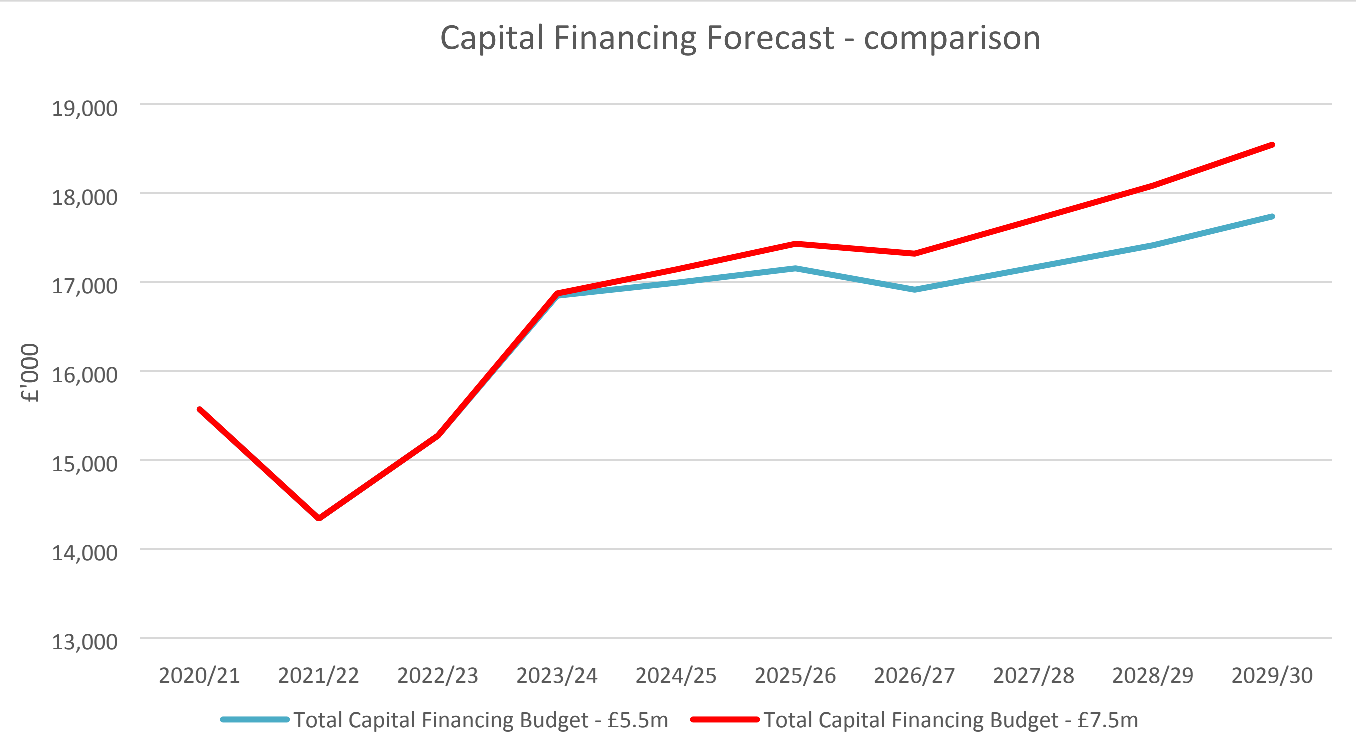
4. LONG-TERM VIEW OF CAPITAL EXPENDITURE

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 3.1, 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 capacity to use internal borrowing is also reducing which means that the authority will face a challenge in developing its next capital programme.

Chart 1 below shows the increasing capital financing costs over the next 10 years with a limit of £5.5m and £7.5m of capital expenditure after the current programme. As is evident, based on the current programme the revenue cost of implementing a challenging capital programme is increasing year on year from 2021/22, with only a very limited amount of uncommitted borrowing available. Alongside a revenue budget Medium Term Financial Projection showing a funding gap this provides a significant challenge within current context of funding constraints on Local Government.

Chart 1



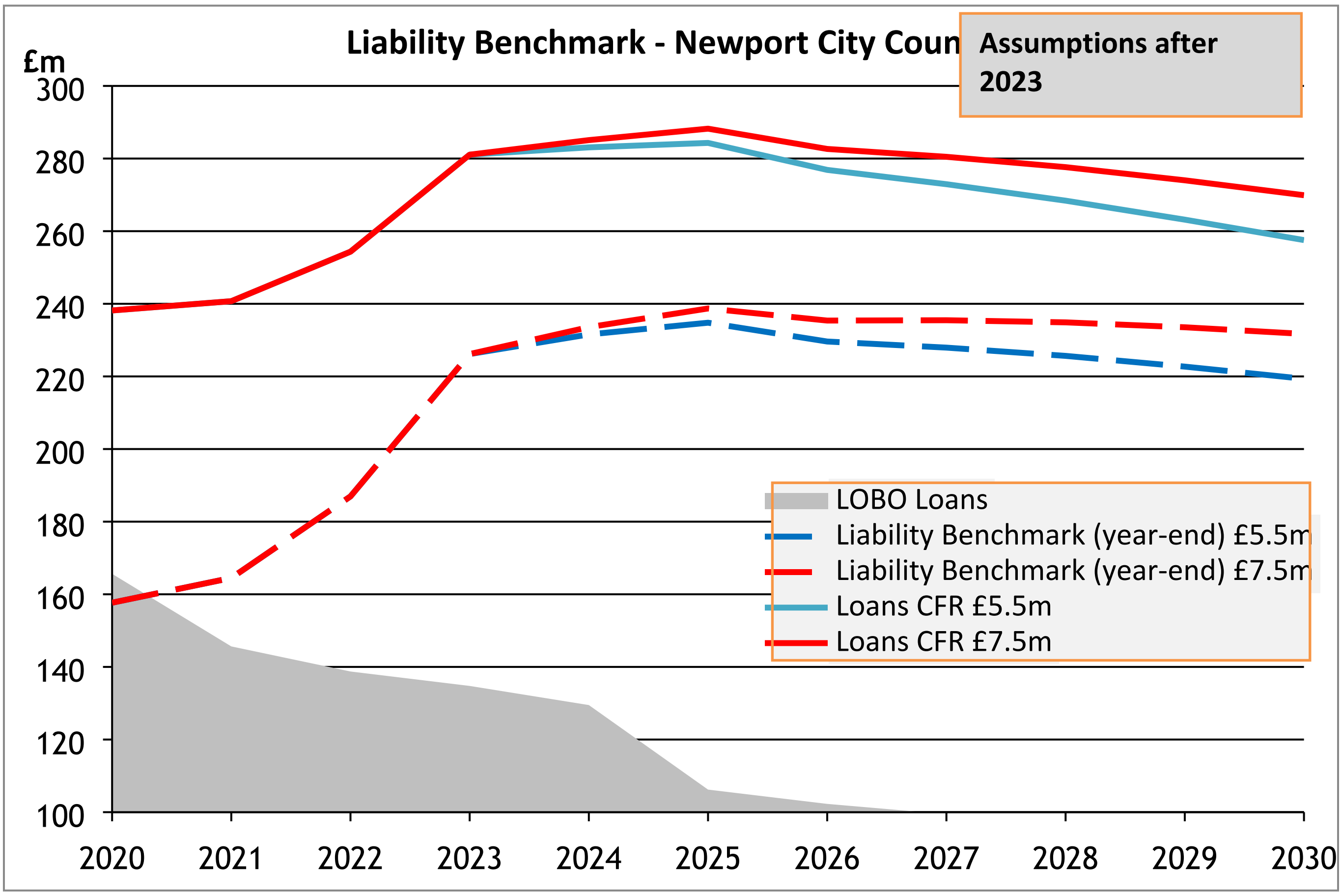
The table illustrates the significant increase in financing costs as a result of the current capital programme, which, although it is funded due to the better than expected settlement, it shows that even by limiting the capital expenditure in the future to either £5.5m or £7.5m revenue costs will be substantial and will continue to rise.

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.

- Earlier in paragraph 3.1 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.

The chart below shows our overall need to borrow (Capital Financing Requirement) and need for external borrowing if the liability benchmark is set at £5.5m and £7.5m.

Chart 2



- The chart above illustrates the following:
  - In the current programme there is a significant increase in the need for external borrowing with the steepness of the curve over the next 4 years.
  - This is unsustainable if it continues at the same level as the current programme, so there must be a limit placed for future which is wither £5.5m or £7.5m per annum.
  - 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.
  - A limit needs to be agreed to limit future borrowing to ensure that the liability benchmark is kept within a sustainable level
  - A limit of £5.5m will reduce the level of borrowing after the current programme and £7.5m will keep the level of debt borrowing level, however in both scenarios as shown in Chart 1 previously the level of capital financing continues to increase over the long-term.

- 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). 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.
- In the current financial climate, with a continuing MTFP gap, there is the need for future levels of capital expenditure funded from borrowing to come down and therefore bring the CFR over the longer-term.

➢ Capital Financing costs are discussed further in the Treasury Management section in paragraph 5.

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 and this will prove a challenge for the Council.

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:

The Authority will need to develop its understanding of the costs arising from each of the above strategic documents, and use these to prioritise restricted funding over the current and future programmes.

Capital investment in service assets is highly constrained by the funding available and therefore has not been funded at a level required to keep these assets in a steady state condition or to address backlog maintenance needs.

This is especially so in relation to highway assets and school buildings. The annual sum required to not only maintain assets at their current standard but to bring the assets to a standard level is significantly above the level that is available.

The plans highlighted above show the significant challenge facing the Authority in coming years and detail backlog maintenance challenges that face the Authority.

Annual sums included in the capital programme for highways maintenance, relevant specific capital grants and the 21st Century Schools programme will assist in addressing the highest priority backlog issues, focussing on worst condition first and risk. However, estate rationalisation programmes, closure/disposal of assets, asset transfers and other capital projects to refurbish or replace operational properties (i.e. neighbourhood hubs, work on the library, Newport market development) will also be utilised to offset the backlog funding required. This will not address the total backlog, but is a way of targeting the main issues in an affordable manner.

Backlog maintenance has been estimated at the following values:

- Schools estate - £55m
- Other Council operational estate - £30m

5. <u>TREASURY MANAGEMENT</u>

The Treasury Management Strategy is taken alongside the Capital Strategy within the same report for approval at Council. The figures within link directly with the borrowings resulting from this Capital Strategy.

The Council will need to approve both the prudential indicators detailed below and limits of borrowing that this strategy recommends.

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 £149m borrowing at a weighted average interest rate of 3.7% and £29m treasury investments at a weighted average rate of 0.17%.

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 0.1%) and long-term fixed rate loans where the future cost is known but higher (currently around 1.5 to 2.5%).

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). You will note the estimate projected debt is the same as the operational boundary as a limit for borrowing to carry out the programme as highlighted within this Capital Strategy.

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

	31.3.2020 actual	**31.3.2021 forecast**	**31.3.2022 budget**	**31.3.2023 budget**	**31.3.2024 budget**
Debt (incl. PFI & leases)	208	229	229	267	270
Capital Financing Requirement	280	287	296	322	322

With the pending introduction of IFRS 16 Leases, the CFR and debt identified as relating to leases is likely to increase during 2021/22 due to the change in the way that finance leases for lessees are treated. There is currently an ongoing project assessing these leases across the Council and an update will be given alongside the in-year 2021-22 treasury monitoring report to Council.

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 approve an affordable borrowing limit (also termed the 'authorised limit' for external debt) each year.

The 'Operational borrowing limits' over the medium term, have been set in line with the expected borrowing required to finance the current capital programme to 2024/25. If any increase to the operational boundary is required, including to borrow for investment/income generation schemes or regeneration investment (loans) this will need to be brought to Council for approval. The 'Authorised borrowing limits', provide a buffer for the ability to manage day to day cash requirements (ii) undertake a level of borrowing early where appropriate / affordable.

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

	2021/22 limit	2022/23 limit	2023/24 limit	2024/25 limit
Authorised limit – borrowing	254	281	283	284
Authorised limit – PFI and leases	42	41	39	36
Authorised limit – total external debt	**296**	**322**	**322**	**320**
Operational boundary – borrowing	187	226	231	234
Operational boundary – PFI and leases	42	41	39	36
Operational boundary – total external debt	**229**	**267**	**270**	**270**

- Further details on borrowing are in the treasury management strategy

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

	31.3.2020 actual	31.3.2021 forecast	31.3.2022 budget	31.3.2023 budget	31.3.2024 budget
Near-term investments	12.5	10	0	0	0
Longer-term investments	0	0	10	10	10
TOTAL	**12.5**	**10**	**10**	**10**	**10**

- Further details on treasury investments are in pages 6 to 10 of the treasury management strategy

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.

COMMERCIAL ACTIVITIES

5.4. COMMERCIALISATION

Due to the ongoing pressures and risks and challenges as a result of the Covid-19 pandemic, the commercialisation strategy has been paused for the short-term.

6. OTHER LONG-TERM LIABILITIES

In addition to debt of £149m 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 (23 years remaining) and for Glan Usk Primary School (14 years remaining). As at 31 March 2020 the value of the liability was £42.3m. 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 £348.2m).

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.

7. 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.

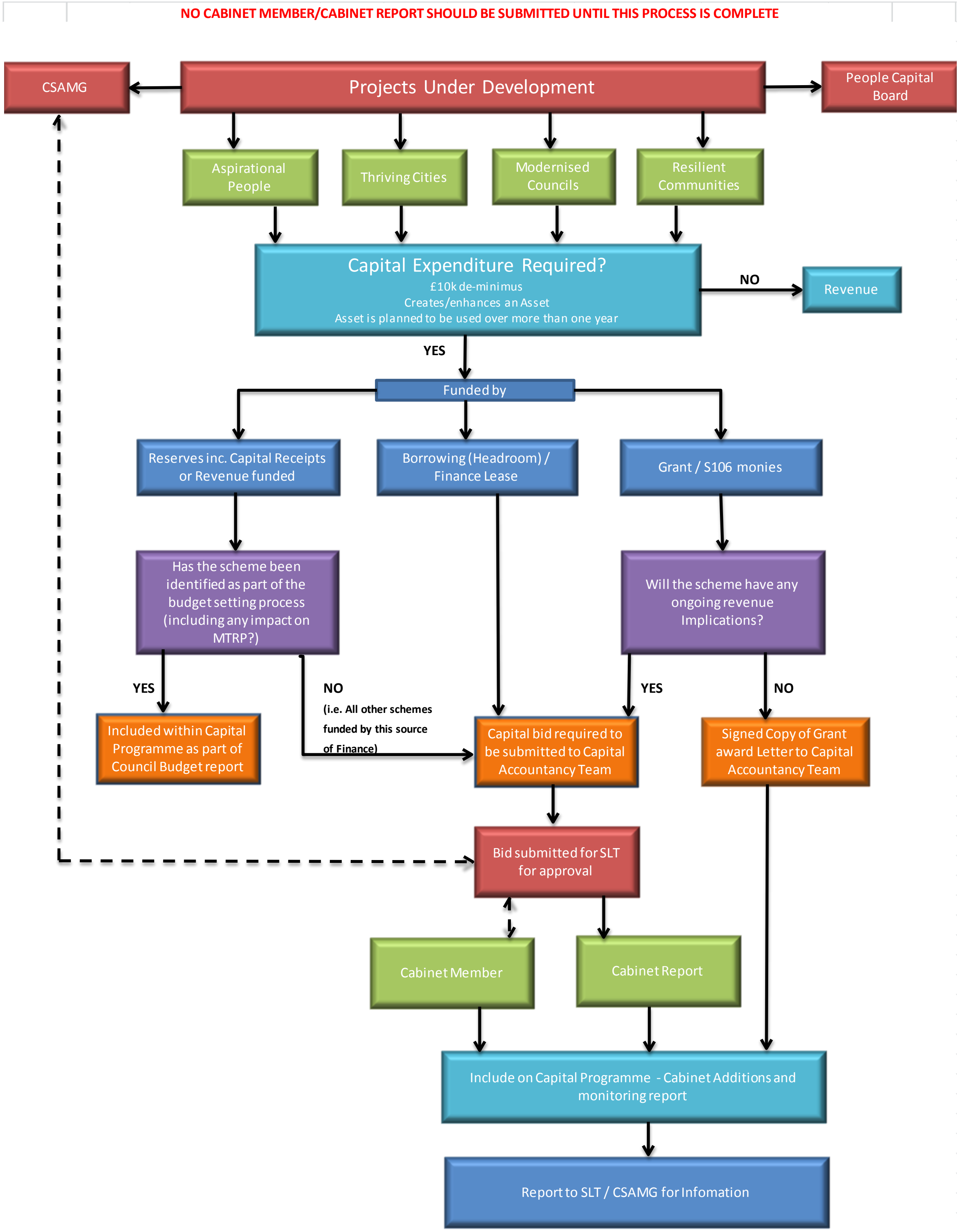
MEMBERS

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.

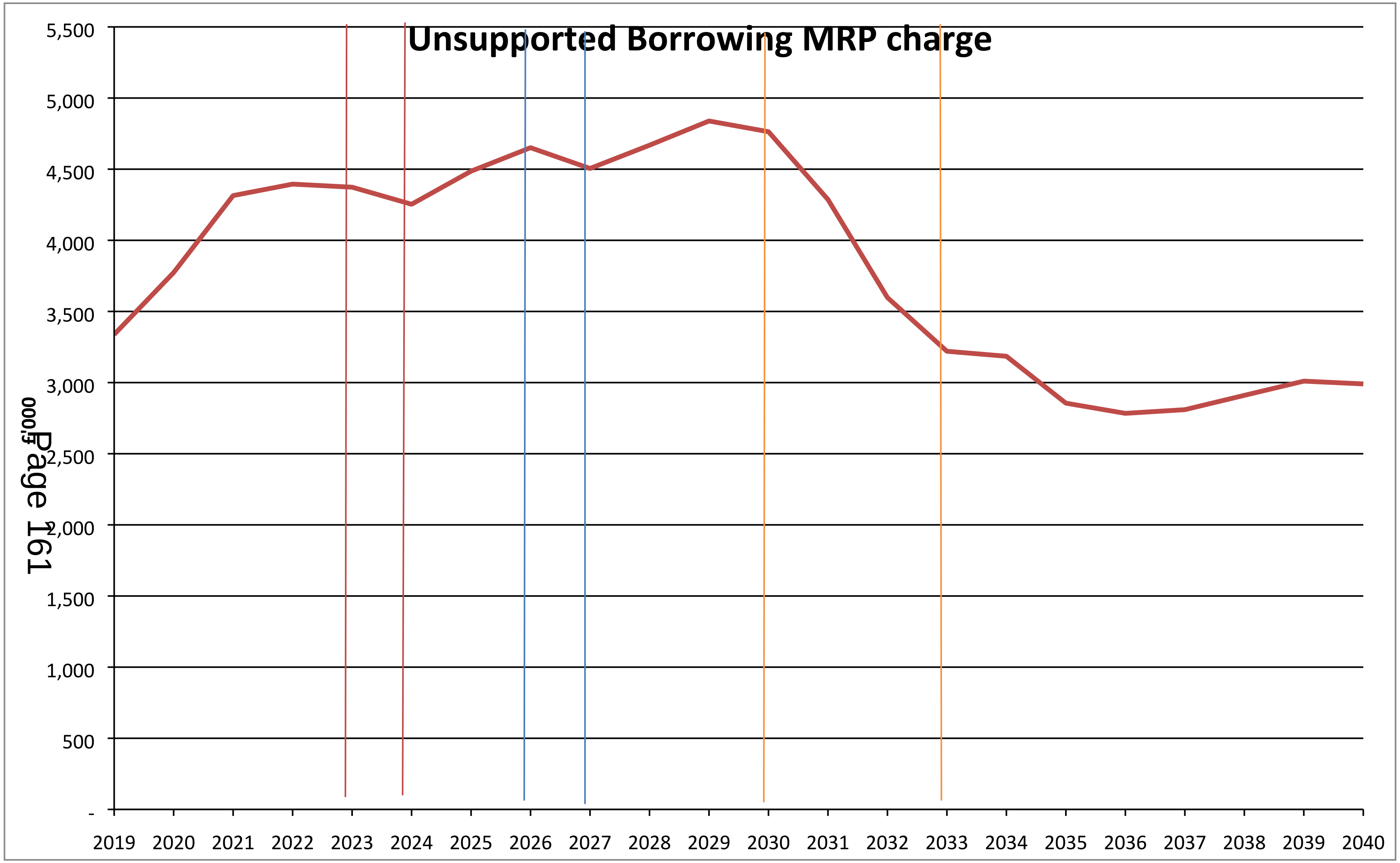
8. SUMMARY

- 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 1, the Council will need to make some difficult decisions going into the next programme to ensure the capital plans remain affordable and sustainable.

APPENDIX 2a – Capital Additions Process Map



Appendix 2b



Page 161

Appendix 3

Treasury Management Strategy Statement 2021/22

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 November 2019 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, or a material loss in the fair value of a non-financial investment identified as part of the year end accounts preparation and audit process.

External Context

Economic background: The impact on the UK from coronavirus, lockdown measures, the rollout of vaccines, as well as the new trading arrangements with the European Union (EU), will remain major influences on the Authority's treasury management strategy for 2021/22.

The Bank of England (BoE) maintained Bank Rate at 0.10% in December 2020 and Quantitative Easing programme at £895 billion having extended it by £150 billion in the previous month. The Monetary Policy Committee (MPC) voted unanimously for both, but no mention was made of the potential future use of negative interest rates. In the November Monetary Policy Report (MPR) forecasts, the Bank expects the UK economy to shrink -2% in Q4 2020 before growing by 7.25% in 2021, lower than the previous forecast of 9%. The BoE also forecasts the economy will now take until Q1 2022 to reach its pre-pandemic level rather than the end of 2021 as previously forecast. By the time of the December MPC announcement, a COVID-19 vaccine was approved for use, which the Bank noted would reduce some of the downside risks to the economic outlook outlined in the November MPR.

UK Consumer Price Inflation (CPI) for November 2020 registered 0.3% year on year, down from 0.7% in the previous month. Core inflation, which excludes the more volatile components, fell to 1.1% from 1.5%. The most recent labour market data for the three months to October 2020 showed the unemployment rate rose to 4.9% while the employment rate fell to 75.2%. Both measures are expected to deteriorate further due to the ongoing impact of coronavirus on the jobs market, particularly when the various government job retention schemes start to be unwound in 2021, with the BoE forecasting unemployment will peak at 7.75% in Q2 2021. In October, the headline 3-month average annual growth rate for wages were 2.7% for total pay and 2.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up by 1.9% while regular pay was up 2.1%.

GDP growth rebounded by 16.0% in Q3 2020 having fallen by -18.8% in the second quarter, with the annual rate rising to -8.6% from -20.8%. All sectors rose quarter-on-quarter, with dramatic gains in construction (41.2%), followed by services and production (both 14.7%). Monthly GDP estimates have shown the economic recovery slowing and remains well below its pre-pandemic peak. Looking ahead, the BoE's November MPR forecasts economic growth will rise in 2021 with GDP reaching 11% in Q4 2021, 3.1% in Q4 2022 and 1.6% in Q4 2023.

GDP growth in the euro zone rebounded by 12.7% in Q3 2020 after contracting by -3.7% and -11.8% in the first and second quarters, respectively. Headline inflation, however, remains extremely weak, registering -0.3% year-on-year in November, the fourth successive month of deflation. Core inflation registered 0.2% y/y, well below the

European Central Bank's (ECB) target of 'below, but close to 2%'. The ECB is expected to continue holding its main interest rate of 0% and deposit facility rate of -0.5% for some time but expanded its monetary stimulus in December 2020, increasing the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022.

The US economy contracted at an annualised rate of 31.4% in Q2 2020 and then rebounded by 33.4% in Q3. The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% and announced a change to its inflation targeting regime to a more flexible form of average targeting. The Fed also provided strong indications that interest rates are unlikely to change from current levels over the next three years.

Former vice-president Joe Biden won the 2020 US presidential election. Mr Biden is making tackling coronavirus his immediate priority and will also be reversing several executive orders signed by his predecessor and take the US back into the Paris climate accord and the World Health Organization.

Credit outlook: After spiking in late March as coronavirus became a global pandemic and then rising again in October/November, credit default swap (CDS) prices for the larger UK banks have steadily fallen back to almost pre-pandemic levels. Although uncertainly around COVID-19 related loan defaults lead to banks provisioning billions for potential losses in the first half of 2020, drastically reducing profits, reported impairments for Q3 were much reduced in some institutions. However, general bank profitability in 2020 and 2021 may be significantly lower than in previous years.

The credit ratings for many UK institutions were downgraded on the back of downgrades to the sovereign rating. Credit conditions more generally though in banks and building societies have tended to be relatively benign, despite the impact of the pandemic.
Looking forward, the potential for bank losses to be greater than expected when government and central bank support starts to be removed remains a risk, suggesting a cautious approach to bank deposits in 2021/22 remains advisable.

Interest rate forecast: The Authority's treasury management adviser Arlingclose is forecasting that BoE Bank Rate will remain at 0.1% until at least the first quarter of 2024. The risks to this forecast are judged to be to the downside as the BoE and UK government continue to react to the coronavirus pandemic and the new EU trading arrangements. The BoE extended its asset purchase programme to £895 billion in November while keeping Bank Rate on hold and maintained this position in December. However, further interest rate cuts to zero, or possibly negative, cannot yet be ruled out but this is not part of the Arlingclose central forecast.

Gilt yields are expected to remain very low in the medium-term while short-term yields are likely remain below or at zero until such time as the BoE expressly rules out the chance of negative interest rates or growth/inflation prospects improve. The central case is for 10-year and 20-year to rise to around 0.60% and 0.90% respectively over the time horizon. The risks around the gilt yield forecasts are judged to be broadly balanced between upside and downside risks, but there will almost certainly be short-term volatility due to economic and political uncertainty and events.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix 3a.

For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate of 3%, and that new long-term loans will be borrowed at an average rate of 2%.

<u>Local Context</u>

On 31st December 2020, the Authority held £149.2m of borrowing and £28.8m of treasury investments. This is set out in further detail at ***Appendix 3b***. 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>

	31.3.20 Actual £m	**31.3.21 Estimate £m**	**31.3.22 Forecast £m**	**31.3.23 Forecast £m**	**31.3.24 Forecast £m**
General Fund CFR	280.2	281.7	294.8	319.2	318.9
Less: Other debt liabilities *	(42.3)	(41.3)	(40.7)	(38.4)	(36.1)

Loans CFR	**237.9**	**240.4**	**254.1**	**280.8**	**282.8**
Less: External borrowing **	(165.6)	(145.6)	(138.7)	(134.8)	(129.5)
Less: Usable reserves	(87.1)	(82.8)	(74.0)	(61.5)	(58.1)
Less: Working capital	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)
Preferred Investment position		10.0	10.0	10.0	10.0
Treasury Investments or (New borrowing)	**18.2**	**(18.6)**	**(48.0)**	**(91.1)**	**(101.8)**

* 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.

With the pending introduction of IFRS 16 Leases, the CFR is likely to increase during 2021/22 due to the change in the way that finance leases for lessees are treated. There is currently an ongoing project assessing these leases across the Council and an update will be given alongside the in-year 2021-22 treasury monitoring report to Council.

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 a significantly increasing CFR due to the capital programme, but minimal investments and will therefore be required to borrow up to £101.8m over the forecast period, this is broken down into £36.1m refinancing of maturing existing borrowing and £65.7m additional (£165.6m to £231.3m) external borrowing, while internal borrowing and investments are forecast to reduce by £29.0m and £8.2m respectively as shown in table 2 below.

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

	31.3.20 Actual £m	31.3.21 Estimate £m	31.3.22 Forecast £m	31.3.23 Forecast £m	31.3.24 Forecast £m
Loans CFR (as per table 1)	**237.9**	**240.4**	**254.1**	**280.8**	**282.8**
- Cumulative Internal Borrowing	90.5	86.2	77.4	64.9	61.5
- Investments	(18.2)	(10.0)	(10.0)	(10.0)	(10.0)
- Cumulative External Borrowing	165.6	164.2	186.7	225.9	231.3
Increase in External Borrowing		**(1.4)**	**22.5**	**39.2**	**5.4**
Represented by:					
Change in loan CFR (Cap Exp funded by debt less MRP)		2.5	13.7	26.7	2.0
Reduction in reserves		4.3	8.8	12.5	3.4
Reduction in investments		(8.2)	0	0	0
Increase in External Borrowing		**(1.4)**	**22.5**	**39.2**	**5.4**

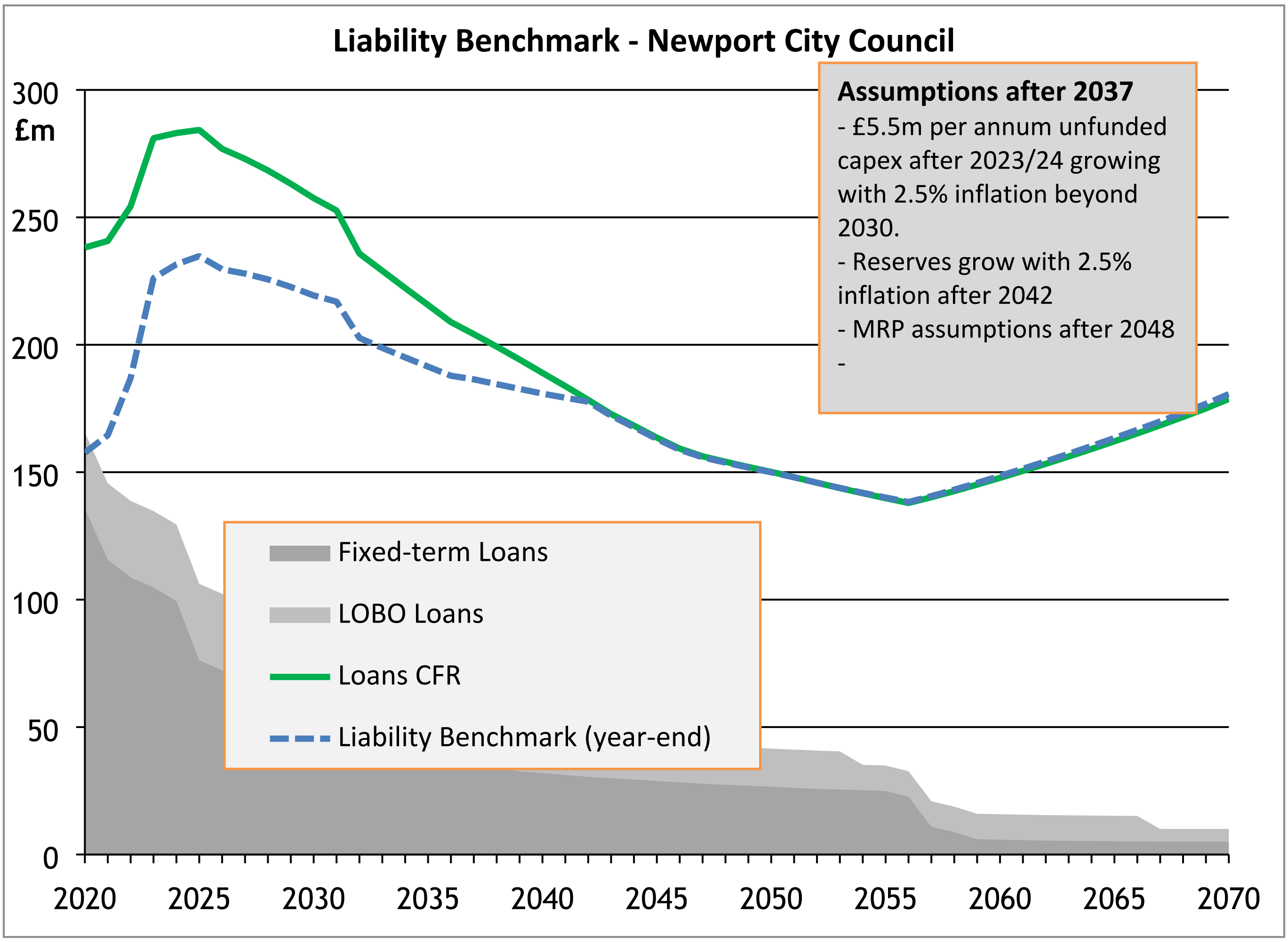
CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2021/22.

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

	31.3.20 Actual £m	31.3.21 Estimate £m	31.3.22 Forecast £m	31.3.23 Forecast £m	31.3.24 Forecast £m
Loans CFR	237.9	240.4	254.1	280.8	282.8
Less: Usable reserves	(87.1)	(82.8)	(74.0)	(61.5)	(58.1)
Less: Working capital	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)
Plus: Minimum investments	18.2	10.0	10.0	10.0	10.0
Liability Benchmark	**165.6**	**164.2**	**186.7**	**225.9**	**231.3**

From the table above and chart below it is evident to see the steep increase in the liability benchmark, flagging the need to slow down borrowing beyond the current programme. The long-term liability benchmark beyond the current programme shows a model based on a prudent level of capital expenditure to reduce the long-term liability benchmark. This is shown in the chart below (detail of scenarios for the period of the next 10 years are included in the capital strategy):



The chart above shows actual borrowing maturing over time (grey area reducing), however our need to borrow (the green CFR line) is increasing significantly over the short term due to the extensive capital programme. Over the long-term, to ensure a sustainable position the CFR needs to come down in order for the liability benchmark to stabilise and reduce to current levels, note even with a steep reduction in CFR the liability benchmark doesn't reduce to current levels until 2047. Therefore, the chart is showing the following important points/assumptions:

- To be sustainable the capital financing requirement cannot continue increasing at the rate it is currently, and a prudent limit should be placed on the future capital programme to reduce the CFR

over the long-term (set out further in the Capital Strategy)
- 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 significantly in the short term, 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 £149.2 million of loans, a decrease of £17.1 million on the previous year, as part of its strategy for funding previous years' capital programmes, there was also a significant amount of temporary borrowing at year end to cash-flow business grants in the early period of the Covid-19 pandemic. The balance sheet forecast in table 1 shows that the Authority expects to borrow up to £164.2 million in 2021/22. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £254 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 2021/22 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The Authority has previously raised the majority of its long-term borrowing from PWLB but will consider long-term loans from other sources including, banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.

Alternatively, the Authority may arrange forward starting loans, 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 further short-term loans to cover unplanned cash flow shortages.

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

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- 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

- UK Municipal Bonds Agency and other 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

Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

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 2021/22, 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.

Treasury 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 treasury investment balance has ranged between £12.5 million and £65.2 million, levels of c. £10 to £20 million are expected in the forthcoming year.

Loans to organisations providing local public services i.e. regeneration and purchases of investment property are not normally considered to be treasury investments, and these are therefore covered separately in Appendix C.

Objectives: Both the CIPFA Code and the WG Guidance require the Authority to invest its treasury 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: The COVID-19 pandemic has increased the risk that the Bank of England will 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. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. 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 2021/22. 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 the coming year while it has been put on hold due to the Covid-19 pandemic.

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 4 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 4: Approved investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£20m	Unlimited
Secured investments *	20 years	£10m	Unlimited
Banks (unsecured) *	13 months	£5m	Unlimited
Building societies (unsecured) *	13 months	£5m	£10m
Registered providers (unsecured) *	5 years	£5m	£25m
Money market funds *	n/a	£10m	Unlimited
Strategic pooled funds	n/a	£10 m	£25m
Real estate investment trusts	n/a	£10m	£25m
Other investments *	5 years	£5m	£5m

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

***Minimum Credit rating:** Treasury investment limits in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. 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.

For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £20m per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

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 Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies 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. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (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.

Registered providers (unsecured): 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 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.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds: Bond, equity and property funds that 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. Investments in REIT shares cannot be withdrawn but can be sold on to the stock market to another investor.

Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

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. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £1 million per bank (in exceptional circumstances i.e. late receipt of significant sums this may be higher for a short-period of time). 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. The credit rating agencies in current use are listed in the Treasury Management Practices document. 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 2020, 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 investment levels to fall but will protect the principal sum invested.

Investment limits: The Authority's revenue reserves available to cover investment losses are forecast to be £75 million on 31st March 2020. 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 entities 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: Additional Investment limits

	Cash limit
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£10m per country

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.

Interest rate exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper-limit on the one-year revenue impact of a 1% rise or fall of interest rates will be:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of 1% rise in interest rates	£200,000
Upper limit on one-year revenue impact of 1% fall in interest rates	£100,000

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:

Refinancing rate risk indicator	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	2020/21	2021/22	2022/23
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 3c

Financial Implications

The budget for investment income in 2021/22 is £0.3 million, based on an average investment portfolio of £10 million at an interest rate of 3%. The budget for debt interest paid in 2021/22 is £7.8 million, based on an average debt portfolio of £2.7 million at an average interest rate of 3.7%. 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 3a – Arlingclose Economic & Interest Rate Forecast – December 2020

Underlying assumptions:

- The medium-term global economic outlook has improved with the distribution of vaccines, but the recent upsurge in coronavirus cases has worsened economic prospects over the short term.

- Restrictive measures and further lockdowns are likely to continue in the UK and Europe until the majority of the population is vaccinated by the second half of 2021. The recovery period will be strong thereafter, but potentially longer than previously envisaged.

- Signs of a slowing UK economic recovery were already evident in UK monthly GDP and PMI data, even before the second lockdown and Tier 4 restrictions. Employment is falling despite an extension to support packages.

- The need to support economic recoveries and use up spare capacity will result in central banks maintaining low interest rates for the medium term.

- Brexit will weigh on UK activity. The combined effect of Brexit and the after-effects of the pandemic will dampen growth relative to peers, maintain spare capacity and limit domestically generated inflation. The Bank of England will therefore maintain loose monetary conditions for the foreseeable future.

- Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid longer-term inflation expectations. There is a chance yields may follow a slightly different path in the medium term, depending on investor perceptions of growth and inflation, or the deployment of vaccines.

Forecast:

- Arlingclose expects Bank Rate to remain at the current 0.10% level.

- Our central case for Bank Rate is no change, but further cuts to zero, or perhaps even into negative territory, cannot be completely ruled out, especially with likely emergency action in response to a no-deal Brexit.

- Gilt yields will remain low in the medium term. Shorter term gilt yields are currently negative and will remain around zero or below until either the Bank expressly rules out negative Bank Rate or growth/inflation prospects improve.

- Downside risks remain, and indeed appear heightened, in the near term, as the government reacts to the escalation in infection rates and the Brexit transition period ends.

	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Official Bank Rate													
Upside risk	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	0.30	0.40	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3-month money market r													
Upside risk	0.05	0.05	0.10	0.10	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.15	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Downside risk	0.30	0.40	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
1yr money market rate													
Upside risk	0.05	0.05	0.10	0.10	0.15	0.20	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	0.15	0.15	0.25	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Downside risk	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
5yr gilt yield													
Upside risk	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.00	0.00	0.05	0.10	0.15	0.20	0.20	0.20	0.25	0.25	0.25	0.25	0.25
Downside risk	0.40	0.45	0.50	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
10yr gilt yield													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.25	0.30	0.35	0.35	0.40	0.40	0.45	0.45	0.50	0.55	0.55	0.55	0.60
Downside risk	0.50	0.50	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55
20yr gilt yield													
Upside risk	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.70	0.70	0.75	0.75	0.75	0.80	0.80	0.85	0.85	0.85	0.85	0.90	0.90
Downside risk	0.30	0.30	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
50yr gilt yield													
Upside risk	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.60	0.60	0.65	0.65	0.65	0.70	0.70	0.75	0.75	0.75	0.75	0.80	0.80
Downside risk	0.30	0.30	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40

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

Appendix 3b – Existing Investment & Debt Portfolio Position

	31/12/2020 Actual Portfolio £m	31/12/2020 Average Rate %
External borrowing:		
Public Works Loan Board	104.3	3.8
Local authorities	0.0	-
LOBO loans from banks	30.0	4.4
Other loans	14.9	1.3
Total external borrowing	**149.2**	**3.7**
Other long-term liabilities:		
Private Finance Initiative	43.0	
Finance Leases	0.1	
Total other long-term liabilities	**43.1**	
Total gross external debt	**192.3**	
Treasury investments:		
Banks (unsecured)	3.8	0.02
Local authorities	25.0	0.19
Total treasury investments	**28.8**	**0.17**
Net debt	**163.5**	

Appendix 3c – Additional requirements of Welsh Government Guidance

The Welsh Government (WG) published revised Investment Guidance in November 2019 which places additional reporting requirements upon local authorities that are not integral to this Authority's treasury management processes. The guidance also covers investments that are not part of treasury management, for example investment property and loans to local organisations.

Contribution: The Authority's investments contribute to its service delivery objectives and/or to promote wellbeing as follows:

- treasury management investments support effective treasury management activities,
- loans to local organisations provide financial support to those organisations to enable them to deliver local public services that would otherwise be provided directly by the Authority, and
- investment property provides a net financial surplus that is reinvested into local public services.

Climate change: The Authority's investment decisions consider long-term climate risks to support a low carbon economy to the extent that the Council have invested in our capital programme a number of energy efficiency related schemes, including LED projects and Solar PV.

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

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement unless the counterparty is a local authority,
- 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.

Loans: The WG Guidance defines a loan as a written or oral agreement where the authority temporarily transfers cash to a third party, joint venture, subsidiary or associate who agrees a return according to the terms and conditions of receiving the loan, except where the third party is another local authority.

The Authority will provide loans where there has been appropriate due diligence and where possible ensure there is appropriate security i.e. charges on assets. In some cases where security is not available in order to be prudent the Council may fund the loan at the point of drawdown through an appropriate charge i.e. Minimum Revenue Provision charge or through a reserve.

The Authority uses an allowed 'expected credit loss' model for loans and receivables as set out in *International Financial Reporting Standard 9 Financial Instruments* as adopted by proper practices to measure the credit risk of its loan portfolio. Appropriate consideration is given to state aid rules and competition law. The Authority has appropriate credit control arrangements to recover overdue repayments in place.

Non-specified investments: Any financial investment not meeting the definition of a specified investment or a loan is classed as non-specified. Given the wide definition of a loan, this category only applies to units in pooled funds and shares in companies. Limits on non-specified investments are shown in table C2; the Authority confirms that its current non-specified investments remain within these limits.

Table C2: Non-specified investment limits

	Cash limit
Units in pooled funds without credit ratings or rated below [A-]	£10m
Shares in real estate investment trusts	£10m
Total non-specified investments	£10m

Non-financial investments: This category covers non-financial assets held primarily or partially to generate a profit, primarily investment property. The Council holds investment properties to the fair value of £7.8m on, these give an annual rental income of £1.2m. These are historic investment properties, namely Kingsway shopping centre and Chartist Tower and the Council has not recently undertaken purchase of non-financial investments.

Investment advisers: The Authority has appointed Arlingclose Limited as treasury management advisers and Newport Norse as property investment advisers. The quality of these services is controlled by regular review of the services provided by both advisers and regular strategy meeting with them.

Appendix 3d – 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.

The MRP policy and charges in relation to the Cardiff City Capital Region 'City Deal' will reflect those within the Joint Working Agreement.

Capital expenditure incurred during 2020/21 will not be subject to a MRP charge until 2021/22.

Based on the Authority's latest estimate of its Capital Financing Requirement on 31st March 2021, the budget for MRP has been set as follows:

	31.03.2021 Estimated CFR £m	**2021/2022 Estimated MRP £m**
Supported capital expenditure	161	4
Unsupported capital expenditure	76	4
Finance leases* and Private Finance Initiative	42	1
Total General Fund	**279**	**9**

*With the pending introduction of IFRS 16 Leases, the CFR and debt identified as relating to leases is likely to increase during 2020/21 due to the change in the way that finance leases for lessees are treated. There is currently an ongoing project assessing these leases across the Council and an update will be given alongside the in-year 2020-21 treasury monitoring report to Council.

NEWPORT CITY COUNCIL
CYNGOR DINAS CASNEWYDD

Briefing Note

Audit Committee

Part 1

Date: 28 January 2021

Item No: 9

Subject **Second Consecutive Unsatisfactory Audit Opinion – Special Guardianship Orders (SGO) / Kinship Payments 2019/20 – Audit Committee Call In**

Purpose To inform the Members of the Council's Audit Committee of:

i) The action taken by management in the Service Area to date and progress against the agreed action plan in respect of the Unsatisfactory audit opinion for *Special Guardianship Orders (SGO) / Kinship Payments.*

Author Joanne Llewellyn Service Manager Resources
On behalf of Sally Jenkins Head of Service-Children and Families

Ward General

Summary

Date of Final Report: 24/03/20
Opinion: Unsatisfactory

Date of Follow Up: Scheduled for Qtr 4 2020/21 (subject to any impact from Covid-19)

The original audit in May 2018 advised that links would be made with finance to ensure that the SGO payment system is robust. However, I started in post in January 2019 and undertook a restructure of this aspect of children's services and this caused some delays.

The Family and Friends Team was established in early 2019; however, recruitment of staff to posts was an ongoing process into the summer of 2019. The first batch of financial assessments transferred to Family and Friends in September 2019. The transfer to the team was a gradual process due to the high numbers of assessments to transfer and the need to link to several different social work teams to enable cases to be transferred. There are currently 193 financial assessments within the Family and Friends Team.

In addition, some cases which needed financial assessments were also open to social workers in other teams because of additional care and support needs. To transfer a case to a new social worker is more time consuming than a financial only case transfer as files needed auditing, social workers to agree transition points and meetings with families. This is a necessary delay to ensure that the family *continues to receive the correct level of support. However, this did mean that some of the financial assessment were not within the team in September 2019. There were also some issues with recruiting staff to the Family and Friends Team who could casehold; this is now resolved. By the end of October 2019 most cases had transferred.*

Initial assessments were re audited but due to the small number of assessment completed by Family and Friends, due to minimal referrals from the childcare teams, the process could not be audited and therefore change could not be evidenced.

Financial assessments are reviewed once a year as a minimum and more frequently if the LA is notified of change by the SGO carer. Consequently, assessments prior to October 2020 may not have been undertaken within the Family and Friends Team as they would only need reviewing after 12 months. This meant that in September 2019 the Family and Friends Team could not evidence a change in systems as they had not undertaken a year of financial reviews. All cases that have been held by Family and Friend for 12 months would be reviewed in the new system.

Covid has had an impact as the SWA's have not been able to visit families to undertake the assessment and so alternatives such as video calls and using technology have been used to undertake the assessments. The assessments have still been undertaken.

SPECIAL GUARDIANSHIP ORDERS (SGO) / KINSHIP PAYMENTS – EXTRACT FROM ACTION PLAN

Ahead of the follow-up review it was management's intention that from September 2019, the Friends and Family Team would be responsible for all SGO financial assessments, as well as the management and review of on-going payments. This co-ordination did not happen as intended. Due to the lack of system information and availability of records, Internal Audit were unable to verify that the previously identified issues had been successfully addressed. The previous issues were as follows:

Ref.	Weakness & Risk	Agreed Management Action	By When	Current Status

Ref.	Weakness & Risk	Agreed Management Action	By When	Current Status
1.05	There was a lack of central coordination of the SGO financial assessment process as roles and responsibilities were not clearly defined. *Inaccurate payments are made to special guardians as financial assessments are not undertaken consistently and correctly and allowances are not paid and monitored effectively by Social Services teams.*	It is acknowledged that there is currently a lack of co-ordination and oversight of the SGO financial assessment activity. We will seek to identify a suitable officer to undertake this co-ordinating role. It may be necessary to look outside of C&YPS, to an officer with a more finance focused background, to fulfil this role. This will be considered as part of a wider review to determine the most appropriate officers to undertake the SGO financial assessments (see 2.07).	September 2018	*I, Joanne Llewellyn, now have oversight of the SGO budget. I hope the above information indicates that there are now clear roles and responsibilities for the financial process as all cases are within the Family and Friends Team. All new SGO cases transfer straight to the Family and Friends Team and so there should be no future issues with financial assessments. There may be some cases whereby the child requires support from the Disabled Children's Team (DCT) and therefore joint working between Family and Friends and DCT will be required; although the financial aspects are undertaken by the Family and Friends Team.* *The SWA's in Family and Friends have allocated assessments to undertake and are supervised by a senior practitioner in the team who has oversight of their work.*

SPECIAL GUARDIANSHIP ORDERS (SGO) / KINSHIP PAYMENTS – EXTRACT FROM ACTION PLAN

Ref.	Weakness & Risk	Agreed Management Action	By When	Current Status
1.06	The declaration on the financial assessment form did not include the requirement to verify and share the data provided and that action could be taken in the event of providing false information. *Non-compliance with the Data Protection Act. The Authority may be unable to take any further action when false information has been provided.*	The declaration on the financial assessment form will be revised to include this information. This will be in consultation with the Information Management team ready for implementation of GDPR in May 2018.	April 2018	Declaration has been included.
1.07	Evidence that information about the SGO process was issued to all relevant parties was not always available. *Parents and special guardians may enter into an SGO without being fully aware of all stages of the process.*	The SGO leaflet will be reviewed and, if required, revised and a copy will be issued to all parents and prospective special guardians at the time the Connected Persons Report is compiled.	April 2018	Carers are sent letters and these are now saved upon the S drive and wccis. Policies are available and conversations are underway with comms team regarding website information being available. Updated leaflets with information regarding different types of care have been signed off by CSMT on 27.10.2020. These can then be given to all potential carers once Comms have completed the graphics. These are available to use without graphics.

SPECIAL GUARDIANSHIP ORDERS (SGO) / KINSHIP PAYMENTS – EXTRACT FROM ACTION PLAN

Ref.	Weakness & Risk	Agreed Management Action	By When	Current Status
2.07	Follow up financial assessments were not always conducted within 8 weeks of the SGO being granted and the SGO allowances were not always calculated in accordance with the Financial Procedures Policy. *Overpayment of SGO allowances as payments have been incorrectly calculated.*	As an interim fix, a reminder will be sent to all relevant teams to inform them to conduct the 8 week follow up when it falls due and if the required information is not provided to recalculate the allowance as if the CHIB and CTC had been claimed. Staff will also be instructed to backdate the amended allowance to the effective date of change. The Head of C&YPS will liaise with the Senior Finance Business Partner (People) to determine the feasibility of moving the financial assessment function to the Finance & Income team within Social Services Accountancy.	Immediate July 2018	Since transfer to Family and Friends Team (F&F) evidence is kept on the S drive and WCCIS. All initial financial reviews are undertaken by the F&F Team and therefore the 6 week review is undertaken by the team as this is monitored through the excel spreadsheet.
2.08	Notification of the initial SGO award letters did not include information on the reduction of SGO payments after 8 weeks. *Special guardians are not aware that their SGO allowance will be reduced or of the requirement to notify the Council of changes to their benefits.*	The outcome letter template will be amended to include this information for initial financial assessments.	April 2018	This has been completed.

Ref.	Weakness & Risk	Agreed Management Action	By When	Current Status
2.09	The evidence sighted to confirm the details recorded on the financial assessment form was not copied or noted and no further verification of the information was conducted. *Incorrect or false information may be recorded on the form resulting in incorrect payments being made or payments being made when they are not due.*	The financial assessment form will be revised to note the evidence sighted for all relevant income and allowable expenditure. The income and expenditure declared will then be verified to bank statements.	April 2018	This detail is now kept on the s drive and wccis – although covid has impaired the ability to manage this as well as previously as some carers are not computer literate to send these in-this causes complications. However, once visits return to previous levels this will be in place for all cases.
2.10	The financial assessment forms were not always signed and dated by the special guardians. *The information included is not reviewed by the applicant, which could lead to errors and omissions not being identified and incorrect payments being made. The applicant has not read and understood their obligations and it may be more difficult to take recovery action should a future overpayment arise as a result.*	A reminder will be issued to all staff to ensure the special guardians physically sign the financial assessment form and the signed copy to be retained on ESCR.	Immediate	As this is now managed by the F&F Team and by designated officers; this is now taking place. Copies are retained on file.

SPECIAL GUARDIANSHIP ORDERS (SGO) / KINSHIP PAYMENTS – EXTRACT FROM ACTION PLAN

Ref.	Weakness & Risk	Agreed Management Action	By When	Current Status
2.11	Independent checks of financial assessment calculations were not accurately completed prior to payment being made. *Without an independent and accurate check on the financial assessment calculation spreadsheet any potential errors will not be identified and corrected prior to the payment being made.*	Independent checks will now be conducted on all financial assessment calculations including those competed by the Quality Assurance team. Refresher training will be provided by the Consultant Social Worker in conjunction with Social Services Accountancy.	April 2018 June 2018	The SWA's within F&F will check each others work and also link with the finance officer to ensure that checks are taking place.
2.12	DSS1-2 forms were not always signed and dated by the authorising officer. *Unauthorised payments may be made.*	Staff will be reminded to ensure the DSS1-2 forms are properly authorised prior to the payment being processed on the Swift system and the signed copy retained on ESCR.	Immediate	This is now in place and documents saved to WCCIS.
2.13	Annual re-assessments were not aligned to the 1st April each year to reflect changes to state benefits and allowances. *Incorrect amounts may be paid until the re-assessment is calculated due to the uprating of state benefits and the Annex A rates not being accounted for from the correct effective date.*	Annual re-assessments will now be conducted in the first quarter and the revised allowance will be backdated to the 1st April. Re-assessments will also be completed on the child's 5th and 16th birthdays and the revised allowance will be backdated to the effective date of change.	June 2018	All the financial cases are reviewed in April if an increase in annual SGO rates is applied. The individual cases are also reviewed annually, so each case is reviewed twice a year, unless their annual review date also falls in April. Carers are advised in the change of payments in line with any changes to fostering allowances and these changes are made. Carers are advised to inform the LA of an changes that impact on their payments and agree to pay back any over payments.

SPECIAL GUARDIANSHIP ORDERS (SGO) / KINSHIP PAYMENTS – EXTRACT FROM ACTION PLAN

Ref.	Weakness & Risk	Agreed Management Action	By When	Current Status
2.14	Not all the required information relating to the financial assessments was scanned or saved in ESCR. *There is no evidence to support the allowance calculated and that the payment has been authorised, potentially leading to incorrect payments being made.*	Staff will be reminded to ensure all documents relating to the financial assessments are scanned into ESCR.	Immediate	ECSR is no longer used. Documents are saved onto the S drive and WCCIS.
3.08	Follow up letters were not issued to special guardians of SGO children who were more than 16 years of age and, when applicable, evidence that the child will remain in education was not available. *SGO payments may continue to be made when they are not due and the resulting overpayments may not be repaid.*	Staff will be reminded to follow up the initial phone call with a letter asking the special guardian to confirm whether or not the SGO child will remain in education post 16 and, if they are, to provide evidence.	Immediate	Follow up letters for age 16 are sent.

This page is intentionally left blank

Report

Audit Committee

Part 1

Date: 28 January 2021

Item: **10**

Subject Draft Work Programme

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

Author Democratic & Services 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

Background

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

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

25 March 2021
Corporate Risk Register (Quarter 3)
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 3, October to December)
Call in the Chief Education Officer, Deputy Chief Education Officer & Head of Gwent Music re the Internal Audit Unsatisfactory Opinion on Gwent Music
Internal Audit Unsatisfactory Audit Opinions (6 monthly report)
WAO Annual Report on Grants Works 2020-21
Annual Governance Statement (draft statement)
Member Development Self Evaluation Exercise
Referrals to Audit Committee

28 May 2021
Appointment of Chairman
Corporate Risk Register Quarter 4
Internal Audit Unsatisfactory Audit Opinions (6 monthly report)
SO24/Waiving of Contract Sos: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract Sos (Quarter 4, Jan to March)
Internal Audit Annual Report 2020/21
Internal Audit Annual Plan 2021/22
Treasury Management Year End Report 2020/21
Draft Financial Accounts 2020/21
Referrals to Audit Committee

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)

28 May 2021
Appointment of Chairman
Corporate Risk Register Quarter 4
Internal Audit Unsatisfactory Audit Opinions (6 monthly report)
SO24/Waiving of Contract Sos: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract Sos (Quarter 4, Jan to March)
Internal Audit Annual Report 2020/21
Internal Audit Annual Plan 2021/22
Treasury Management Year End Report 2020/21
Draft Financial Accounts 2020/21
Referrals to Audit Committee

29 July 2021
Statement of Accounts 2020/21
Audit of Financial Statements Report 2020/21
SO24/Waiving of Contract Sos: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract Sos (Quarter 1, April to June)
Report on Audit Committee Self Evaluation Exercise
Corporate Risk Register (Quarter 1 April to June)

2 September 2021
Progress Against Internal Audit Plan 2020/21 Quarter 1
Public Sector Internal Audit Standards – External Review
Audit Enquiries Letter 2020/21
Referrals to Audit Committee

28 October 2021
Internal Audit Plan 2020/21– Progress (Quarter 2)
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 2, July to September)
Corporate Risk Register (Quarter 2 July to Sept)
Audit Committee Self-Evaluation Exercise
Treasury Management Report
Lessons Learned 2020/21
Referrals to Audit Committee

27 January 2022
Internal Audit Plan – Progress (Quarter 3)
Financial Memorandum on the 2020-21 Financial Audit
Treasury Management Report
Internal Audit Unsatisfactory Audit Opinions (6 monthly report)
Referrals to Audit Committee

31 March 2022
Corporate Risk Register (Quarter 3) & Risk Appetite Statement
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 3, October to December)
WAO Annual Report on Grants Works 2019-20
Annual Governance Statement (draft statement)
Member Development Self Evaluation Exercise
Referrals to Audit Committee